Federal taxes have increased steadily throughout the Clinton administration. They now take 20.4 percent of gross domestic product. This is the highest federal tax burden since World War II. The end of the Cold War initially kindled hopes of a peace dividend, but it has brought only record levels of taxation. While taxes stand at a peacetime high, they do not hold a prominent place on the political agenda. For instance, a Battleground 2000 poll that was conducted in March showed only six percent of respondents as citing taxes as being an important issue.

What is going on here? Have people suddenly become happy with paying record level taxes? Possibly, but probably not. A more likely explanation is that taxes have been reduced for most voters, even if the average level of taxation has increased. Where the Reagan administration reduced the burden of taxation in the 1980s by reducing tax rates, the Clinton administration has shifted (and increased) the burden of taxation by removing people from the tax rolls.

The Joint Committee on Taxation estimates that more than one-third of the citizenry is now exempt from the federal income tax. If we divide the citizenry into thirds, the lowest third pays no income tax, the next third pays 10 percent of the income tax, and the highest third pays 90 percent of the tax. Two-thirds of the citizenry are getting practically a free ride when it comes to the federal income tax. It is quite understandable that high federal taxes are less of an issue
now than they were 20 years ago. While taxes are higher now than they were 20 years ago, fewer people are paying those taxes.

Several different sources show the same pattern of taxes going down for most people. The Congressional Budget Office estimates that the middle one-fifth of American families paid 5.4 percent of their income in federal tax in 1999, whereas they paid 8.3 percent in 1981. The Treasury Department estimates that a four-person family at the median income level paid 7.5 percent of its income in income tax. This is the lowest tax rate at the median level of income since 1965. In yet another calculation, the Tax Foundation estimates that the median two-earner family in 1998 paid 8.8 percent in tax, the lowest rate for such a family since 1955.

Defenders of this situation will note that in large measure tax exemption comes with low income. It is often claimed that considerations of fairness in taxation require tax burdens to rise relatively heavily with income. This is the principle of progressivity in taxation. Progressive taxation has been much debated, and on many grounds. What has been generally neglected in those debates is the political implication for a system of self-government when a majority of the citizenry, or even a substantial minority, becomes tax exempt.

A centerpiece of democratic ideology is the belief that taxation is something we do to ourselves, and do so for our common benefit. This makes it reasonable for us to speak of taxing ourselves. In a monarchy, someone else, the king taxes us. But in a democracy we tax ourselves. Tax exemption threatens to undermine this ideology of self-government, especially so as tax
burdens increase. It becomes less reasonable to speak of high taxes as burdens we have chosen to bear when a majority of the population pays little or no income tax. It becomes more accurate to speak of high taxes as being imposed on us by someone else. (To be sure, the income tax is not the only federal tax, but that is another story.)

From an individual’s point of view, the best tax in the world is surely one that someone else pays. Few people write checks to the government out of gratitude. In response to the question of what is the best way for governments to tax, there is the oft-cited adage: “don’t tax me and don’t tax thee, tax those people behind the tree.” Some people may be able to escape taxation, but not everyone can. This raises the question of just who is to pay taxes. This question points in two distinct directions, toward two very different principles for taxation.

In one direction lies the notion of a general and nondiscriminatory system of taxation. If we all benefit from the revenues that taxation provides, we should all contribute to those revenues. People may differ in how heavily they are willing to tax themselves, and they may differ in how they would like to see public funds spent. Regardless of these differences, all citizens are in the same boat, so to speak, in that they both fund government and receive its services.

In the other direction lies a system of discriminatory taxation, where some people pay taxes while others do not. The problem with discriminatory taxation is largely political in nature. To the extent those who do not pay tax have political clout through the ballot box, they will have little reason to resist an expanding government because they do not share in the tax bill. Responsible people bear
the consequences of their choices and actions. Responsible self-governance is surely threatened by tax exemption for a significant share of the citizenry, especially when it is accompanied by expansive government.