In this paper we contribute both to the normative and to the political economy tradition in the analysis of tax policy. We take an arbitrary nonlinear income tax schedule as given and ask whether it is possible to reform this tax schedule in a way that is welfare-improving. We also ask whether it is possible to reform the schedule in a way that is politically feasible in the sense that the reform would be supported by a majority of tax payers.

Ultimately, we obtain a characterization of tax schedules along the following lines: We provide conditions under which a tax schedule is improvable because there are reforms that are both welfare-increasing and politically feasible. We also provide conditions under which welfare-increasing reforms lack political support. We finally clarify conditions under which politically feasible reforms are detrimental to welfare.

To obtain this characterization we derive two diagnosis tax schedules, one that allows us to identify welfare-improving reforms and one that allows us to identify politically feasible reforms. To see in what ways the status quo can be reformed one simply has to compare the marginal tax rates of the status quo schedule to the marginal tax rates of these diagnosis schedules. If, for instance, at a given level of income y, both diagnosis schedules have higher marginal tax rates than the status quo schedule, then an increase of marginal tax rates for incomes in a neighborhood of y would both be welfare-improving and politically feasible.

In the empirical part, we analyze the history of US tax reforms since the 1960s and investigate which of the reforms was politically feasible, welfare improving or both. First results suggest that the TRA86 was both politically feasible and welfare improving.