

IPA-how to allocate wealth-8-14-19

How should we allocate wealth?

By Jim Nowlan

Gov. J. B. Pritzker has proposed a graduated income tax for Illinois (higher rates for higher incomes), which prompts these fundamental questions: How should society allocate wealth? How should government redistribute it? And, of course, should we vote for or against the graduated tax at the 2020 election? (Whew, talk about big topics for 700 words!)

Life is, at the core, about the struggle for wealth and power. I tell my students that political science is the study of who gets what, why, and how?

Kings and rulers used to allocate wealth by taking as much of it as they could for themselves without fomenting peasant revolts. Uprisings in the medieval centuries by charismatic peasant leaders like Wat Tyler in England usually ended with guys like Wat and his followers dangling from gibbets. Those with the wealth (known otherwise as power) generally prevailed.

Plagues in the same period wiped big chunks of the peasantry off the countryside, which increased demand for the remaining workers—and thus wages. So, the market plays a role, though imperfectly.

Enlightenment thinkers of the 18th Century proposed that people other than royalty should have a say in budgeting and taxation; the idea took hold in England and here.

So, today in the U.S., capital (the wealthy) and labor duke it out for bigger shares of wealth in the marketplace as well as in government taxation and distribution policies. Though we have

graduated income tax rates at the national level, the rich seem to be getting a lot richer, and the poor, poorer. Not good.

Which brings me to the question of how should wealth be allocated? I have thought that wealth should ideally be distributed on the basis of how much value a person adds to society, in both the short and long-term.

I have a lady friend who is a world-renowned scientist at the Mayo Clinics in Minnesota. Her discoveries over the years continue to save lives. She is well-paid but, to my mind, should be among the very top earners, based on the value she has added. I also think, for example, that plumbers and those who maintain our sanitation and drinking water systems should be even better paid than they are.

On the other hand, I think the high-flying financiers who brought the world economy to its knees a few years back, with their greed-driven mortgage fraud, should be stripped of their wealth, instead of getting off Scot free as they did.

I'll bet readers have their own lists of who should be better and lesser compensated. But as you can see, such "analysis" of who should get what doesn't even rise to the level of loosey-goosey.

Government, which is to represent our collective thinking, began redistributing wealth with land grants to veterans of our Revolution. In 2017, John F. Cogan authored a well-researched book about government redistribution of wealth. He found that today 41 percent of nonelderly-headed households, from single mothers to farmers and many others, receive entitlement benefits. Three-fifths of all children are growing up in families that receive some government assistance.

Ironically, if we gave nearly all wealth just to those who add value, our economy would collapse. That is, the many of us who don't add much value would lack the money to buy the technology and other non-essential doo-dads produced with the capital owned largely by the wealthy.

So, back to Pritzker's proposal to tax more heavily those with \$250,000 plus in annual income. If I were selfish, I would say, let's do it, as my central Illinois home area would be a big beneficiary. Most of the increase in tax revenue would come from Chicago and the suburbs. That is where most high-earners reside, and much of the revenue would end up in school aid and social programs for Downstate. (The "separatists" of the moment, who would strip Chicagoland from the state, are true know-nothings. Much as I hate to admit it, the northeast of Illinois supports the rest of the state big time through the redistribution of tax revenue.)

I have no issue with graduated rates per se; my problem is that taxing high-income value-adders and job creators more than the rest of us might result in net negative economic consequences for our state. Illinois already has a poor perceived business climate—high taxes, especially property taxes; corruption; more regulations than competitor states like Texas and Florida. Thus, imposing even more taxation on the creator class, which can create wherever it wants, might cause increased flight from our state.

Based on what I sense at the moment, I would vote against the Pritzker proposal. I am, however, reaching out to economist friends on this issue. Maybe they will convince me otherwise. We should all stay tuned to the arguments pro and con that will fill the media over the coming year.