Throughout history, the fiscal capacity of a state has shaped its destiny (Tilly 1990; Campbell 1993). In many countries today, governments still struggle with revenue-raising capacity in ways that hold back their countries’ development (Centeno 2012; Martin and Prasad 2014). As Margaret Levi has emphasized (1988), tax-paying is based on “quasi-voluntary compliance”: while enforcement plays a critical role, a state’s fiscal capacity ultimately depends on citizens voluntarily paying their taxes.

The surprising insight of Vanessa Williamson’s new book, Read My Lips: Why Americans Are Proud to Pay Taxes, is how deep the legitimacy of taxation runs in American society. This view seems counterintuitive in an era of fierce Republican opposition to taxes, a Tea Party movement that made lower taxes a central mission, and powerful activists like Grover Norquist wanting to “drown [government] in the bathtub” by cutting off its revenues. Williamson argues that this kind of tax animosity is an outdated political stance, not widely shared by Americans regardless of political stripe. It is not that Americans wish to see their tax rates rise, but they see the system of taxation as fundamentally legitimate and a binding civic commitment. “The idea that ‘Americans hate taxes,’” Williamson writes, “has become a truism without the benefit of being true” (p. xi).

Williamson draws on mixed-method research including a new survey of roughly 1,000 people, distillation of secondary sources, and in-depth interviews with individuals probing their views and experiences of taxpaying. The book is thoughtful and well written, and the view that emerges is compelling. Americans take pride in being tax payers, seeing this as the fulfillment of an obligation to their country and evidence of their personal standing. To be a taxpayer is to be a “responsible, contributing, upstanding member of society, a person worthy of respect in the community and representation in the government” (p. xi). Roughly three-quarters of Americans see underreporting one’s income for tax purposes as a moral offense, and over 90 percent describe honest taxpaying as a civic duty (pp. 28–30). Even respondents who denounce government spending often in the next breath assure others of their standing as a taxpayer, which establishes their right to have a voice in public affairs. Republicans feel just as strongly about the civic duty of taxes as do Democrats.

Indeed, the United States appears to have the highest rate of tax compliance in the world. International social surveys find that, compared to Europeans, Americans are more likely to say that cheating on taxes is never justified (Alm and Torgler 2006). Across the OECD, tax-evading black market activities are estimated to represent only 0.5 percent of official GDP in the United States, compared to more than 6 percent in Turkey, Mexico, and Romania (and about 3 percent of GDP in the OECD overall). Moreover, data on the use of offshore bank accounts to shelter elite wealth indicate that Americans keep only about 4 percent of their financial wealth in Swiss bank accounts and other offshore tax havens (Zucman 2015). In contrast, some 30 percent of financial wealth in African countries is hidden overseas, and over 50 percent of Russian financial wealth has been offshored. IRS research shows that in the United States, 82 percent of federal tax liabilities are paid on time and without enforcement action (IRS 2016). There is perhaps no other country in the world that enjoys the same level of tax compliance.
To be sure, this is in considerable part due to the nature of income reporting requirements in the United States. The IRS maintains an extensive system of information reporting, so that most people’s income is reported to the IRS by employers, banks, and other businesses even before individuals file their tax returns. This system is critical to sustaining a high-honesty equilibrium. But also crucial are the powerful view in America of the high moral standing of a taxpayer and the disdain Americans have for those who would shirk on contributing their share.

Indeed, Williamson’s book devotes much attention to the issue of who counts as a taxpayer. She notes that objectively, virtually everyone in the United States is a member of the taxpaying public. Through the combination of sales, payroll, and income taxes, few escape contributing a significant share of their personal budgets in tax payments. But political discourse has increasingly prioritized federal income tax payments as the most salient marker of a true taxpayer. In 2012, Republican candidate Mitt Romney famously told a group of wealthy donors that “Forty-seven percent of Americans pay no income tax. So our message of low taxes doesn’t connect. . . . And so my job is not to worry about those people. I’ll never convince them that they should take personal responsibility and care for their lives.” Similarly, conservative leader Michele Bachmann rhetorically asked, “if 45 percent of Americans pay no federal income tax, should they be allowed to vote?”

Williamson finds that the superior moral standing of income tax payments resonates even among low-income earners. When asking people, “are you a taxpayer?” many with low income demur. They tend to think about their federal tax return, their Earned Income Tax Credit, and feel that they do not really contribute or merit the status of a taxpayer. Of course, the working poor still face payroll taxes—deducted automatically and separately from the income tax system, payments that are financially significant. And in many parts of the country, sales taxes sap more than ten percent of poor people’s budgets (Newman and O’Brien 2011). Yet these items do not readily come to mind when people think about who is paying taxes.

In her excellent appendix, “The U.S. Tax System: A Brief Introduction,” Williamson elegantly documents how as a share of income, the poor and the rich are paying broadly comparable portions of their budgets in total taxes (ranging from 20 to 30 percent). But as Williamson notes, “some parts of the tax code are made very prominent to Americans, while other parts mostly go unnoticed” (p. 15). The result is a widely accepted inequality in who counts as a real taxpayer and thus who counts as a fully contributing citizen deserving of political representation.

Another group routinely denied the moral standing of a taxpayer is undocumented immigrants. Conservative politicians frequently assert that “they are here illegally—they are not paying taxes.” It is important to note, however, that the role of the IRS is to collect taxes owed, not to enforce immigration laws. The IRS does not particularly care about a worker’s legal status, or if multiple people are using the same social security number, as long as the tax payments are being made. Roughly six million undocumented workers file income taxes each year, according to IRS estimates (p. 190). The Social Security Administration likewise notes that undocumented workers face payroll tax withholding but are not eligible for social security benefits—making them large net contributors to the system.

These gaps in understanding of who pays taxes matter a great deal, Williamson argues. People’s willingness to pay and to support taxation depends greatly on the sense that everyone is contributing. Nothing inspires resentment and bitterness faster than the belief that some groups are freeriding and shirking their civic duty. When asked what bothers individuals most about the tax system, fewer than 10 percent cite their own personal tax burden; two-thirds cite the view that some other group is not paying its share (p. 3). To sustain legitimacy, taxes need to be understood as a shared obligation. As Williamson notes, “people are more willing to chip in when they think others are doing their part, too” (p. 9). The biggest points of contention in tax policy are over who is not paying.

This, finally, brings us to the question of elite taxation and tax avoidance by the rich. As Warren Buffet has noted, billionaire hedge fund managers such as himself can use legal loopholes to pay a lower tax rate.
than their secretaries. Big-ticket items in the tax code, such as the “carried interest loophole” or the mortgage interest deduction, allow high-income earners to quietly lower their tax rate and shift the burden of taxes toward the middle class and the poor. What is a fair way to share the costs of public goods like education, social services, courts and the judicial system, roads, bridges, and other shared infrastructure? How do we split the operating costs of the American way of life?

My view is that while the American system of taxation overall is modestly progressive, it probably should be more so and should do more to address the growing economic divide between the rich and the poor. That is partly a value judgment and calls for open philosophical debate about the merits of progressive taxation. The case for higher taxes on top income earners, however, also rests on empirical facts about the ability of top earners to avoid, escape, or undermine progressive taxation.

Political advocates for the rich often argue that it is simply impossible to tax those at the top. Sometimes the argument is “if you tax them, they will leave.” Other times, the argument is that the rich are more sophisticated than the tax authorities and can inevitably hide their money. Both of these are genuine concerns, but they are also too easily exaggerated. The irony is that critics of the rich often make the same unfounded claims. Sensational anecdotes about tax evasion by the rich inflame anger on the left—much like claims of immigrants not paying taxes enrage conservatives. All of these claims serve to undermine confidence in the fiscal capacity of the state.

The reality is, if the rich are avoiding taxes, it is because of legal rules Congress has passed to allow it, not because of illegal evasion. Authors like Brooke Harrington (2016) appeal to liberal anger at elite tax evasion, but serious empirical evidence shows that the rich in the United States are able to hide only a minimal fraction of their income from tax authorities (Zucman 2015). Similarly, left-wing theorists have crafted a vision of a “transnational capitalist class” freed from the confines of the nation-state, traveling across states or the world with impunity and guile in the avoidance of taxes and other policies. In practice, few millionaires—or even billionaires—ever move away from the places where they built their careers (Young 2017). The myths about poor people not paying taxes in the United States are evenly matched by sensationalist accounts of elite tax evasion. To bring down the temperature of this discourse, what is needed is more clear-eyed, dispassionate analysis of who actually pays taxes in America. Thankfully, big administrative tax records are increasingly available to researchers to clarify who is paying and what shares they contribute.

The question of what a government can accomplish is defined in part by the legitimacy of taxation in society. Williamson’s book is an inspired, engaging, and thought-provoking contribution to social policy, economic sociology, and our understanding of the relationship between the state and society. It deserves a wide readership.

References