

# NEWS

## for Teachers of Political Science

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## The Politics of Tax Reform

By Gerald M. Pomper, Rutgers University

"No representation without taxation" could easily be the motto of American democracy. Like any other government, the United States cannot operate without taxes, and the politics of taxation reveals the workings of our democratic polity. The current national debate over tax reform offers an unusual opportunity to enliven introductory courses in American government.

Tax policy illustrates the basic question of all politics, "Who gets what, when and how?". As the nation debated President Reagan's and other proposals for changes in the tax system, the debate can be used to illustrate virtually every section of a typical introductory syllabus. Tax reform raises basic value questions, marks the boundary of private and public life, and centers on the moral issue of fairness. It can inform students about public opinion and elections, the policy process, interest groups, the formal institutions of the presidency and Congress, and federalism. In this essay, I hope to show how the issue of tax reform is relevant to each of these topics.

#### Basic Issues

Tax laws, like all legislation, reflect the values we hold and try to promote. Sometimes these values are so universal that they are not even noticed. When the law provides an exemption of \$1,080 for each dependent, we are implicitly saying that children are desirable, and that American society should bear some part (in fact, a very small part) of the costs parents incur. When the law provides additional exemptions for the elderly or the blind, we are socially taking on some of the burdens of the aged and incapacitated.

The implicit hierarchy of values runs throughout the tax code. Often it is unrecognized, and often these provisions have been adopted for political rather than moral reasons, but the provisions still stand as expressions of values. In permitting oil

prospectors to save taxes because they are "depleting" or using up their natural resources, we say that we think oil exploration is an important activity. On the other hand, by failing to include any special provision for dancers whose talents are "depleted" by aging, we say that we place less value on ballet.

Indeed, virtually every provision of the tax code carries at least an implicit value judgment, and the debate over tax reform is a debate on the relative importance of different values. Take some of the major issues. Should income from capital gains be taxed at a lower rate than income from wages and salaries? If so, it means that the contribution to society made by an investor is valued more than the contribution made by a yearly teacher. Should state tax payments be deductible from income before taxes are calculated? If so, we say that we favor more government activity at this level, rather than national government subsidies or requiring state residents to bear the full cost of state services. Should interest payments on credit card purchases be deductible? If so, we say that we favor a consumer society in which people go into debt to satisfy their personal desires.

The most general value question implicit in the tax code is the division between private and public life. American values generally are hostile to government, the heritage of our revolutionary independence and traditional emphasis on the personal freedoms of "life, liberty and the pursuit of happiness." This value is apparent in the general level of taxation in the United States, probably the lowest in the developed world. It runs through specific provisions of the tax code as well. Rather than provide direct government aid to museums or government housing, we encourage private activities by deductibility of charitable contribu-

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## The Economics of Tax Reform

By Joseph J. Minarik  
The Urban Institute

#### Introduction

The federal income tax is of central importance in both economics and politics. The income tax has been the mainstay of the federal government's revenue since the end of World War II. The income tax on individuals has consistently produced over 40 percent of total revenues for the last three decades. The income tax on corporations, while not as productive of revenue as it once was, still contributes about 10 percent of the total tax take. These large revenue yields make the income tax the main point of contact between the federal government and the broad population of typical American households, and perhaps also the dominant factor in people's attitudes toward the government as a whole.

While income tax reform has been of academic interest for over 30 years, political interest has grown considerably since 1981. It was in that year that President Reagan's large three-year tax cut was passed, amidst promises of more rapid economic growth, greater tax revenues, and falling budget deficits. The 1981 law was an unequivocal political success at the time of its passage, but an early and widespread dissatisfaction with its economic consequences was probably the main impetus for the tax overhaul contemplated by the Congress in 1985-86.

Thus, while political considerations are crucial in the birth of a piece of major tax legislation, economics is the key to its longevity. Even a tax law passed in a mood of euphoria, like that of 1981, will crumble under irresistible pressures if it delivers inadequate revenues, unfairly burdens (or favors) segments of the population, or distorts the functioning of the economy. Assessing the merits and demerits of the current tax law requires a grounding in the basic principles of taxation.

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