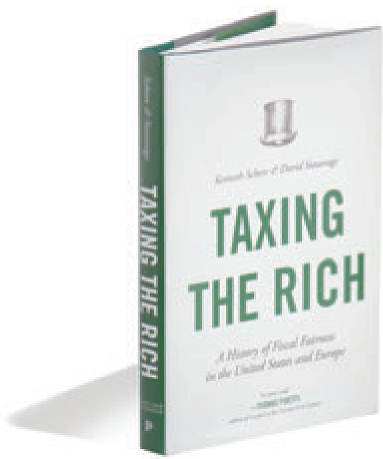
Robbing Hood



Kenneth Scheve and David Stasavage

Taxing the Rich

A History of Fiscal Fairness in the United States and Europe

Princeton University Press, Princeton, New Jersey, 2016, 288 pp., $29.95 (cloth).

Visiting a depressed Welsh village in the 1930s, the future British King Edward VII famously remarked that "something must be done." Current agonizing over rising inequality has a similarly plaintive feel. Will anything actually be done about it, in the form of much greater tax progressivity? This admirable book gives a clear answer: probably not.

This is just one implication of the authors' big idea: a distinctive theory of what drives strongly progressive taxation. To arrive at it, they first elegantly dispose of two alternative explanations. One is that progressive taxation comes about as an application of ability-to-pay arguments: the rich should pay a higher tax rate because it hurts them less. But the authors show that higher top tax rates have generally not resulted from higher pretax inequality. The other is that increased progressivity has come from extension of suffrage, with the numerically dominant poor voting to extract resources from the outnumbered rich. But the authors conclude that this story doesn't work either.

What remains is their "compensatory" theory—the idea that strongly progressive personal tax systems are most likely to emerge when, in democracies, there is some fundamental state-induced unfairness that cannot be removed by other means and when, in particular, "the deck is stacked in favor of the rich, and the government did the stacking."

Such unfairness can take several forms, such as broad-based commodity taxes needed for revenue reasons. But the most important source, at the center of their argument, is mass mobilization for war. The U.S. Civil War fits the bill, for example, with mass levies and widespread sentiment that this was a "rich man's war and a poor man's fight." Sure enough, both sides introduced a progressive income tax. (That the federal income tax was soon removed is consistent with a further implication of the compensatory view: progressivity fades once the fundamental unfairness subsides.) The same broad narrative fits the two world wars, which the book examines in detail. But the world, and the technology of warfare in particular, has changed. It is the shift toward high-tech warfare rather than fighting with mass armies that makes the authors believe that further bouts of steep progressivity comparable to those of the 20th century are unlikely.

The book is a methodological model. The authors develop their arguments through a broad array of methods: econometrics, laboratory experiments, textual analysis, and historical narratives. Especially worth mentioning is the data set (at the heart of their analytics) they have assembled on top income tax and inheritance tax rates in 20 countries during 1800–2013.

Kenneth Scheve and David Stasavage give us much to think about. There do, for instance, seem to be contradictory cases of mass mobilization that did not give rise to sharply more progressive income or inheritance taxation. One is the era of the French Revolution, when, the authors argue, other progressive taxes were levied instead. Another case may be Israel, where the top income tax rate (relating too to forced loans) increased by about 10 percentage points in the seven years around the 1967 war—but the lowest rate increased by about 12. Conversely, progressivity sometimes increased without mobilization: the authors point to noncombatant democracies during World War I. Systematically identifying and analyzing apparent counterexamples could lead to a better understanding of both the power and possible limits of the compensatory view.

High-tech warfare makes further bouts of steep progressivity unlikely.

Perhaps the most fundamental task the book leaves us, however, is unpacking the underlying notion of state-induced unfairness. The case made for the importance and power of compensatory arguments in public discourse on these issues is wholly compelling. But what raises these arguments to a level at which they make a strong mark on policy? In World War I, for instance, the British officer class had a far higher death rate than did ordinary soldiers from poorer backgrounds. And might it be that the rich are willing to make unusual concessions in wartime because they have more at stake in not losing (the "rich man's war")? Why has resentment at the combination of bailouts and austerity over the past few years not (yet) led to much greater progressivity?

The authors make the force of the compensatory view clear. Judging by the apparent success of the rhetoric during the 2016 U.S. presidential primaries that speaks of a system rigged to favor the rich, the compensatory theory has not gone unnoticed by political strategists.

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