#423-77

INSTITUTE FOR RESEARCH ON POVERTY DISCUSSION PAPERS

TAXES AND INEQUALITY: DO THE VOTERS GET WHAT THEY WANT?

Benjamin I. Page

UNIVERSITY OF WISCONSIN - MADISON

Taxes and Inequality: Do the Voters Get What They Want?

Benjamin I. Page

June 1977

ABSTRACT

A review of available survey data indicates that most Americans do not favor highly progressive taxation; their preferences correspond rather closely to the effectively proportional system of federal, state and local taxes now in force in the U.S. This accords better with a democratic theory of policy making than with the view that special interests dominate tax policy. But there are also indications, in the survey data and elsewhere, that public preferences in this area are influenced by misinformation and perhaps by deliberate manipulation.

Taxes and Inequality: Do the Voters Get What They Want?

Some have hoped and others have feared that democracy--political equality--would bring with it economic equality. The poor always outnumber the rich, and one might assume that the majority of lower-middle income citizens would unite behind a system of progressive taxes and redistributive government spending to equalize incomes. But the levelling process has not occurred in the United States and there is little, if any, trend in that direction. To be sure, the federal government has moved toward abolishing absolute poverty by providing a minimum income floor for most citizens, but <u>equality</u> is another matter. The income distribution after taxes and transfers remains highly unequal, with those on top receiving many times as much as those on the bottom (Palmer and Minarik 1976).

The total effect of all U.S. taxes--state, local, and federal--is nearly proportional. Practically everyone, rich and poor, pays some 25-35% of his income in taxes. State taxes are mostly regressive, taking proportionately more from the poor than the rich; the same is true of the payroll taxes which provide a large and growing part of federal revenues. Of all the major taxes, only the federal income tax is substantially progressive, and even its progressivity is eroded at the top by various exemptions and exclusions, most notably the partial exclusion of capital gains. Nor are the income tax rates set high enough to redistribute substantial portions of income, even if they were steeply graduated. Estimates of effective tax rates vary with choices of data base, income concept, and incidence assumptions, but Pechman and Okner (1974), using good 1966 data and a broad concept of income, found that extreme variants of assumptions concerning the incidence of property and corporate income taxes did not much change the picture of overall proportionality in taxes (see Table 1).

It is something of a puzzle why this is so. Why haven't the poor soaked the rich?

One possible line of reasoning holds that democratic forms of government in the U.S. are only forms; that in fact special interests rule, by using their resources to get friendly congressmen into office and by lobbying and otherwise influencing legislators. The House Ways and Means and Senate Finance committees (if not the Congress as a whole) are alleged to be highly unrepresentative, favorable toward special tax breaks or loopholes for corporations and rich individuals (Stern 1973). An elaboration of this argument contends that the diffuse interests of the general public are rarely represented by organized groups, and that special interests provide the bulk of the information and persuasion upon which legislators must act (Surrey 1957; Olson 1965; see also the substantial body of work by Schottschnaider, McConnell and Lowi).

Such explanations take for granted that the public would prefer more progressive taxation, and assert that the popular will is thwarted by unrepresentative institutions; but we must inquire whether this premise is correct. Using available survey data, we can examine whether or not a majority of Americans actually favors progressive taxation and the

Table 1

Average Effective Rates of Total Federal, State, and Local Taxes, 1966

	Incidence Assumptions	
	1c	3b
Income Percentile		
3rd	24.4%	35.6%
10th	17.4	25.4
30th	22.1	26.1
50th	22.9	26.0
70th	22.9	25.4
90th	24.0	25.0
99th	28.3	25.2
Top	39.2	28.6

Source: Pechman and Okner 1974, p. 51.

redistribution of income. If so, the special interest hypothesis gains credence. If not, we must next ask why, and whether the nonprogressivity of taxes is an expression of democratic will, or whether the public's preferences are somehow manipulated.

1. PUBLIC PREFERENCES CONCERNING TAXES

The American voters recently elected a President who had declared that the tax system was a "mess" and a "disgrace to the human race," and there is some evidence that the public wanted more progressivity. In 1972, after McGovern had raised the issue, strong majorities in the Harris poll (90% to 6% in July, and 71% to 18% in October) favored increasing taxes for people with higher incomes and decreasing them for those with lower incomes. A majority of 88% to 6% favored closing tax loopholes for higher income people. Earlier, in March 1972, a plurality (40%) in a survey for the Advisory Commission on Intergovernmental Relations (ACIR) favored closing certain specified loopholes, rather than collecting a value added tax (34%) or increasing income tax rates, if taxes had to be raised (ACIR 1976, p.26). More recently, in a 1976 pilot study by Greeley and Fee, citizens gave overwhelmingly negative open-ended reactions to the phrase "tax loopholes." Most people identified loopholes as legal means by which the wealthy avoid taxes, and nearly all disapproved of them.[1] In April 1977, Harris reported 84% public agreement with the assertion that "the tax system is set up to let the rich get the real breaks."

It is important, however, to be careful about exactly what such findings mean. The 1972 items on higher taxes for upper income persons did not specify how much higher; it is conceivable that the 1975 and 1976 Tax Reform Acts satisified the public with their modest increases in progressivity. Distaste for loopholes may refer only to a desire for horizontal equity--that is, for equal treatment of taxpayers with equal incomes--or merely to outrage that a few of the rich pay no taxes at all. A token minimum tax could meet this objection. There is no necessary implication that the average American is eager to tax the rich heavily and to redistribute income.

The data are consistent with these distinctions. Many poll results show cynicism about how well tax money is spent, or register complaints that taxes are too high; these bear on the level rather than the distribution of taxes. Other survey items, like those cited above, report anger at loopholes and special tax breaks. When redistributive issues are clearly raised, however, it appears that most Americans do not want steeply progressive taxation.

In the CPS Michigan tax self-rating scale administered in the autumn of 1972, only 23% of those with opinions located themselves at the "increase the tax rate for high income" pole, as opposed to 28% at the other pole of "the same tax rate for everyone." The average respondent put himself almost exactly at the middle of the scale, a position that could be interpreted as favoring the status quo or a slight increase in progressivity. Similarly, in a National Opinion Research Corporation (NORC) amalgam survey in 1974, only 37% put themselves at the end point advocating that "government should do something to reduce income differences between rich and poor"; 16% placed themselves at the opposite extreme, that "government should not concern itself with income differences." Although citizens tended to put themselves somewhat closer to the "do something" than the "should not concern itself" end of the 7-point scale (the mean was 3.25 and the median 2.83), the hesitation to wholeheartedly endorse even a mild "do something" alternative hardly bespeaks enthusiasm for massive income redistribution.[2] A recent datum supporting this interpretation is the November 1976 Harris finding that a 47% to 38% plurality opposed "the federal government trying to make a fairer distribution of wealth of the country."

Congruent with this lack of enthusiasm for redistribution is a long history of public support for such regressive taxes as state and local sales taxes. A plurality of respondents to a July 1973 Harris survey called sales (as opposed to income or property) taxes the "fairest" state and local taxes. Advisory Commission of Intergovernmental Relations (ACIR) surveys in 1972 and 1974 found about as many people calling state sales taxes "fairest" as named federal income taxes; both were preferred over state income or local property taxes. In both 1972 and 1976, a strong plurality of ACIR respondents favored raising sales (rather than income or property) taxes if their state government had to raise taxes substantially (ACIR 1976, pp. 6, 21). Indeed there have been some indications of approval for a federal sales or value added tax (ACIR 1976, p. 26).[3]

Similarly, most Americans have supported specific provisions which undermine the progressivity of the federal income tax. Gallup data from 1947 show heavy majorities (77% and 74%) in favor of income splitting; in 1953, 86% approved of deductions for all medical and dental expenses; and in 1958, 83% favored deductions for college tuition and room and board

(Gallup 1972, pp. 633, 686, 1152, 1549).[4] In April 1977, repeating the results of 1969 and 1974, 32% of the respondents to a Harris poll thought that the level of federal capital gains tax was too high, while only 7% thought the rate was too low.[5] All these provisions are of greatest benefit to high income taxpayers.

For a relatively precise measurement of preferences about the redistributive effects of income taxation, we must turn to a series of Gallup items often used during the 1940s and 1950s, but last fielded in December 1962. Gallup asked each respondent to suppose that he was a member of Congress and was setting the amount of taxes for people to pay in the coming year. Taking a typical family of four, with a total income of $3,000 a year, how much should they pay in personal income taxes? What about people earning $5,000? $10,000? $50,000 $100,000? Gallup then calculated the median response for each hypothetical family.

The Gallup findings, displayed in Table 2 are quite remarkable. The average American favored a progressive income tax, all right, but a very mild one, rising from nothing on $3,000, to 3% on $5,000, 7% on $10,000, and 10% on $50,000, to a top of only 20% on $100,000. The degree of progressivity desired was substantially less than that on the rate schedules. What is most remarkable is that the rates that the median American preferred were rather close to the actual 1966 effective rates as computed by Pechman and Okner (1974) taking account of adjustments, deductions, and exclusions (see Table 2).

The 1962 evidence, then, indicates that Americans were getting about as much income tax progressivity as they wanted. It would be foolhardy

Table 2

Income Tax Rate Preferences of the Public, 1962

Annual Income of Family of Four	Median Rate Preferred by Public		Actual Effective Rate, 1966
$3,000	$0	0%	1-2%
5,000	150	3	3-5
10,000	720	7	6-7
50,000	5,000	10	10-14
100,000	20,000	20	14-18

Sources: Gallup 1972, vol. 3, p. 1800; Pechman and Okner 1974, p. 59.

to assume that preferences have stayed exactly the same since that year, especially with the recently increased concern about loopholes. But the Gallup findings had a great deal of qualitative stability over the more than two decades these questions were asked, from 1937 through 1962. There were some changes over the years, such as support for somewhat higher and more progressive taxes during World War II and the Korean war, but the peak percentages never went above 27% on $50,000 or 34% on $100,000.[6] Moreover, in several years (1951, 1952 and 1955) a majority of Gallup respondents to a different item explicitly endorsed a maximum tax level of 25% to 35% (Gallup 1972, pp. 1011, 1075, 1306).[7]

Since the actual level of progressivity of taxation has remained nearly constant since World War II, there is support for the idea that the nonprogressivity of taxes has corresponded with, and continues to correspond with, the policy preferences of the public. This casts some doubt on the argument that nonprogressivity follows from lobbying or unrepresentative committees.

2. DEMOCRACY OR MANIPULATION?

On the face of it, the evidence we have reviewed supports a democratic theory of policy making. But a correspondence between policy and preferences does not in itself demonstrate governmental responsiveness to the public. The relationship could be a spurious result of some outside factor, such as interest group activity, which affects both preferences and policy; or it could be reciprocal, with policy makers influencing public preferences instead of (or in addition to) the contrary. In either case--or indeed if public preferences had causal importance but were themselves affected by illegitimate influences--normative democratic theorists might reject the preferences as inauthentic, unrepresentative of citizens' true interests.

Several of these alternative hypotheses involve the manipulation of preferences through false or misleading information, which might come from the monied sectors of society through their influence upon advertising, the schools, media, or government itself (Edelman 1964; Miliband 1969, ch. 7, 8). In order to test manipulation hypotheses we would need data on the sources and content (especially the truth or falsehood) of the tax information that is conveyed to the public, as well as survey data on what members of the public believe.

Taxes are complicated and difficult to understand, and there is some reason to suspect that there are deliberate efforts to mislead the citizenry. One source of deceptive information, perhaps inadvertent and perhaps not, is the public rate schedules of the federal income tax, which give an impression of steep progressivity, rising from 14% at the bottom to 70% in the top brackets. The ordinary taxpayer glancing at the tables (e.g. Schedules X, Y and Z in the instructions for 1976 tax returns) could easily get the impression that the rich pay something near 70% of their income to Uncle Sam. Yet the top effective rate is actually less than 30% on total income, and perhaps less than 20% (Pechman and Okner 1974, p. 59, see Table 2 in this paper; Goode 1976, pp. 248-50; Pechman 1977, pp. 349-50).

Another example of symbolic politics may be the so-called "minimum tax," which was devised in 1969 after Treasury Secretary Barr revealed that for 1968, 257 persons with incomes over $200,000 paid no federal income taxes at all. The minimum tax is a complicated levy on "preference incomes," which quickly reduced the no-tax list of those with incomes over $200,000 to 80 in 1971, before legal ingenuity prevailed and it rose to 108 in 1972, 164 in 1973, and 244 in 1974 (New York Times 1976, p. 23). But the chief point about the minimum tax is that these nontaxpayers were few in the first place, never comprising more than 1% of their income bracket; and that the tax was designed only to make them pay some tax and get them off the outrageous list. It did little to increase the amount of taxes which the average high income earner paid. To be sure, the 1976 law tightened the minimum tax somewhat by increasing the rate from 10% to 15% (!) and by reducing the exemptions, but it is still not a serious contributor to progressivity.

On the basis of such information as the rate schedules and the existence of a minimum tax, citizens who want progressive taxation might be content with the income tax as it stands, and might conclude that the minimum tax successfully closes loopholes. Similar information might create erroneously favorable attitudes toward sales and payroll taxes, and the various deductions and exclusions that undermine the progressivity of the income tax. More fundamentally, the nature of the income distribution might be concealed or distorted, so that egalitarians saw no need for redistribution; or people might be falsely convinced that equality itself is undesirable because it would hurt everyone by eliminating the chance that their children could become rich or by weakening work and investment incentives so that the economy stagnated and no one came out ahead (Lane 1962, ch. 4).

Since the available data are meager, it is difficult to tell to what extent preferences concerning taxes are based on false premises. But there is some scattered evidence of erroneous beliefs. In 1947, for example, Gallup found that the average American thought a man who made $1 million a year would have to pay 50% of it in income taxes. (Even the sophisticated are often misinformed about taxes--Gallup (1972, p. 651) thought this guess was too low rather than too high.) Harris in 1973 found that a plurality of Americans considered sales (rather than income or property) taxes to be best for them "personally." If people had in mind economic self interest and distributional consequences, many were wrong.

When one examines the degree of support for various tax provisions by people of differing incomes, a pattern often emerges that suggests the operation of rational self interest: lower income citizens tend to favor progressive measures, and higher income people tend to favor regressive measures. In March 1976, for example, the state sales tax was preferred over state income or property taxes as a way to raise new revenue by 52% of those with family incomes over $15,000, but only by 32% of those with incomes under $5,000. This class difference had sharpened a little since 1972, indicating increased public awareness of the regressivity of sales taxes (see Table 3)[8]; but what is most striking is how weak such class differences are. Even in 1976 a substantial plurality of the lowest income citizens--who are hurt the most by sales taxes--preferred them over less regressive state taxes. It is hard to avoid the conclusion that many low income people were mistaken--perhaps deceived--about their interests.

Table 3

Attitude Toward the Sales Tax, by Income Class

	Proportion favoring an increase in the state sales tax (rather than state income or property tax) if state taxes must be raised substantially.	
Family Income	1976	1972
Under $5,000	32%	40%
5,000-6,999	45	46
7,000-9,999	44	46
10,000-14,999	50	49
15,000 or over	52	51
(Total population)	(45)	(46)

Source: ACIR, 1976, pp. 7, 19.

I have alluded to the possibility that Americans may have false beliefs about disincentive effects of progressive taxation: they may erroneously fear that progressivity would hurt everyone by cutting down work and investment and economic productivity. But perhaps such fears are based on correct information: perhaps the economic structure constrains the degree of redistribution which a rational citizen would want. Perhaps, in a capitalist economy, highly progressive taxation really is an impossible dream.[9]

If this is so, it upsets the usual zero-sum, group struggle interpretations of tax politics. It can push the analysis in either of two rather different directions. If, as many conservative economists argue, substantial inequalities are essential to capitalism and capitalism is the best of all possible economic systems, then public preferences for only limited tax progressivity represent rational self interest, and current policy may reflect a democratic aggregation of preferences. But if economic growth and prosperity as well as a greater degree of equality are attainable under socialism rather than capitalism, then public preferences for nonprogressivity and for capitalism itself may result from a particularly important sort of manipulation. Such manipulation--akin to Gramsci's (1971) "hegemony"--might proceed through capitalists' influence over schools and communications media; or it might follow simply from citizens' perceptions of the economic system itself, together with the high costs of analyzing or experimenting with alternative economic systems.

We need to know about the effects of economic structure in order to understand possible determinants of preferences and also to see what sorts of tax policies are feasible under what conditions: in particular, whether egalitarian tax reform would entail a transformation of the economic system. Answers to such questions of course, require looking beyond survey data at the actual workings of the American and other economies.

3. IMPLICATIONS FOR TAX REFORM

The evidence we have reviewed--fragmentary though it is--indicates that the nonprogressivity of U.S. tax policy probably does not go against the preferences of a majority of the public. Most Americans oppose loopholes, but they do not want to tax the rich very heavily. The notion that the public's will on taxes is thwarted by powerful lobbyists or unrepresentative congressional committees is probably incorrect.

It is much harder to determine, however, whether the correspondence between preferences and policy represents a victory for democracy or a case of preference manipulation. To answer this question will require research into the beliefs that underlie public preferences and the sources of those beliefs, the nature of the information conveyed to the public and its determinants, and the objective workings of economic systems.

In the interim, the available data suggest at least two lessons for tax reformers. First, it is not safe to assume that the American public wants substantial increases in the progressivity of taxes; legislators who support such measures will not necessarily gain votes among their constituents.

But second, it would be at least as much of an error to conclude that the public strongly and inflexibly opposes tax reform. Apparent resistence to it may be based upon incorrect impressions about the progressivity of existing taxes, or about the incentive effects of taxes. If so, an essential part of reform strategy is to make the correct information available and draw it to the attention of the public. While it is conventional wisdom that public information campaigns usually fail, there have been encouraging signs in recent years of increased public awareness of income tax loopholes and of the regressive nature of sales and payroll taxes. Some of this change may have resulted from the activities of public interest tax lobbyists, as well as from the McGovern and Carter presidential campaigns.

Tax reformers should also be attentive to ways in which the economic system may limit the degree of possible tax progressivity, but without too hastily assuming that nothing can be done; the Swedish case, among others, suggests that the U.S. stands far short of the degree of income redistribution that can be combined with prosperity and growth in a capitalist economy. If the limits of equality are too quickly reached under capitalism, the serious reformer might consider rethinking capitalism rather than abandoning equality.

NOTES

[1]Preliminary results from a four-city pilot study carried out by NORC for Andrew Greeley and Joan Fee in December 1976.

[2]Hansen (1976) analyzes the demographic correlates of responses to these CPS and NORC items.

[3]But most people would prefer to close loopholes. In a Harris release, 9 October 1972, a 55% to 27% majority favored a value added tax if it would reduce property taxes. In polls for 1941, 1942, 1943 and 1944, showed several instances of plurality support for a national sales tax.

[4]It is possible that people viewed these measures as tax cuts rather than loopholes which would have to be made up elsewhere.

[5]Harris press release, April 14, 1977. Larger majorities favored cutting other taxes.

[6]We have transformed dollar responses into percentages. The wording of these items was changed frequently, and the high wartime preferences may reflect reactions to an unfortunate prologue beginning, "In order to help pay for the war, the Government will be forced to increase income taxes." In several cases, Gallup compared the preferred with "actual" or "proposed" rates, which he calculated in an unstated (and probably misleading) fashion from the rate tables.

[7]Only in 1957, in response to a prologue invoking revenue losses and the Constitution, did a large (68%) majority oppose a 25-35% limit (Gallup 1972, p. 1499).

[8]A similar change between 1972 and 1974 in class divisions over whether the state sales tax (as against federal income, state income, or local property taxes) was the "fairest" tax is shown by ACIR (1976, p. 21). By 1974 a significant plurality (28% to 20%) of the lowest income people picked the federal income rather than the state sales tax.

[9]Break and Pechman (1975) do not take this position, but argue that any disincentive effects of the mild reforms it proposes would be minimal.

REFERENCES

Advisory Committee on Intergovernmental Relations. 1976. Changing public attitudes on governments and taxes: 1976. Washington, D.C.

Break, George F., and Pechman, Joseph A. 1975. Federal tax reform: the impossible dream? Washington, D.C.: Brookings.

Edelman, Murray. 1964. The symbolic uses of politics. Urbana: University of Illinois Press.

Gallup, George H. 1972. The Gallup Poll: public opinion, 1935-1971. New York: Random House.

Goode, Richard. 1976. The individual income tax. rev. ed. Washington, D.C.: Brookings.

Gramsci, Antonio. 1971. Selections from the prison notebooks, ed. and trans. Quintin Hoeare and Geoffrey N. Smith. New York: International Publishers.

Hansen, Susan B. 1976. Public opinion and the politics of redistribution. Paper prepared for annual meeting of the American Political Science Association, 2-5 September 1976, Palmer House, Chicago, Illinois.

Lane, Robert E. 1962. Political ideology. New York: The Free Press.

Louis Harris and Associates. 1972. Public disenchantment with establishment. The Harris Survey, July 13.

______. 1972. Tax reform seen as important issue to voters. The Harris Survey, October 9.

______. 1973. Most believe federal tax on income to be fairest. The Harris Survey, July 23.

______. 1974. Candidates missed some issues. The Harris Survey, November 4.

______. 1977. Tax time once more. The Harris Survey, April 14.

Miliband, Ralph. 1969. The state in capitalist society. New York: Basic Books.

Olson, Mancur, Jr. 1965. The logic of collective action. Cambridge: Harvard University Press.

Palmer, John L., and Minarik, Joseph J. 1976. Income security policy. In Setting national priorities: the next ten years, ed. Henry Owen and Charles L. Schultz, pp. 505-82. Washington, D.C.: Brookings.

Pechman, Joseph A. 1977. Federal tax policy. 3rd ed. Washington, D.C.: Brookings.

Pechman, Joseph A., and Okner, Benjamin A. 1974. Who bears the tax burden? Washington, D.C.: Brookings.

Stern, Philip M. 1973. The rape of the taxpayer. New York: Random House.

Surrey, Stanley S. 1957. The Congress and the tax lobbyist: how special tax provisions get enacted. Harvard Law Review 70:1145-1182.