

Commentary:

Progressive tax system: Fair or foul?



The Illinois State Capitol. At the moment, the only protection Illinois citizens have against a profligate state government is the constitutionally mandated flat personal income tax. (E. Jason Wambsgans/Chicago Tribune)

Allen R. Sanderson
September 28, 2018

With the possible exception of Chicago Mayor Rahm Emanuel, politicians' favorite four-letter word beginning with "f" is "fair."

And between now and Nov. 6 that word, usually paired with "taxes" or "share," as in someone "not paying one's fair share," will dominate campaign television commercials, print advertisements and campaign rallies.

But deciding what's fair is not an easy task.

Is it fair for both the rich and poor to pay the same fine (aka tax or fee) for a parking violation or running a red light? Or for their city sticker or Illinois license plate?

To some pols, "fair taxes" and "progressive taxes" are used interchangeably. But the two terms are neither kith nor kin. In formal economic or taxation terminology, "progressive" simply means that as the item being taxed, let's say income, increases, the tax rate also increases. The amount owed could increase even if the tax were regressive or proportional.

For example, if one's taxable income is \$50,000 and that individual's tax liability is \$2,500, then if that income rises to \$100,000 and the person now pays \$4,000 in taxes, he or she pays a higher amount in

taxes, but the rate is lower — 4 percent instead of 5 (or if the tax obligation rose to \$5,000, the amount is higher but the rate stays the same; think the Old Testament and tithing.)

At the moment, Illinois' personal income tax rate is a constant — or proportional — 4.95 percent.

In the example above, a progressive tax system would dictate that the person's new tax with \$100,000 in income be higher than \$5,000. Six thousand dollars in taxes owed would be considered progressive. But so would \$7,000, \$10,000 or \$20,000.

And therein lies the three-card monte rub.

Without some inviolate ceiling, there is no check with a progressive tax on how high the rate or amount can go because elected officials — who want to remain elected — can increase the top rate on the minority of residents (say, those whose incomes are \$500,000 or more) and thus they can go back to the buffet line for another helping for their constituents, pet projects or sweeter pension pots for public-sector employees without angering a significant chunk of the voting populace.

As political activist and Irish playwright George Bernard Shaw once observed, if you want to rob Peter to pay Paul, you can always count on Paul's support.

Our more "progressive" states — to employ a mostly undefined political term — such as California, Oregon, New Jersey and Connecticut have progressive income taxes.

Twenty years ago, the highest tax rate in California was 9.3 percent; today it's 13.3 percent. In Oregon over that same period, the tax rate rose to 9.9 percent from 9 percent; in New Jersey, to 8.97 percent from 5.86 percent; and in Connecticut, to 6.99 percent from 4.5 percent. (Why it's 4.95 percent instead of 5 percent here and 9.9 percent in Oregon instead of 10 percent and 6.99 percent in Connecticut rather than 7 percent is because politicians, and some behavioral economists, think that people are stupid; but that's a column for another day.)

At the moment, the only protection Illinois citizens have against a profligate state government is the constitutionally mandated flat personal income tax, precisely because while it arguably gouges the less well-heeled more than the wealthy, it also provides an implicit safeguard because there would be a political revolt if it were much higher than 5 percent.

Which brings us to the second matter: fair — or fairer from 4.5 percent — tax proponents are also comingling or conflating the matter of who pays the tax with how much the populace as a whole must surrender, in this case, to Springfield.

Would candidates be willing to place their hand on the Bible, the Illinois Constitution or some other sacred document and promise that while their tax proposal would tax the rich more, everyone else would get a tax cut such that the total volume of revenues going into the 60626 and 60627 ZIP codes would not change? That is, any tax would have to be revenue neutral.

I would support a 6 percent tax rate on those earning more than \$1 million fairer than the current 4.95 percent, in part because I don't earn anywhere near that amount of income and selfishly I wouldn't have to pay it. But what about 7 percent, 8 percent, or 10 percent? California's current 13.3 percent? Where could — or would — Illinois' story end?

Allen R. Sanderson teaches economics at the University of Chicago.