

# Chi-Tax

*The Economics of being poor in this Republic of Taxes*

**T**easing glimmers of success from our local sports franchises and the occasional warm, sunny February day buoy our spirits and give us hope for better times ahead in this magnificent oasis. They also serve to counter the perpetual downsides – weather in general and potholes in particular, battles over public education, shootings and racial tensions, and misconduct and corruption that shine a national spotlight on Chicago. Plus our continual concerns over pension liabilities, bond ratings, and other fiscal holes certainly have Springfield and City Hall scrambling.

In addition, there are regular structures that make it particularly difficult to be poor in this city and state. To wit:

Sales taxes in Chicago and Illinois are well above the national average, don't exempt items disproportionately bought by those on the lower economic rungs, and exclude most services. As countries experience economic gains, consumption and production patterns shift from a reliance on physical goods to a greater share of activities devoted to producing and using services, but anachronistically we largely only tax the former. More affluent families consume services in higher proportions, shoving more of the overall sales-tax burden to poor households. (The biggest untaxed services around town: home repairs, legal, medical, and accounting.)

## BY ALLEN R. SANDERSON

European nations that espouse high, Berniesque marginal income tax rates rely far more on consumption levies – aka, the Value Added Tax – for revenue than the U.S. does. This appears quite at odds with general sentiments on the continent to shake down their affluent citizens with steep taxes on income and wealth.

The city and state are also heavily dependent upon specific products and activities for revenue, such as cigarettes and lotteries,

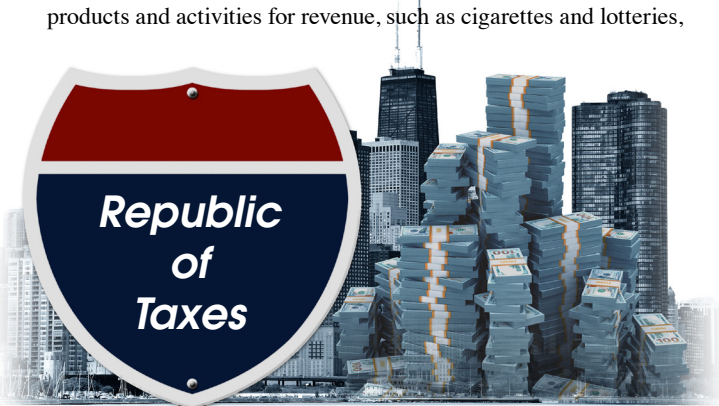
both of which are purchased more by our have-not neighbors. Chicago's gasoline taxes are among the highest in the nation and, again, these affect the poor disproportionately. The same holds for our seemingly endless fees, a euphemism for taxes, which are by their very nature regressive.

Next, corruption and misconduct are not costless. The \$5 million in hush money paid to the McDonald family comes to about \$2 apiece for Chicago taxpayers, including police officers, who must live in the city. If this settlement had to be met entirely by our 12,000 cops, either through a reduction in their current wages or a hit to their pensions, that would come to \$400 each. In 2013 the city paid \$85 million, or about \$35 per capita, to settle police brutality claims, or more than \$7,000 each if the men and women in blue alone had to pay them. At some point the price might start to influence these aberrant behaviors, and the police, with more financial skin in the game, would have more of an incentive to police the police.

And then those cameras! Red-light and speeding infractions cost the offender a fixed amount, which is akin to a highly regressive tax, and thus hits lower-income households harder. In general, fines – for drunken driving, speeding – and service fees are also regressive. The United States has a shockingly high automobile fatality rate, especially measured against other high-income countries. And speeding and drunk driving are the two biggest factors. Perhaps it is time to adopt income-based fines as Finland, Norway, Switzerland and other European nations do. There the practice is that speeding and DUI offenses carry a fine equal to one month's income. A wealthy Oslo businesswoman recently paid a \$71,000 fine for driving drunk; a Finn, \$60,000 for speeding. (That assessment, in tax-rate terms, is still only proportional, not progressive; but at least it's not highly regressive as it is in this country.)

Further afield, Illinois has a flat-rate (that is, proportional) income tax, which arguably hits the lower half of the income distribution harder. Thus there is a legitimate case for a progressive income tax. But how much of that liberal fervor is simply disdain for the well-heeled and a masked ploy to expand the size of government, couched in "progressive" rhetoric rather than the more neutral "graduated"? The main rebuttal is that there is an effective political floor (5%?) for a flat rate above which the middle class would rebel, and is thus the only safeguard against a profligate Springfield.

"The treasury was bankrupt; the revenues were insufficient; the people were unwilling and unable to pay high taxes; and the State had borrowed itself out of credit." A 21st-century lament from Blagojevich, Quinn or Rauner? No; from Illinois Governor Thomas Ford in the 1840s. Or about the same time that Chicago acquired its name from an Indian word for "skunk place." **Plus ça change.** □



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