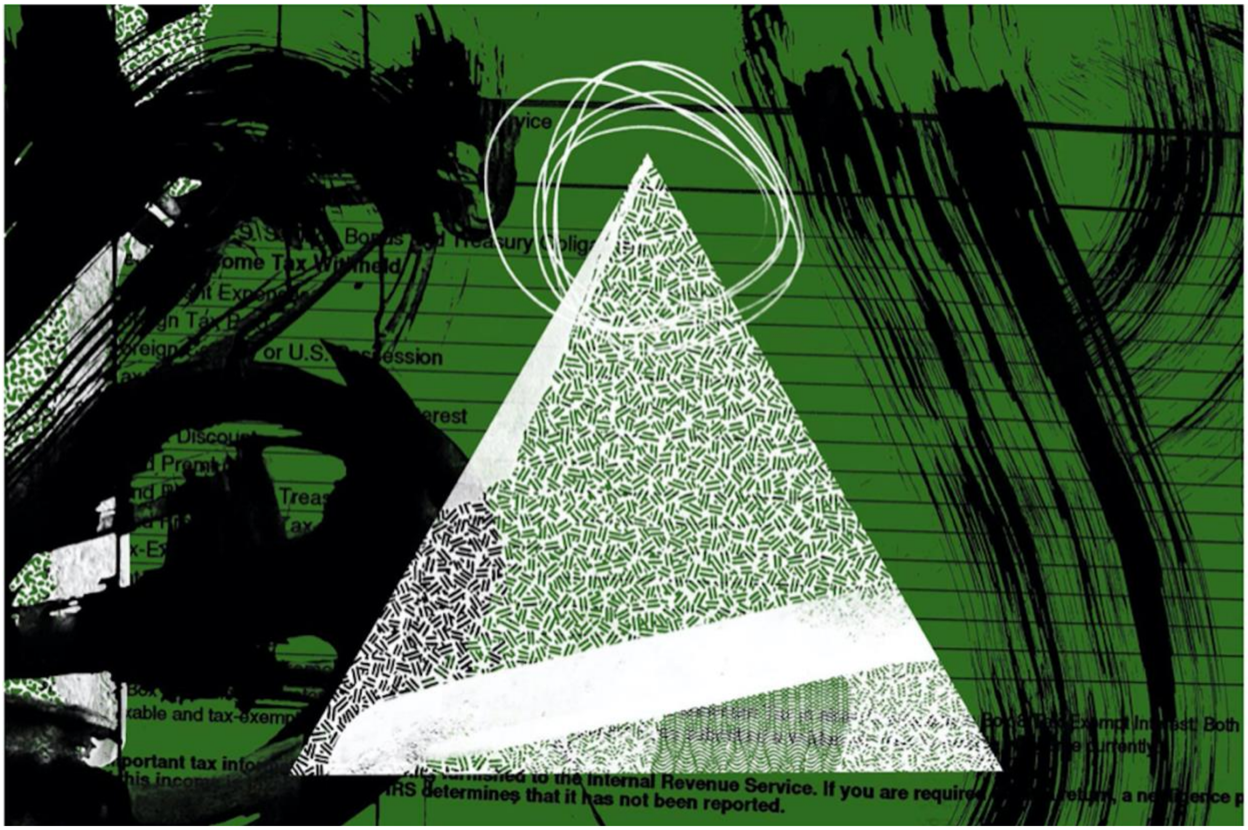
Supplemental Notes to Lecture 18: Disquiet on the Domestic Front



I. C. Wright Mills's Four Forms of Power

We discussed the advantage the federal government has over individuals and nonprofit organizations when it comes to extracting money from individuals: namely, it is empowered to compel citizens (and noncitizens) to pay income taxes.

As we saw in the Supplemental Notes to Lecture 16, the particular attitude a taxpayer has toward this particular duty reflects the extent to which they accept the legitimacy of the government. That is, some may not look upon the IRS as a coercive agency. At issue here is the question of determining the different ways in which power is exercised, a problem the American sociologist C. Wright Mills addressed a half-century ago.

According to Mills, we should think of power as the ability to get someone to perform an action that they would not necessarily do on their own. There are four distinct ways to exercise power in such a manner: through coercion, authority, persuasion, or manipulation.

In the case of coercion, the relationship between the person exercising power and the person over whom power is exercised is hierarchical. And how does coercion work?

When a person or entity threatens to use force against someone who does not comply with an order. For instance, a prison guard may use coercion when they want an inmate to enter or leave a cell.

The guard does not have to rely on the inmate's respect for his authority or try to convince the inmate to carry out his wishes. In the former case, we would still have a hierarchical relationship, but power is exercised by invoking a form of authority that commands the respect of the person who voluntarily obeys. That is, someone acts not out of fear of punishment but rather because they are acknowledging a legitimate request. For instance, students in a classroom may comport themselves in a certain manner out of a sense of respect for the instructor. An instructor who has to use coercive techniques does not teach in an environment hospitable to learning. But it is also the case that an instructor should not have to *persuade* students to complete an assignment or engage in discussion.

The art of persuasion is a form of power traditionally used among equals, in which one person attempts to convince another to take a certain course of action. Think here of a friend who tries to persuade another to vote for a particular candidate. (In fact, a candidate should rely upon persuasion when appealing for votes.)

Persuasion does, however, bear an unsettling resemblance to another form of power that only seems to rely upon a relation of equality. When someone is manipulated into doing something, they have been tricked into acting a certain way. They have been deceived, a hierarchical relationship is kept hidden (under the guise of equality), and the power is exercised *in secret.* For instance, a company tries to persuade someone to buy a product by promising them that the purchase will make them loveable, enviable, successful. Whether such a transformation actually occurs is beside the point, as far as the advertiser is concerned: they only packaged the product in that way and appealed to your sense of identity because they wanted your money.

We've seen, then, that Mills has given us a way to understand four different ways in which power operates.

FORM OF POWER	RELATIONSHIP	MODALITY
Coercion	Hierarchical	Viable threat of using force
Authority	Hierarchical	Respect
Persuasion	Equality	Rationality, appeal to emotions
Manipulation	Hierarchical	Appearance of rationality; appeal to emotions

How then should we characterize the form of power that is used by the Internal Revenue Service? As discussed in Lecture 18, Libertarians like 2020 presidential candidate Jo Jorgensen clearly view paying taxes as the product of coercion. Note that such a view does not recognize a government's legitimacy. "Patriotic" taxpayers may, however, regard their relationship to the IRS differently; they regard the US Government as legitimate (no matter which party the president belongs to or who holds a majority in Congress), which means they pay taxes out of a sense of respect for authority. Should the federal income tax brackets be adjusted? Should the government tax not only income but also increases to stock holdings? Should Tennessee adopt an income tax? To advance such proposals, members of Congress will have to persuade their colleagues and, at election time, their constituents, that reform is justified.

II. The Proposed Billionaire Minimum Income Tax

Biden proposes a tax on billionaires as he looks to fund his economic agenda.

As part of its budget proposal for 2023, the Biden Administration in March of this year proposed instituting what it described as a "Billionaire Minimum Income Tax," which would create a 20 percent minimum tax rate on all American households worth more than $100 million. (In practical terms, the “Billionaire Minimum Income Tax” would affect only the top one-hundredth of 1 percent of American households.)

That aim may strike you as odd. Wouldn’t billionaires already have their income taxed? Moreover, you might assume it is taxed at the top income bracket rate of 37 percent, which, as we saw in Lecture 18, is considerably lower than what it was prior to the Reagan era, having reached a height of 91 percent in the 50s and early 60, a rate impossible to conceive of in today’s political climate—though not, we should note, owing to any economic lessons learned from previous decades.

Year	Top Marginal Rate	Year	Top Marginal Rate	Year	Top Marginal Rate	Year	Top Marginal Rate
1913	7.00%	1948	82.13%	1983	50.00%	2018	37.00%
1914	7.00%	1949	82.13%	1984	50.00%	2019	37.00%
1915	7.00%	1950	84.36%	1985	50.00%	2020	37.00%
1916	15.00%	1951	91.00%	1986	50.00%	2021	37.00%
1917	67.00%	1952	92.00%	1987	38.50%	2022	37.00%
1918	77.00%	1953	92.00%	1988	28.00%		
1919	73.00%	1954	91.00%	1989	28.00%		
1920	73.00%	1955	91.00%	1990	28.00%		
1921	73.00%	1956	91.00%	1991	31.00%		
1922	58.00%	1957	91.00%	1992	31.00%		
1923	43.50%	1958	91.00%	1993	39.60%		
1924	46.00%	1959	91.00%	1994	39.60%		
1925	25.00%	1960	91.00%	1995	39.60%		
1926	25.00%	1961	91.00%	1996	39.60%		
1927	25.00%	1962	91.00%	1997	39.60%		
1928	25.00%	1963	91.00%	1998	39.60%		
1929	24.00%	1964	77.00%	1999	39.60%		
1930	25.00%	1965	70.00%	2000	39.60%		
1931	25.00%	1966	70.00%	2001	39.10%		
1932	63.00%	1967	70.00%	2002	38.60%		
1933	63.00%	1968	75.25%	2003	35.00%		
1934	63.00%	1969	77.00%	2004	35.00%		
1935	63.00%	1970	71.75%	2005	35.00%		
1936	79.00%	1971	70.00%	2006	35.00%		
1937	79.00%	1972	70.00%	2007	35.00%		
1938	79.00%	1973	70.00%	2008	35.00%		
1939	79.00%	1974	70.00%	2009	35.00%		
1940	81.10%	1975	70.00%	2010	35.00%		
1941	81.00%	1976	70.00%	2011	35.00%		
1942	88.00%	1977	70.00%	2012	35.00%		
1943	88.00%	1978	70.00%	2013	39.60%		
1944	94.00%	1979	70.00%	2014	39.60%		
1945	94.00%	1980	70.00%	2015	39.60%		
1946	86.45%	1981	69.13%	2016	39.60%		
1947	86.45%	1982	50.00%	2017	39.60%		

In fact, those high tax rates co-existed with periods of strong economic productivity and middle-class prosperity, the likes of which have not been seen since.[1] However,

[1] It is important to emphasize, as economist Thomas Piketty has done in his most recent work, that the period of maximum prosperity of the U.S economy in the middle of the century was a period where you had a top income-tax rate of 90 percent [and] 80 percent.”

many billionaires are *not* taxed at today's highest rate, which seems to violate the basic tenet of progressive taxation, which as our text puts it on page 567, supports a "system . . . that increase[s] the effective tax rate as the taxpayer's income increases."

As reported last March by [Jeff Stein in the *Washington Post*], "many billionaires can pay far lower tax rates than average Americans because the federal government *does not tax the increase in the value of their stock holdings until those assets are sold.* The White House plan would mandate billionaires to pay a tax rate of at least 20 percent on their full income, or the combination of traditional forms of wage income and whatever they may have made in unrealized gains, such as higher stock prices" (emphasis added).

Framing the issue in populist terms, the White House announced the "minimum tax would make sure that the wealthiest Americans no longer pay a tax rate lower than teachers and firefighters." Such language caters to the widespread perception that a supposedly progressive tax system is marred by loopholes and provisions that give it regressive qualities and undermine its legitimacy. In other words, the system appears to a clear majority of taxpayers as fundamentally unfair, especially in the wake of an exposé published in June of 2021 by the nonprofit organization, ProPublica, which released the personal tax data of some of the wealthiest individuals in the country—a trove of documents handed over by a whistleblower, presumably within the IRS, who thought doing so would serve the public interest.

What those documents revealed was that, for instance, Elon Musk benefits from a tax rate of 3.27 percent, while Amazon's Jeff Bezos pays 0.98 percent, statistics that, according to the ProPublica report, "demolish . . . the cornerstone myth of the American tax system: that everyone pays their fair share and the richest Americans pay the most. The IRS records show that the wealthiest can — perfectly legally —

pay income taxes that are only a tiny fraction of the hundreds of millions, if not billions, their fortunes grow each year. Many Americans live paycheck to paycheck, amassing little wealth and paying the federal government a percentage of their income that rises if they earn more . . . America's billionaires avail themselves of tax-avoidance strategies beyond the reach of ordinary people. Their wealth derives from the skyrocketing value of their assets, like stock and property. Those gains are not defined by U.S. laws as taxable income unless and until the billionaires sell."

By borrowing freely (at a very low rate of interest) against their own assets, "America's billionaires" are able to amass great wealth, live lavish styles, and report relatively low income, taking advantage of a flawed progressive tax system that the Biden Administration's "Billionaire Minimum Income Tax" vows to reform. However, Democratic Senator Joe Manchin of West Virginia, without whose vote the measure cannot pass, has made it clear that he opposes the proposal, arguing that taxing unsold assets and stocks could destroy the foundations of the American political economy: "You can't tax something that's not earned. Earned income is what we're based on." Given its present ideological composition, the US Supreme Court is likely to share that position, should Machin somehow be pressured (or "coerced") into changing his stance.

In fact, the Billionaire Minimum Income Tax has been attacked from both the right and the left.

For instance, the Editorial Board of the *Wall Street Journal* predictably condemned the proposal, arguing that the new tax amounts to a form of punishment that unfairly punishes hard work and creativity, actions that presumably bring their own rewards, so long as the federal government doesn't get in the way: "the Administration says the tax would apply only to the top 0.1%—meaning hundreds of successful entrepreneurs and small business owners who accumulated wealth over decades through innovation and hard work."

In other words, notwithstanding the data published by ProPublica, the Editorial Board maintains that the top 0.1 % are unfairly targeted by a new tax, which deprives them of wealth they are entitled to keep for themselves.

Perhaps sensing that such an argument needs reinforcement, the editors also appeal to their readers' latent fears by invoking a version of the domino theory: "these new taxes always start out applying to a few and then spread to millions. After all, "the income tax in 1913 applied a 7% top rate on taxpayers making more than $500,000, which is the equivalent to $14.5 million today." (As we know, that top rate now stands at 37 percent today (having reached a high of 91 percent in the 1950.)

Left-leaning economists like Dean Baker, co-founder of the Center for Economic and Policy Research, also oppose the "wealth tax," characterizing it as an unfortunate "distraction." However, whereas the *Wall Street Journal's* editors claim that the targets of a wealth tax are entitled to their fortunes, Baker argues that they are instead the beneficiaries of extravagant executive pay scales[2] and a corrupt political and economic system "that was deliberately rigged to shift income to the rich" (for example, through the awarding of patent monopolies).

As Baker sees it, a wealth tax legitimates and perpetuates existing conditions of inequality and attempts to extract some revenue from it through policies likely to face serious Court challenges: "An attack on inequality must center on exposing the corruption that created it, not accepting this corruption and coming up with a tax fix of dubious effectiveness."

As if there were not already enough obstacles standing in the way of passing a wealth tax, Baker identifies one more: "rich people can simply renounce their citizenship" before a Wealth Tax is enacted. Baker acknowledges that in its proposal, the Biden Administration has sought "to check this escape route by imposing a 47 percent exit tax. That would [indeed] be a strong disincentive, once the tax is in place. However, nothing would stop rich people from renouncing their citizenship as the tax is being debated by Congress.

Quiz Question 5: In your view, which of the four forms of power presented by C. Wright Mills best describes the federal income tax in the United States?

Quiz Question 6: What is the basic tenet of a system of progressive taxation?

Quiz Question 7: What is one obstacle that appears to stand in the way of the passage of a "Billionaire Minimum Income Tax?"

https://www.nytimes.com/2022/03/28/us/politics/biden-billionaire-tax.html

[2] In his 2021 *Brief History of Equality*, Piketty points out that "the 80-90 percent tax rates implemented under Roosevelt led companies to put an end to the most astronomical renumerations, which left more funds to be invested and used to raise lower salaries."