Of populism and taxes

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What is populism and why is everyone suddenly saying such nice things about it? The answer to that last question, at least, is easy enough: When a populist spirit is abroad in the land, most Americans are always eager to say nice things about it. After all, populism as a political movement is indisputably based on popular passions and popular resentments, and very few commentators today are willing to adopt a critical posture toward it, lest they stand accused of the awful ideological error of "elitism." During the 1950's, the late Richard Hofstadter (among others) could explore the connections in American history between political populism and political paranoia—the belief that the world is being misdirected by some kind of mischievous conspiracy against the "common man." The perception of such a connection permits one to understand some of the more interesting aspects of American populist movements: their tendency toward xenophobia and racism for one thing, their extraordinary ineptitude at significant institutional reform for another. But, in recent years, Hofstadter's work has been nibbled at by a flock of younger historians who are maddened by his very detachment from populist clichés. In America, intellectuals are now more consistently populist than the populace itself. Political populism is a natural temptation for a democratic people, but the populist
idea seems to have become something like a secular religion for the
democratic intellectual, who is convinced that "the people" represent
a holy congregation and, therefore, that their indignation is the wrath
of God. Indeed, when the American people sensibly resist the populist
temptation—when they exhibit a preference for a politics of calm
deliberation over a politics of passionate resentment—they are likely
to be rebuked by their intellectuals for their disgusting "apathy."

What is populism? Oddly enough, I believe the classical Marxist
definition is the most accurate: Populism in America is the radical-
ism of the petit-bourgeois sensibility—the radicalism of the tra-
ditional-minded and nostalgia-ridden "common man," a radicalism
of the sullen, the bewildered, the resentful, the anxious, the
frustrated. It is, Marxism goes on to say, a "false" class conscious-
ness in that it is myth-ridden and essentially "escapist"; it is
therefore a very dangerous form of radicalism because, in the end,
it is more likely to be captured by unscrupulous right-wing dem-
agogues than by proper socialist theoreticians. This interpretation of
populism is doubtless schematic and even melodramatic, as Marxist
interpretations tend to be. But I think it to be more valid than not,
and I would remark that the ease with which so many of yesterday's
quasi-Marxist radicals have transformed themselves into today's
self-styled "populists" is a sad commentary on the condition of
American political thinking in the 1970's.

Still, when all this has been said, considerably less than everything
has been said. Populism may be a natural temptation in a democ-

cracy, but large numbers of citizens are not likely to succumb to this
temptation unless circumstances move them to do so. *Vox populi* is
not *vox dei*, but when people feel the times are out of joint, then
they are in fact out of joint—there is no higher court to appeal to.
The rise of a populist temper is a sure sign that something has gone
wrong, and that reforms are very much in order. A populist upsurge
always points to very real problems that ought to be on our political
agenda. But populism itself usually misperceives these problems,
and the solutions it proposes are, more often than not, illusory.

**What kind of tax rebellion?**

It seems generally agreed that a major cause of the present popu-
list discontent is taxation. But, typically, the populist temper
seizes hold of this matter and twists it into a familiar paranoid
shape; the tax issue, it proclaims, arises out of the manipulation of
our tax laws by "vested interests" so that the rich are getting away
OF POPULISM AND TAXES

scot-free while the common man bears the whole tax burden. The answer, obviously, is to soak the rich.

Now there is, as it happens, something to be said for soaking the rich. But that is not really the problem, nor is it really any kind of a solution. The average American, no matter what he may sometimes say or what is said in his name, is not rebelling against tax inequities. *He is rebelling against taxes, period.* He is rebelling against increased property and sales taxes. He is rebelling against the hidden tax that inflation represents. He is rebelling against all those itemized deductions from his paycheck—against the fact that his “take-home pay” diverges more and more from his formal salary, so that his hard-won wage increases seem to exist only on paper and never find their way into his pocket.

Since most social critics are members of the upper-middle class, for whom the income tax looms so large, it is easy to exaggerate the importance of the income tax for the American working man. True, as his wages increase he moves “progressively” up into higher tax brackets. But the actual impact of this process is minimal, since we are talking about relatively small spurts in income. The average American worker is *not* paying a greater proportion of his salary to Internal Revenue than he was ten years ago; as a result of the Kennedy and Nixon tax reforms, he is more likely to be paying less. He is, however, witnessing a greater proportion of his salary being preempted by inflation—itself the consequence of increased government spending on such things as welfare, education, medicare, medicaid, etc. He also sees more of his salary being funneled off into social security, supplementary private pensions, early retirement schemes, medical insurance, etc. Between 1965 and 1971, his weekly earnings rose by 12 per cent, but what we now call his “real spendable earnings” did not increase at all. The American worker finds this frustrating. He resents this whole process, which bureaucratically insists on improving his longer-term prospects at the expense of his shorter-term ones—on improving his general welfare at the expense of his specific well-being. In short, he resents the present structure of the welfare state, and his “tax rebellion” is an expression of this resentment. This intense dissatisfaction of the working class and lower-middle class over the issue of “taxes” is not a uniquely American phenomenon. The same resentment is clearly visible in Britain, France, Germany, and Sweden—nations where the question of tax inequities is barely raised at all.

What is occurring is very interesting and very troubling: The middle-class psychology which has created the welfare state is on
a collision course with a working-class psychology which, while
not rejecting any of the benefits of the welfare state, nevertheless
feels victimized by it. This may be short-sighted on the part of
the working-class—but, then, it is in the nature of working-class
people to be more short-sighted (to have a shorter “time horizon”) than
middle-class people; since their lives offer fewer gratifications, working-class people tend to want them more immediately.
And there may well be more than short-sightedness involved. After
all, it is the middle class that manages our welfare state, whereas
our working class is managed by it—and it is a lot more fun to man-
age than be managed. Many workers who are angry at those de-
ductions from their paycheck would take pride in making those
deductions on a voluntary basis. They could then find personal satis-
faction in providing for their own and their children’s future. It is
pleasing to fulfill such responsibilities in a “manly” way; it is ap-
parently much less pleasing to have a bureaucratic process do this
to you and for you.

How to get out of this impasse is not a subject we have given
much thought to. Indeed, we have for the most part failed to realize
just what kind of impasse we are in. Instead we tend to permit our-
selves to be caught up in the populist current, and to believe that a
populist reform—a more “progressive” tax system—will provide the
answer to populist discontent. Just how illusory such a notion is may
be inferred from the following report in the New York Times for
May 19, 1972:

For many New Jersey political leaders it didn’t seem to make any
sense. Here was a Republican Governor urging a Legislature controlled
by Republicans to approve the most progressive, urban-oriented, so-
cially conscious tax-reform program ever proposed in the state’s history.
Appearing before a joint legislative session in the crowded Assembly
chamber this afternoon, Gov. William T. Cahill recommended a $2-bil-
lion tax program that included a graduated state income tax and a state-
wide property tax of $1 on every $100 of true value.

He promised that the new taxes would cut local property taxes in New
Jersey by an average of 40 per cent and enable the state to assume the
entire financial responsibility of operating the public schools. . .

Stripped to its essentials, it is a controversial program that would bear
down hardest on the wealthy, predominantly Republican communities
in the suburbs and offers sizable tax relief and new urban aid to the pre-
dominantly Democratic poor people in the cities and the working-class
communities immediately surrounding them. . .

It would follow, then, that the Governor should be able to count
heavily on the cities and the Democrats in his effort to reform what he
calls “an unjust, regressive tax system which places the greatest burden
on those least able to pay.”
In reality, some of the most strident opposition to any reforms will come from blue-collar neighborhoods who stand to benefit the most from them.

For example, a number of legislators from the cities, such as Anthony Imperiale of Newark, contend—probably rightly—that virtually all their constituents are opposed to any kind of new taxes, regardless of the higher benefits involved and regardless of any accompanying reduction in local taxes.

“I can’t put my finger on it,” Mr. Imperiale said today, but it was apparent that the same sense of political, economic and social alienation that is encouraging thousands of working-class Democrats in New Jersey to support Gov. George Wallace of Alabama would also be a major factor in determining their opposition to any reforms.

One can fairly predict that many middle-class reformers will find, to their surprise, that the populace is going to be quick to bite the hand that aims to feed it. The populace doesn’t want to be fed; it wants more freedom to graze on its own.

**Taxing the rich**

I am not suggesting that there are no inequities in our tax system. On the contrary, there are many and their elimination or reformation is highly desirable. But one has to have a clear idea of what this will accomplish. It will not have any significant effect on the distribution of income in the United States, and it will not have any significant effect on the tax burden of the average American. It will not of itself finance the prospective growth of existing social programs, and it will most emphatically not finance any major new social programs (e.g., national health insurance, day-care centers, etc.). Its purpose will be primarily symbolic: to reassure the American people that the tax system is “fair.” Such reassurance is clearly needed today, and therefore the importance of such symbolic reforms cannot be overestimated.

One such reform, in my opinion, would affect the present way in which corporate executives can acquire and exercise stock options. The problem here is that corporate executives still think of themselves as businessmen—i.e., entrepreneurs—who ought to get rich if they are successful. This is a dangerous misconception. Executives ought to get tempting salaries, and these salaries ought not to be taxed with exceptional severity—but no corporate executive ought to feel entitled to get rich on the job. He is not a risk-taking entre-

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1The present 50 per cent maximum tax on earned income seems to me to strike just about the right balance.
preneur, since his risks are no greater than that of any other employee of the corporation, and he is entitled to the kinds of benefits other employees get—nothing more. I would say he is not even entitled to a special bonus system—unless, in those years when the corporation does badly, he is willing to accept an equivalent negative bonus (i.e., pay cut).

Another useful reform would be to abolish the tax advantage which the purchase of tax-free municipal and state bonds now offers to those in the higher tax brackets. This advantage is not nearly so scandalous as various newspaper reports would have one believe. It is perfectly true that a wealthy citizen can avoid all taxes by putting his capital into tax-exempts. But it is also true that, since the yield on tax-exempts is only about two-thirds of the yield on taxable bonds, he is in effect paying a 33 per cent tax for the privilege of not having to bother filing a return. This is a lot more than zero; on the other hand, it is substantially less than he would otherwise pay, if this option were not open to him. Various plans have been developed for abolishing tax-exempt bonds while not damaging the ability of localities to borrow money. It is time that some such plan were put into effect.

There are still other possible reforms one could mention, but there is no need to list them here. The point I wish to emphasize—and it is not really controversial in itself—is the mainly symbolic character of such reforms. They will not raise much in the way of new revenue; they will not affect the ordinary person's tax burden; they will leave no trace on the distribution of income. They are desirable on grounds of equity and their impact will be almost totally psychological. Obviously, these are not the kinds of results that those who take populist rhetoric seriously have been led to expect. Such results, if they are to be obtained, will involve far more drastic reforms—and, for better or worse, each of these reforms would have serious costs, economic and political.

It would be easy, for instance, to raise quite a few billions by increasing the corporate income tax and decreasing the depreciation.

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2One such plan was described by Charles M. Haar & Peter A. Lewis in The Public Interest. See “Where Shall the Money Come From?” (Winter 1970), pp. 101-112.

3I am not even thinking of those famous depletion allowances for firms that produce oil, gas, and minerals. If such allowances were completely eliminated, the Treasury would get an extra $1.5 billion in revenue. And no one is even advocating their complete elimination! Rarely can so much publicity have been generated by the prospect of so little tax revenue. In a way, the fuss over depletion allowances is a perfect illustration of how the populist vision distorts economic reality.
allowances offered to corporations who invest in new capital equipment. But the effect of this would be to slow economic growth in the private sector, to decrease the number of jobs created therein, and ultimately to diminish the tax revenues generated by it. One can fairly predict that, after a few months of such a "sluggish economy," the political pressure for restoring depreciation allowances and cutting corporate taxes would be irresistible.

The abolition of the capital gains tax, and the taxation of all income at normal rates, would raise perhaps an extra $8 billion—on paper. In actuality, it would probably raise only a tiny fraction of that, since people with substantial capital gains would simply refuse to sell their stocks or properties, preferring to borrow against them if they should need cash. Why, they will ask, is it "fair" to treat capital gains as income when capital losses cannot be written off against income? This would seem to be one of those cases when a tax sets itself into direct opposition to elementary self-interest and to the taxpayer's own sense of justice—and when this happens, it is the tax which usually loses out. The same thing would doubtless be true for a cumulative lifetime inheritance tax, which, putting a tax bill of $200,000 on an estate of $500,000 and going up from there (e.g., a tax of over $500,000 on a million dollar estate), would yield $4 billion dollars—on paper. In real life, the incentive for avoidance of such a tax, seen as "confiscatory," would be so great that the only ones to benefit would be the tax lawyers who would figure out ways to soften that tax-bite. Anyone who is skeptical of his ability to succeed in this should himself immediately consult a tax lawyer: He will discover that he has needed one all along.

There are some reforms that would unquestionably bring in the money—only no one is ever going to enact them. If you abolish tax benefits for those over 65, you would pick up some $9 billion a year. And if you abolished the tax-deductibility of interest payments on home mortgages, you would pick up over $20 billion a year. But who is going to pass such legislation? It is all very well to argue, as some academics do, that if we got rid of all of these tax preferences for various groups in the population, we could have, not only a simpler tax system, but a much lower general tax level for everyone. Were we in a position to design our tax system afresh, that would be an eminently sensible procedure. But we are in no such position, and it is quite futile to try to persuade large numbers of people to surrender substantial and tangible tax benefits in favor of a prospective tax reform that might leave them slightly better off. That is just not going to happen.
The rich—too few, and too many

The trouble with the idea of lightening the average man's tax burden through soaking the rich is that there are both too few and too many rich—depending on how you define that category. The top one per cent of our income distribution—families with over $50,000 a year income—number only 700,000, and they already pay out 46 per cent of their income in taxes. The top five per cent consists of 3.5 million families with income of $30,000 or over; these pay out about 33 per cent of their income in taxes. There is unquestionably more tax revenue to be got here—but not easily: These people don't think of themselves as being "rich," the rest of the population doesn't think of them in this way, either, and the millions of people in this bracket will therefore fight hard and effectively against any kind of discriminatory increase in their taxes. The same is even truer for those 14 million families in the top 20 per cent, who make over $18,000 in income. As for the tens of millions of people in the $10,000-$18,000 bracket—well, these are the very people who are already populist rebels against our prevailing tax rates! The idea of taxing them more harshly for the benefit of those with below-median incomes is not to be taken seriously.

It is precisely because of the fact that income distribution in a modern industrial society takes the shape of a diamond, rather than a pyramid, that income re-distribution turns out to be so hellishly difficult. It can hardly be an accident that countries with such different economic and social policies as the United States, Britain, France, Germany, and Sweden should have an almost identical pre-tax distribution of income, and a still roughly comparable post-tax distribution. In all of these countries there are both too few "rich," and too many, for taxes to be a powerful instrument of economic equality.

Such a recognition of the limits of tax policy will depress those who believe that the distribution of income is a major problem for American society today. But is it, really? My own guess is that, left-wing intellectuals and academics apart, no one is terribly exercised by this issue. It is in the nature of democratic politics that practically any discontent expresses itself in terms of a demand for greater "equality," when what is actually being demanded is fairness or efficiency—or even special privilege! I have suggested that much of our working-class discontent is over the structure of the welfare state: I would add that this discontent is exacerbated by the ways in which the welfare state is spending its tax revenues—for ever-growing welfare rolls, for an educational system that seems to be falling apart,
for a police force that cannot cope with increased criminality, for low-income housing that converts itself into instant slums, for med-
icaid to the poor which inflates medical costs for the non-poor, etc. It would not be an exaggeration to say that much of the present discontent with taxation is provoked by the fact that the welfare state, which these taxes support, is too committed to equality—to expenditures that benefit primarily the minority who are poor.

The populist demand for “equality,” back in the 1890’s, was in reality a protest against the emerging new shape of American so-
ciety, in which the large corporation was to be a central institution. What the Populists basically wanted, and what in the end they got, was for government to take effective action to curb the economic power and political influence of the corporations. That end achieved, the populist spirit gradually melted away. Today, populist dissent, as I see it, is once again concerned with the emerging new shape of American society. It is a society in which bureaucracies—governmental, judicial, professional, educational, corporate—make the cru-
cial decisions which affect the common man’s life (e.g., busing his children away from their neighborhood school, appropriating part of his salary to support people he thinks unworthy of support, etc.). Most of these decisions involve specific costs to him, while promising only future benefits, some of which are vaguely “social.” It is no wonder that his anxiety becomes touched with paranoia, and that he should smell foul conspiracy.

There is no conspiracy—but there is a problem. It is not a prob-
lem of income distribution or of inequities of taxation. The problem is the bureaucratization of American society—and the fact that this bureaucratization has failed to accomplish the only thing no bureau-
cracy dare fail at: the efficient delivery on its promises. Populist dis-
sent today is directed against liberal politics—even when it votes for an “anti-establishment” liberal politician. Liberals may find this in-
credible: How can the people possibly be against liberal politics, when liberal politics so sincerely has the larger interests of the people at heart? So long as this question can be asked so ingenuously, we shall not have got very far in coping with the upsurge of populist dissent in the 1970’s.