Race and Class in Tax Policy Scholarship

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Date : June 18, 2021

Isabel Wilkerson, **Caste: The Origins of Our Discontents** (2020).

Too much of a good thing can sometimes be not so good. A case in point is reliance on optimal income tax scholarship, dating back to James Mirrlees' Nobel Prize-winning work, to treat the generally assumed declining marginal utility of income as the *only* reason (apart from egalitarian preferences) for favoring progressive tax and other fiscal policies. As I wrote in a recent book (*Literature and Inequality*): "Declining marginal utility is important, but it falls far short of capturing the full significance and effects of … inequality in human society. We are not just isolated consumers, growing increasingly more sated as we fill up on pizza slices, or ever more jaded as we push further towards the frontiers of fine living. Rather, we are an intensely social species, and often a rivalrous one, prone to measuring ourselves in terms of others, and often directly against others." On that ground, if one believes (as I do) that extreme high-end inequality has pervasive adverse effects, one may reasonably support imposing tax burdens on the rich going well beyond those that would be deemed to have a positive net effect if one were focusing solely on the marginal utility of own consumption and leisure.

So far, so good. But while evaluating issues of class, tax scholars (myself included) have often given far too little distinct attention to issues of race. Poisonously entwined though class and race are in the United States, it has become ever clearer that "racial disparities [are not just] … economic inequalities in disguise." Thus, we should not think that "if we address class issues, we can fix racism."

Like class issues, race issues show both the inadequacy of declining marginal utility from own consumption as a full psychological (or normative) model, and the importance of status considerations to social behavior and preferences. Racism is not just about animus, but also about the impulse to feel that one is better than other people. Understanding the impact and implications of racial, no less than class, inequality requires a broad sociological inquiry. For U.S. racism today, I know of no better recently published starting point to such an inquiry than Isabel Wilkerson's *Caste: The Origins of Our Discontents*.

In this book, Wilkerson explores startling, yet to me highly persuasive, comparisons between American racism and both (1) the caste system in India, and (2) anti-Semitism in Nazi Germany. She also examines such topics as the psychological appeal to poor and middle class whites of being able to think of themselves as above someone else in the hierarchy, potentially causing them to view it as in their self-interest to support white supremacist plutocrats, even if this comes at the cost of their own economic immiseration. Plus she helps to show the extreme difficulty, verging on impossibility, of avoiding the contamination of one's own mind and behavior by racist beliefs and attitudes, when one lives in a society where they are so fundamental and prevalent, even if one consciously tries to reject them. There is no COVID mask for the racism in our social environment.

Bringing Wilkerson's work into the tax policy realm raises a host of tax policy issues, both normative and empirical, that will occupy scholars for some time. Suppose one started out by modifying the standard model, based on declining marginal utility, solely by recognizing that people's experiences of subjective wellbeing may reflect their concerns about relative status, along with their animus towards others. Does this imply counting positively such sources of subjective utility as racists' enjoyment of hurting people in disfavored groups, and of feeling superior to them? But if we decline to attach positive weight to utility that reflects such sentiments, where and how do we draw the needed lines?

These sorts of questions are familiar in the philosophical literature concerning welfarism. In the tax policy realm, however, they could be treated as tangential, or even as effectively irrelevant, so long as analysts were focusing solely on the marginal utility of own consumption. With our improved understanding and focus on both racism and classism, we will no longer always have the luxury of thus simplifying the analysis.

Another standard chestnut in debates over welfarism concerns the choice between focusing on utility today, as opposed to over the long run. Even if one accepts a long-run focus philosophically, there may be prudential reasons for downplaying it analytically, given the difficulty of predicting the future accurately, and the scope that relying on it may give, for example, to totalitarian scoundrels who use the promise of a future paradise to rationalize injustice today. To me, however, Wilkinson's work makes it clear that we need to focus on eradicating white supremacy in the United States, even if there are bumps along the way. This includes, although of course it is not limited to, aggressively addressing racial economic inequality.

Other work further shows the interaction of tax and caste. Dorothy Brown's work emphasizing, demonstrating, and particularizing race's fingerprints all over U.S. tax law is especially helpful. In the wake of her important new book, *The Whiteness of Wealth* (which is the subject of its own forthcoming JOT), this work is finally getting the attention and influence that it deserves. She shows, for example, how tax rules concerning home ownership, retirement saving, and household or filing status both increase racial wealth disparities (adjusting for class) and reflect racial power imbalances.

How should a given tax rule's disparate racial impact affect our overall judgment about it? Directionally, it is strongly adverse. As to the above items, even without considering racial disparity there is ample ground for disfavoring our tax system's (1) treating home ownership preferentially; (2) relying so heavily on voluntary saving, much of it through employer plans (and with tax benefits that rise with marginal rates), to address inadequacies in retirement saving; and (3) treating traditional one-earner married couples so much more favorably than singles and two-earner couples. These rules' adverse racial impacts add substantially to the already strong cases against them.

This short review is not the right place to begin considering in depth just where a sociological grasp of racism (drawing on Wilkerson's work), allied with an empirical understanding of how existing tax laws affect racial inequality (drawing on Brown's work), and supplemented as well by further normative analysis, might lead the still-nascent literature on taxes and racism. But this is a key direction in which we need to go. Wilkerson and Brown have performed a huge service in helping to point the way.

Cite as: Daniel Shaviro, *Race and Class in Tax Policy Scholarship*, JOTWELL (June 18, 2021) (reviewing Isabel Wilkerson, **Caste: The Origins of Our Discontents** (2020)), https://tax.jotwell.com/race-and-class-in-tax-policy-scholarship/.