

# Progressive taxation's mischief

By Antony Davies & James R. Harrigan

Saturday, Nov. 1, 2014, 9:00 p.m.

*Updated 11 hours ago*



Gubernatorial candidate Tom Wolf has proposed a progressive income tax for Pennsylvania, which is no real surprise. The language of political campaigns is the language of taxing the rich. In this, Wolf is no different from many others seeking office this November. But there are several things you will not hear him or any candidate say, and these things are important for Pennsylvanians to know as they contemplate what kind of taxation they want.

First, rich people already pay more income tax than the poor in Pennsylvania. Someone who earns \$10,000 pays \$307. Someone who earns \$100,000 pays \$3,070. The whole point of our current flat tax is for the rich to pay more than the poor. A progressive tax just further magnifies the extra the rich pay.

But the question of who pays how much focuses on the here and now. A progressive tax also plants the seeds for much future economic pain. The more progressive our tax system, the more Pennsylvania will rely on an ever smaller number of people for the bulk of its revenues. The smaller the number of people the state relies on for tax revenues, the more our tax revenues will fluctuate as those people's fortunes rise and fall. California is a warning. California's state tax code has become so progressive that all it takes is a handful of Silicon Valley billionaires deciding to move across the border into Nevada to throw the state into a fiscal crisis. This is not to say that the rich should not pay their fair share. Rather, asking them to pay more than their fair share merely encourages them to look for the door.

A progressive tax also sends a dangerous message to would-be entrepreneurs: If you fail, you and your investors must bear the pain of bankruptcy. But, if you succeed, you and your investors must pay higher taxes. This lose-lose scenario simply encourages entrepreneurs also to look for the door — taking with them not just their wallets, but the jobs they create.

Finally, a progressive tax is the tumbling pebble that releases the avalanche of ever-growing government spending and deficits. A progressive tax divides voters into "net payers" and "net receivers" — those who pay more in taxes than they receive in government benefits, and those who receive more than they pay. The more progressive the tax system, the greater is the number of net receivers. The greater the number of net receivers, the greater is the political pressure to increase spending and taxation even further. For an example, look no further than the federal government. At the federal level, about 50 percent of voters receive more benefits from the federal government than they pay in taxes. Those voters directly benefit from electing politicians who will expand government spending. It is the proverbial two wolves and a sheep voting on what's for dinner.

Unfortunately, progressive taxes are political gold for politicians. Initially, a progressive income tax will generate more tax revenue. But this is only because it takes people time to respond. As successful entrepreneurs wise up and leave for more hospitable climes, our tax revenues will decline, and politicians will then have to lean even more heavily on the remaining rich, accelerating the entrepreneurial exodus. Of course, by the time this happens, today's political candidates will have moved on, leaving the fiscal and economic mess for someone else to clean up.

Antony Davies is associate professor of economics at Duquesne University. James R. Harrigan is director of academic programs at Strata in Logan, Utah.