Comments on Zelenak, “Mitt Romney, the 47%, & the Future of the Mass Income Tax”

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Introductory comments

The 47% factoid was “boob bait” – considered suitable for WSJ op-eds & the like, but not taken seriously by people in the know (a group that evidently did not include Mitt Romney).

Note how carefully it was hand-crafted: income tax only, current year only, & supposedly reaching a “tipping point” when its rise self-evidently reflected the business cycle.

Hence thoughtful conservatives’ non-consternation about the factoid when the Romney video went viral (noted by Larry in the paper).

Zelenak on the 47% factoid & beyond

In search of a more meaningful measure for Romney's "makers vs. takers" construct than the 47% factoid, the paper also discusses fiscal incidence studies.

These find net takers vs. net payers based on taxes paid vs. some measure of benefits received.

The narrower problem: without accounting for public goods, can't say *anything* about the net direction, even if we get interesting *relative* info. And paper notes that, under a utility measure, we're *all* net takers (and thank goodness for that).

The conceptual problem is bigger than what people would pay for, say, defense spending. What baseline for winners & losers? Distribution if no government, but all else was magically the same? (Cf. Murphy-Nagel.) "Re"-distribution is a misnomer unless we understand that baselines are adopted for convenience & that no one choice is canonical.

Why might "47%" or "net takers" matter?: 3 different theories

<u>Zelenak</u>: Filing taxes can strengthen fiscal citizenship by prompting taxpayers to reflect on the contract they have with their government and the value—or perceived lack of value—they receive in exchange for their money

Romney I: People who are dependent on government and believe that government has a responsibility to care for them won't take responsibility for their own lives.

Romney II: People who don't pay federal income tax won't care about his tax-cutting message. Instead, they'll simply vote for bigger transfers.

These are 3 very different theories. Zelenak: empirical claim about the social significance & effects of mere form. Romney I concerns economic behavior. Romney II is political economy – writ small, some people's voting behavior, but with a broader implied critique of how our political system operates.

The Zelenak theory

I’ll admit to being a bit skeptical. But, as the paper recognizes, not really raised by the 47% kerfuffle, except in the collateral damage sense: no movement to increase the taxpaying % of Americans.

Larry’s idea, of course, is to re-label programs without changing their substance. The poor get / pay the same net as before (or if it changes, that’s for separate reasons), but they pay *something* on 4/15.

This was never likely to be a prominent reform agenda in D.C. – if net “income taxes” increase on poor people (such as from cutting the EITC or CTC), probably a net burden shift. Even though framing matters, hard to base an entire reform agenda on no net change in anything.

Note also House Republicans’ opposition to transfers outside the income tax, e.g., the battle over Food Stamps. No discernible Republican constituency today for policies that were backed by Reagan & Bush II. Paul Ryan et al stand only for tough love for the poor, minus the love.

Romney I: The attack on gov't "dependency"

A parallel argument to Romney/Ryan: Antibiotics undermine reliance on your own immune system.

Therefore, if there's a deadly bacterial outbreak, leading to increased use, we must cut back drastically, even before the outbreak ends.

This is the current House Republican stance re. Food Stamps.

The proposed "solution" for millions of people having so little income as to qualify for Food Stamps is to cut their transfers. Oddly, considerably less focus on how to help them raise their incomes.

The Romney I empirical claim

Again, it's that the 47% "are dependent upon government" & believe they're "entitled to health care to food, to housing, to you-name-it." They "believe they are victims," & "I'll never convince them that they should take personal responsibility and care for their lives."

A claim that's mainly about income effects (not substitution effects), with associated vulgar pop psychology.

The claim of such income effects isn't 100% false. Social insurance that reduces the risk of starvation can reduce one's desperation to obtain income at all costs (i.e., legally or illegally).

But in the U.S. today, transfers aren't nearly large enough to make this a convincing account. Romney's crude psychologizing says more about his own ignorance, arrogance, and lack of empathy than about those he was diagnosing.

Note the strong 2009-2013 Republican pushback against expansionary fiscal & monetary policy.

The Romney II political science claim

Despite the voting paradox, it's clear that the effect a candidate's program would have on people's economic self-interest can affect voting behavior.

Therefore, it's unsurprising that people whom Romney & Ryan targeted for adverse fiscal changes were often unsympathetic, & didn't respond positively to goodies that were aimed at Romney voters.

But the Romney political science theory asserts more: the poor gain control of the government & use it to extract resources from the rich.

Not a new theory. The mechanism is plausible, & there may be times and places where it's been true. But as a theory about current U.S. political economy, it can only be described as delusional and outlandish.

Studies show that voter sentiment below the very top has close to zero effect on policy outcomes. A case in point: the lack of post-2008 pressure for addressing unemployment.

Why the drop in non-income tax paying households?

Larry notes TPC tables suggesting that the 47% figure is dropping annually & by 2024 should be only 34.3%. A possible question of interest is why.

TPC tables show small but fairly constant annual declines in the absolute number of non-income tax-paying households for *every year* from 2004-2024 except for 2009 & 2013 (slight rises) & 2008 (32% rise). This happens despite steady increases in the total numbers of tax units.

This reflects "real bracket creep." Income tax rate brackets (including the ZBA from standard deduction & personal exemptions) are indexed for inflation but not for real GDP growth.

Consider, say, the 40^{th} percentile. They'll stay right where they are, in the income tax brackets, if all that happens is inflation. But with real growth that they share in at all, they'll tend to rise over time towards higher rate brackets.

Should we offset real bracket creep?

The drop in non-income taxpaying households thus suggests that, as time goes on households in, say, the 40th percentile will be getting ever worse treatment in relative terms than under present law.

They're still in the 40th percentile – on the other hand, they are better-off in absolute terms than today's 40th percentile.

If we care about relative income levels, not just absolute ones, then arguably the decline to 34.3% should be offset (whether or not inside the income tax).

Larry's arguments are relevant to whether it should be done inside the income tax.