

Daily Herald

Yes, there is a fact-based argument regarding graduated income tax

Ralph Martire

April 30, 2019

Anyone who pays attention to state government knows Illinois' fiscal system is a hot mess. Illinois has a huge -- as in \$8 billion plus -- accumulated deficit in its General Fund. Not good, considering over \$9 out of every \$10 of spending on services goes to the four core areas of education, health care, social services and public safety.

On top of that, Illinois is also one of the most notoriously unfair taxing states in the nation. The reason: Illinois over taxes low- and middle-income families while under taxing the wealthy. Also not good, given research by Professors Piketty and Saez covering the 1979-2015 sequence which found that over 108 percent of all real growth in income -- or more than all of it -- went to the wealthiest 10 percent in America. Which means everyone in the bottom 90 percent made less after inflation in 2015 than in 1979.

To help address these problems, Gov. Pritzker wants to amend Illinois' constitution to allow a graduated rate structure for the state's individual income tax. Under the governor's plan, higher tax rates would be imposed on higher levels of income, and lower rates on lower levels of income. He calls his proposal the "Fair Tax," because it ties state income tax burden to ability to pay. Pritzker's proposal would raise an estimated \$3.4 billion in new revenue by increasing the income taxes paid by the wealthiest three percent in Illinois, while modestly cutting income taxes for the bottom 97 percent of earners -- all of which seems eminently reasonable, given the huge General Fund deficit and the burgeoning growth in income inequality.

Of course, no matter how well thought-out, designed or needed, any proposal to increase taxes will generate opposition. So it's no surprise a group has been formed under the moniker "Ideas Illinois" to attack the governor's Fair Tax.

What is surprising -- because it's so completely void in substance -- is the rhetoric that group is using as the focal point of its anti-Fair Tax campaign. Currently, the folks at Ideas Illinois claim Pritzker's proposal somehow equates to "a permanent jobs tax on middle-class families." And to support this claim, Ideas Illinois points to, well, nothing.

After closer review, the reason Ideas Illinois hasn't bothered to offer any support for its claims becomes quite clear: there isn't any to offer. In fact, at the most fundamental level, the group's rhetoric rings hollow. Under its unambiguous details, the governor's plan is to increase taxes on the income of the wealthiest three percent in Illinois, while cutting taxes for everyone else -- including the middle class. By definition, then, the Fair Tax proposal is neither a tax on "jobs," nor a tax on the middle class. Hence the claims of Ideas Illinois are nonsensical.

Now, I can already hear some folks counter that I'm being too literal. That the gravamen of this anti-Fair Tax critique is that taxing wealthy folks more will somehow harm job creation, thereby diminishing the prospects for middle-class people to find work. Which is at least a more interesting argument -- if equally without merit.

Indeed, research conducted across a broad ideological spectrum, including generally anti-tax groups like the Cato Institute, confirms there is no statistically meaningful relationship between state tax policy on the one hand and job growth or entrepreneurial activity on the other.

In fact, after an exhaustive study, the nonpartisan Congressional Budget Office (CBO) found no statistically meaningful relationship between federal tax policy -- which is far more material than any state tax policy -- and job growth. What the CBO did find, however, was that the real reason businesses hire more workers -- drum roll please -- is to meet growing demand for the products or services they produce. Imagine that. There's an actual, fact-based rationale for how businesses act. Which is more than can be said for the arguments being raised against the Fair Tax by Ideas Illinois.