

Progressive Taxation: Some Hidden Truths

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At this time of year it seems there are only two things certain in life, taxes and anxiety about taxes. Instead of the perennial talk of a simplified tax form, how about a simplified understanding of the progressive values that underlie our tradition of progressive taxation?

Such an understanding won't move the tax deadline. But it might eliminate some of the anxiety. Understanding the hidden truths behind progressive taxation might also lead to more coherent—and more just—tax policies.

Progressive taxation—taxing the wealthy at higher rates than the poor—is a moral issue. Like many moral issues, it sparks heated debate. The debate is borne of conflicting worldviews, values, and understandings of values. But as we at the Rockridge Institute have written, when progressives understand the values and ideas that underlie their positions on issues, they can articulate arguments authentically and with greater persuasive force. These arguments will appeal to those whom we call biconceptuals—the great majority of Americans whose worldviews borrow in various ways from both progressive and conservative values.

America's government has at least two fundamental functions, protection and empowerment. Protection includes the police, firefighters, emergency services, public health, the military, and so on. Empowerment includes the infrastructure needed for business and everyday life: roads, communications systems, water supplies, public education, the banking system for loans and economic stability, the SEC for the stock market, the

courts for enforcing contracts, air traffic control, support for basic science, our national parks and public buildings, and more. We are usually aware of protection. But the empowerment infrastructure, provided by taxes, is usually taken for granted, hidden, or ignored. Yet it is absolutely crucial, a fundamental truth about America and why America provides opportunity.

This is a basic truth. That is what framing should be about: revealing truths and allowing us to reason using them.

Taxes are part of our common wealth, what we all share. Protection and empowerment serve the common good. Because of our common wealth, we are all protected and America's empowering infrastructure is available to all. That is a fundamental America value: the common wealth should serve the common good. It benefits everyone.

Citizens are financially responsible to maintain this common wealth. If we shirked this responsibility, we could not maintain our roads, fund our schools, protect ourselves from military threats, enforce our laws, and so on. Equally importantly, we could not create prosperity for ourselves, because we would have no protection of our intellectual property, no oversight of our markets, no means to enforce our contracts, no way to educate most of our children.

Several main progressive values support the idea of progressive taxation. One is the belief that the common wealth should be used for the common good. Another is responsibility, the responsibility that citizens have to pay for the benefits we receive from our common wealth. And still another is fairness. These values intertwine on the question of progressive taxation.

Few people dispute this responsibility at some level. Disagreements generally arise over the amount and the relative apportionment of the responsibility. Differing concepts of fairness drive this debate. While many progressives say it is only fair that those who earn more pay a higher percentage of their earnings as taxes compared to those who have difficulty making ends meet, conservatives respond by asserting that it is unfair to "punish" the financially successful by making them pay more.

An important point often lost in this debate is an appreciation that the common wealth, which our taxes create and sustain, empowers the wealthy in myriad ways to create their wealth. We call this *compound empowerment* — the compounded use of the common wealth by corporations, their investors, and other wealthy individuals.

Consider Bill Gates. He started Microsoft as a college dropout and has become the world's richest person. Though he has undoubtedly benefited from his unusual intelligence and business acumen, he could not have created or sustained his personal wealth without the common wealth. The legal system protected Microsoft's intellectual property and contracts. The tax-supported financial infrastructure enabled him to access capital markets and trade his stock in a market in which investors have confidence. He built his company with many employees educated in public schools and universities. Tax-funded research helped develop computer science and the internet. Trade laws negotiated and enforced by the government protect his ability to sell his products abroad. These are but a few of the ways in which Mr. Gates' accumulation of wealth was empowered by the common wealth and by taxation.

As Warren Buffet famously observed, he likely couldn't have achieved his financial success had he been born in Bangladesh instead of the United States, because Bangladesh had no banking system and no stock market.

Ordinary people just drive on the highways; corporations send fleets of trucks. Ordinary people may get a bank loan for their mortgage; corporations borrow money to buy whole companies. Ordinary people rarely use the courts; most of the courts are used for corporate law and contract disputes. Corporations and their investors — those who have accumulated enough money beyond basic needs so they can invest — make much more use, compound use, of the empowering infrastructure provided by everybody's tax money.

The wealthy have made greater use of the common good—they have been empowered by it in creating their wealth—and thus they have a greater moral obligation to sustain it. They are merely paying their debt to society

in arrears and investing in future empowerment.

This is the fundamental truth that motivates progressive taxation.

It is a truth that undercuts conservative arguments about taxation. Taxes provide and maintain the protecting and empowering infrastructure that makes our income possible.

Our tax forms hide this truth. They do not indicate the extent to which taxes have created and sustained the common wealth so you could earn what you have. They make it look like the empowering infrastructure was just put there by magic and that the government is taking money out of your pocket. The most likely truth is that, through the common wealth, America put more money in your pocket than it took out — by far.

But this situation is threatened by conservative tax policy. Through unfair cuts in taxes paid by the wealthy, through payment for the invasion and occupation of Iraq, and through borrowing abroad to pay for the tax cuts and Iraq, the common wealth is being drained and the infrastructure allowed to fall apart. We need to return to a fair tax policy that recognizes financial responsibility incurred by the compound use of America's empowering infrastructure.

Note: This essay was inspired by a recent question submitted to the Rockridge Institute. Learn how you can ask Rockridge.

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