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TAX FAIRNESS OR MORAL BANKRUPTCY?

The issue of fairness in the tax code has emerged as the most prominent tax policy concern of the early 1990s. Considerations of whether high income taxpayers are bearing the appropriate burden of taxation was the driving force behind most of the tax changes enacted in the Fall of 1990 and continues to be the dominant influence in nearly all tax policy debates. This issue has almost completely displaced economic efficiency and growth, the principal tax policy concerns of the 1980s.

Regrettably absent from the calls for greater tax fairness is any effort to define "fairness" or to delineate the standards of fairness against which the existing tax system should be judged. Changes in the tax law are proposed in the name of fairness without demonstrating or explaining how the proposed changes would contribute to this goal. As a result of this ambiguity, the empirical standard that should be used to judge tax fairness is also unclear. Should fairness be identified in terms of criteria for the assignment of tax liabilities, i.e., the rate structure, or in terms of the results of that assignment, i.e. the proportion of total taxes that is being paid by one income group or another? In the latter case, some reliable and meaningful system of measuring these results against an appropriate fairness standard clearly is needed, but no such measurement system is identified.

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If the debate is to be constructive and ultimately lead to a fairer tax system, alternative concepts of fairness need to be made explicit and subjected to critical examination. It is only against a backdrop of a clear concept of fairness that the tax code can be appropriately evaluated. Fairness as invoked, if only implicitly, by the critics of the existing tax code should be analyzed for internal

Institute for Research on the Economics of Taxation

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coherency and compared with alternative approaches. Lastly, it is critically important to examine the idea of tax fairness within the context of a market based, free society such as ours.

Lacking in the tax fairness debate is any carefully delineated system for measuring the extent to which the existing system falls short of meeting the desired fairness standard and the effects of any proposed tax change in this respect. Here, too, an important issue is whether the measurement should focus on the specific design of the tax laws or on the observed distribution of tax liabilities. Virtually all measurement efforts are in fact focused on the latter, despite the fact that enormous difficulties are encountered in the delineation of the appropriate concept of income, in assigning various taxes to individuals by personal income classes, let alone in showing the ultimate burden by income class, of the taxes the fairness of which is to be evaluated.

Furthermore, tax changes made in the interests of greater fairness, however fairness is conceived, are likely to involve sacrifices in terms of other policy objectives. Some proposals meant to make the system "fairer" could make the tax code more costly to comply with, to administer, and to enforce. Ultimately, these policies may hinder economic efficiency and progress. Whatever the potential of any proposal to make the tax laws fairer, the cost of doing so should be made explicit. Regrettably, fairness proposals are seldom, if ever, evaluated in terms of the costs they would impose.

This discussion deals with concepts of fairness. Future papers will examine the specific problems associated with the measurement of incomes and tax burdens and the costs of pursuing the fairness goal in tax policy.

Tax Fairness in Current Policy Debates

The focus of the tax fairness debate has been on the progressivity of the tax code. The conclusion of nearly all who are critical of the current tax code on fairness grounds is that the tax system needs to be made more progressive. Regardless of the conceptual ambiguities concerning tax fairness, their consensus is that it can only be obtained by making higher income individuals pay increasingly greater proportions of incremental income in taxes.

There appear to be two underlying justifications for making the tax system more progressive. Once again, though, the principles applied are, at best, only vaguely articulated. In academic discussions of the issue, progressivity is advocated, typically, as a means of redistributing income and wealth. The tax system should be used to make the rich poorer and the poor richer. Implicit, if not explicit, in these discussions, is the view that a central goal of tax policy, ideally, should be complete equality of income.

The second justification is found more frequently in political discussions of the issue. It focuses on progressive taxation as a means of insuring that the burden of existing or <u>additional</u> taxes falls most heavily on upper-income individuals. This is the "fair share" argument, in which progressivity is seen as a method of enforcing an "ability to pay" principle.

In both cases the "whys" are ignored. The questions of why it is fair to redistribute income or wealth or why it is fair for the "rich" to pay a greater share of their income in taxes, or even a greater share of the total tax burden than the non-rich, are left unaddressed. The egalitarian premises behind these policy conclusions are left unstated, undeveloped, and undefended.

A. Tax Fairness and the Distribution of Income in a Free Society

The issues of tax fairness and the distribution of income are discussed, more often than not, in an abstract context, that is, without reference to the economic, political, and social arrangements that the society has structured. The discussion implicitly presupposes that the concerns about income and wealth inequality are the same in a free society as in a command society, and that the appropriate public policies addressing those concerns are more alike than different. This assumption, and the conclusions that may appear to follow from it, warrant critical examination. Policy makers in the United States need to ask a more fundamental question: how should the issue of tax fairness be framed in light of the principles of our free society?

Typically the issue of tax fairness is couched in terms of income distribution. It is usually assumed that people with higher incomes or those who are wealthier should be taxed more heavily than others. The underlying assumption is that there is something unfair about income inequality. But this view does not logically follow from the founding principles of the United States — individual liberty, voluntary association, and free market exchange. Our ethical heritage is associated most closely with moral philosophers such as John Locke and Adam Smith and has formed the basis of both the Declaration of Independence and the U.S. Constitution. Central to this ethic is the moral supremacy of the individual and his or her ability to pursue happiness through voluntary activity. A corner stone of this ethic is private property. Without the right to enjoy the fruits of one's efforts and to use and dispose of justly acquired resources as one sees fit, the pursuit of happiness would be impossible.

The fairness of any income distribution in this setting stems from the fairness inherent in the voluntary exchanges that have led up to them. The focus shifts from the fairness associated with certain outcomes or income distributions to the process that gives rise to these outcomes.[1] The free market process is fair because, first, its purely voluntary nature allows everyone the greatest latitude to pursue his or her own happiness, as he or she defines it. Second, the free market results in everyone being made better off than he or she otherwise would be, again from his or her own perspective.

In a setting based on private property and voluntary exchange, the fact that one person acquires more wealth or receives more income does not mean that someone else gets less. A free market system doesn't operate as a zero-sum game. In other words, an increase in one person's income is not at the expense of others'. In fact, the only way someone can become better off is by providing

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[1] This approach to moral philosophy and ethical judgments is extensively elaborated in Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974).

more of something that enhances the well being of others.[2] Income can only be obtained by providing something for which others are willing to pay. If people are willing to pay for a good or service, that means that they are gaining more in value than they are giving up. If this were not the case, they would not be willing to make the exchange. The greater the value that one can provide to others the greater the income he or she will be able to obtain. This means that the process of voluntary exchange creates value and income for society; it does not simply shift it around. In this sense everyone prospers from the process, regardless of one's relative position in terms of income. Ultimately, this is what makes the process fair.

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In this light, the question of who has how much at any given point in time is irrelevant. In fact, the term "income distribution" is misleading. The question of who has what is determined not by some grand designer who "distributes" a given amount of wealth, but is the result of the productive activities of individuals, and the exchanges they choose to make as workers, employers, entrepreneurs, innovators, savers, and consumers. As a result of this, resource allocation is not fixed. With every one of the millions and millions of exchanges that are made every day, there is a change in who has what. Some people go from having fewer dollars to having more goods and services of different kinds, while their trading partners choose to move in the opposite direction. All of these traders see themselves as being made better off as a result of the exchanges that they make, regardless of which end of the exchange, goods and services or money, they are on.

A corollary to this ethical tradition is the notion of equal treatment under the law. To the extent that coercive actions by the state are deemed to be necessary and acceptable by society, that coercion should occur in a way that does not favor some at the expense of others. All people whose activities come under the purview of a particular law should be treated equally.

This principle can be applied in a straightforward manner when it comes to the taxation of income. Taxation is, by definition, coercive. It is an abridgement of property rights in that it denies people the rights to a portion of the fruits of their income-creating efforts. In applying the principle of equality under the law, all people whose activities generate income that has been deemed taxable

[2] This is the "invisible hand" concept made famous by economist and moral philosopher Adam Smith in *The Wealth of Nations*, (1776).

should have that income taxed in a similar manner.[3] As one prominent moral philosopher in this tradition has argued:

> ...in laying down the law, no less than carrying it out, all inequality affecting the interests of individuals which appears arbitrary, and for which no sufficient reason can be given, is held to be unjust.[4]

Applying this concept to the determination of tax rates urges that a proportional, i.e., flat rate would be appropriate. "Tax fairness," in this setting, holds that each person's tax as a share of his or her income should be the same as any other person's. This perspective can be used as a touchstone for examining the more standard approaches to tax fairness that appear to be guiding the current debates in tax policy.

B. Tax Fairness and the Redistribution of Income

The view that the tax system should be used to reduce inequalities in the distribution of income rests on three important, most often unarticulated, premises that should be made explicit and examined. First, and most fundamental, is the contention that equality of income among individuals is a better state of affairs than inequality. Somehow the notion of fairness is applied to mean that all people should receive the same income. The second two assumptions touch on the economics of progressive taxation.[5] Granting, for the time being, that income equality is desirable, it is assumed that the desired distributional effects of income taxation can, in fact, be attained. The third assumption is that these desired distributional effects can be achieved in isolation, that is, without any effects on the allocation of productive resources, on the efficiency with which resources are used, on the volume of production, or on the rate of growth of aggregate income. The possibility that making the tax code more progressive might impair the well being of society as a whole, including those who are meant to benefit from the income redistribution, is assumed to be non-existent or of little concern.

The Empty Case for Income Equality

The idea that income equality is "better" than income inequality is the critical premise in the case for redistributive fiscal policy. All issues depend on the validity of this premise, which, for the most part, is implicitly assumed by tax fairness proponents in the policy forum. Income inequality, regardless of the reasons behind the income differentials, is considered at least an undesirable state of affairs, if not downright immoral. In this view, the primary reason for requiring higher income

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[3] The issue of what should and should not be considered income for tax purposes is beyond the scope of this paper but will be addressed in a future IRET study in this series.

[4] See Henry Sidgwick, *The Methods of Ethics* (Chicago: University of Chicago Press, 1962 (1874)), p. 267.

[5] These two issues will be dealt with briefly in this discussion and at greater length in future IRET studies that will focus primarily on the economic issues.

individuals to pay a greater percentage of their income in taxes than lower income people is to narrow the gap between the two by reducing the income of the "rich" by a greater percentage than the "poor." To complete the picture, it is assumed that the revenues collected will be, in large part, transferred to those at the bottom rung of the economic ladder who should pay no taxes at all. The familiar analogy is that the size of "society's" income pie is fixed, and the task of fiscal policy is to ensure that everyone gets the same size slice.

Fundamentally, the issue at hand is whether the redistributive, egalitarian moral imperative...is consistent with the ethical roots of American society, with its emphasis on individual freedom and self-reliance.

This view is typically held as an article of faith, even by its most ardent supporters in the intellectual community. A carefully reasoned case for income equality is a rarity rather than the starting point for discussions of the issues involved. Henry C. Simons, whose publications and teaching in the 1930s and 1940s continue to exert an enormous influence on tax policy around the world, argued that the core purpose of income taxation is as an "instrument of economic control, a means of mitigating economic inequality." Simons asserted that, "The case for drastic progression in taxation must be rested on the case against inequality — on the ethical or aesthetic judgement that the prevailing distribution of wealth and income reveals a degree (and/or kind) of inequality which is distinctly evil or unlovely."[6] As one observer has pointed out, "the case for [income] redistribution [is made] in the same way as one might argue for holidays at the shore rather than in the mountains [or] for Beethoven rather than Bach."[7]

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[6] Henry C. Simons, *Personal Income Taxation* (Chicago: University of Chicago Press, 1938), pp.18-19. For similar candidness by a more contemporary economist and proponent of progressive taxation and income equality see James Tobin, "Considerations Regarding Taxation and Inequality," in *Income Redistribution*, Colin D. Campbell, ed. (Washington, D.C.: American Enterprise Institute, 1976), pp. 127-134.

[7] Norman B. Ture, comment on James Tobin, *Ibid*. More recently, some authors have argued for redistribution on analytical or economic, grounds. Most notable is Rawls, arguing that in the highly stylized "original position," where people are ignorant of virtually everything including their own abilities and preferences, individuals would prefer that resources be distributed equally. But Rawls does not attempt to use this as a basis for progressive taxation. In fact, he concludes that "a proportional expenditure tax may be...the best tax scheme." (John Rawls, *A Theory of Justice* (Cambridge, Mass.: Harvard University Press, 1971), p. 278). Okun argues that income equality might be justified if it were supported by a majority of voters (Arthur M. Okun, "Further Thoughts on Equality and Efficiency," in Campbell, ed., *Ibid*., pp. 13-34). But this is not an ethical argument, but an argument that defers moral judgments to the whims of the electorate. (See Robert Nozick's comment in Campbell, ed., *op.cit*., pp. 50-60).

Wealth Redistribution vs. Individual Liberty

Fundamentally, the issue at hand is whether the redistributive, egalitarian moral imperative, urged by Simons and others, is consistent with the ethical roots of American society, with its emphasis on individual freedom and self-reliance. Income redistribution, as a systematically pursued public policy, can be implemented only by exaction and transfer. It entails taking income from someone who has earned it and giving it to someone who hasn't but is deemed to have a superior claim to it. Such an approach to income redistribution reflects the Marxian injunction, "From each according to his ability, to each according to his need."

The implicit judgment on which egalitarian, redistributive tax policy relies is that the voluntary actions of the market place result in a social pattern of incomes that is "evil or unlovely." This, wittingly or not, is a moral rejection of the results of voluntarism. In this framework, coercion is acceptable if purely voluntary behavior gives rise to an outcome that is deemed, even if completely arbitrarily, to be ethically or aesthetically unpleasing.

Unless the voluntary exchanges in a free market system are deemed to be unfair, the resulting distribution of income should not be deemed to be ethically lacking or aesthetically deficient.

The distribution of income and wealth resulting from the operations of a free market is determined by the voluntary decisions and actions of free citizens. It is in a constant state of flux. Market participants in their role as consumers, change their valuations of different goods and services. In response, these same, and other, market participants in their role as suppliers of production services, i.e., income earners, alter the use of their resources to these changing conditions. Because of these changes, relative income flows are always changing. Furthermore, market processes cannot be expected to result in income equality. Incomes will always be unequally distributed among market participants so long as tastes and preferences are not perfectly uniform throughout the population and so long as people are not equally productive in their economic activities.

To hold that incomes should be equal is implicitly to argue that everyone should place equal value on every product and service that the market place offers and that everyone should commit the same amount of equally efficient resources to production activities. This, of course, is a state of affairs that could exist only if the population were perfectly homogeneous.

Income redistribution through the tax code should also be assessed in terms of its effects on private property rights. In a market economy, one's income is the reward for the exercise of one's property rights to produce products and services that others want to buy. In generating income, individuals undertake a voluntary exchange of property rights. They exchange the labor or capital services in which they have property rights for money, which represents claims that others offer for the use of those services. The reason why the exchange takes place is that all parties to the exchange benefit; each values the property rights he or she receives more than the rights he or she gives up.

In contrast with this voluntary exchange, income and wealth redistribution through progressive taxation is coercive. It takes income from those who obtained it by the exercise of their property rights and provides the taxpayer no specifically identifiable property rights in exchange. Moreover, it takes a larger proportion of the income of persons who have more property rights or who use them more effectively than it takes of the incomes of persons with fewer property rights or who use them less effectively. The egalitarian ethic behind progressive taxation holds, in effect, that individuals with higher incomes have fewer rights with respect to their property than those with lower incomes.

This is not to suggest that all results in terms of the distribution of income in our own society are to be judged as fair. If a particular income distribution is to be judged unfair, however, it must be because the process that generated the result was unfair. Contrary to Simons, no distribution of income per se is inherently "unlovely." A simple example of a distribution of wealth that could be deemed unfair from this perspective is one that would result from theft. If one person has more than another because he has stolen from that person or others, then this distribution would be considered unfair. The process that led up to this distribution was non-voluntary and inconsistent with individual liberty.

Income equalization via the tax system violates a critically important tenet of a free society, the principle of equality before the law.

Unless the voluntary exchanges in a free market system are deemed to be unfair, the resulting distribution of income should not be deemed to be ethically lacking or aesthetically deficient. Ironically, actions taken to correct "unacceptable" market outcomes may themselves produce unfair results, inconsistent with voluntarism. Minimum wage laws are a good example. Such laws impose institutional restrictions on voluntary exchange. They tell workers that, regardless of whether they are willing to do so, they cannot legally sell their services for wages that are below a certain amount. These restrictions lead to unemployment for certain groups of workers, primarily those whose productivity is too low to permit their employment at the minimum wage — the very workers that the law is intended to benefit. These laws, therefore, perversely alter the distribution of income; they make poor people poorer than they otherwise would be. This distributional effect is the sort that should be considered unfair. The legal arrangement has precluded voluntary arrangements that would have made the poor better off and instead has made them worse off. An unfair process has lead to an unfair result.

Such fairness problems are not related to and are not appropriately addressed by the tax system. The unfairness that results from a minimum wage law can be remedied by changing that law. Attempting to redistribute income through the tax system to those who have been harmed by the minimum wage law adds one wrong to another in a vain effort to make a right. In terms of fairness, the result compounds the injustice rather than corrects it.

Income equalization via the tax system violates a critically important tenet of a free society, the principle of equality before the law. Taxation is inherently coercive. In taking a greater proportion of the income of higher income individuals than that of lower income persons, progressive taxation disproportionately punishes people the more productive they are. Individuals with differing amounts of income do not stand equally before the law. A government that imposes progressive taxes holds, in effect, that its citizens who have more productive capacity or who use their productive resources more effectively occupy an inferior position before the law compared with those with lower income-generating ability.

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Given the ethical heritage of our country, violations of individual liberty can only be legitimized by purposes of overriding importance and the burden of proof must lie with those who are proposing policies that reduce individual liberty. Progressive taxation and the issue of income equalization has never been legitimized in this regard. There has been no attempt to show why income equality is morally superior to the distribution of income that results from the voluntary production and trade activities of citizens, let alone why pursuit of income equality should take precedence over preserving individual liberty and equal status before the law. Its supposed justness is simply presumed or asserted. In fact, the tradeoff of liberty for income equality suggested by the tax fairness advocates cannot be justified on moral grounds.

Are the Means Consistent With the End?

What makes the case for redistribution through progressive taxation even more hollow is that even if income equality justified the invasion of liberty that it implies, the means may be inappropriate for the desired ends. Progressive taxation does not reduce income inequality: instead, it reduces society's aggregate income.

The negative moral consequences of curtailing the rights to the fruits of one's labor lead to negative economic consequences as well.[8] Progressive taxation increasingly curtails individuals' property rights as their income rises, reducing the rewards for their increased productive effort. This creates disincentives for not only work but also for all income-generating activity, including saving, investment, and entrepreneurial innovation. The result is less output, fewer jobs, and reduced productive activity in general. This translates into an overall reduction in the standard of living. Furthermore, since the negative economic consequences, particularly of reduced saving and investment, cut across income levels, there is no reason to believe that they will hurt the rich more than the poor and hence reduce the gap between their incomes.[9] Progressive taxation hurts the people it seeks to help along with everyone else.

C. Fairness vs. Fair Share

The discussion of tax fairness in the policy forum, unlike the more academic debates, focuses on the share of the total tax burden borne by one or another group in the society. While changes in these shares must have at least a temporary impact on the distribution of after-tax income, income redistribution per se does not figure prominently as one of the dimensions of the fair share issue. Instead, the issue is posed in terms of whether one or another identifiable group in society pays a share of the total tax load that can be identified as "fair." However appropriate this question may be, to address it effectively requires some meaningful standard against which to measure the correctness of any given share of total taxes borne by any particular group of persons. No such standard is ever advanced. Typically the issue is addressed only in ordinal terms, e.g., the fair share of taxes to be paid by the top X percent of the population should be "more."

The traditional fall back argument is that the appropriate guide is "ability to pay." Ostensibly, ability to pay, increases more than proportionately with income. The concept of ability to pay, however, is itself elusive. Over a great many years, economists and philosophers have devoted significant efforts in an attempt to establish the pattern of gain in total satisfaction — or utility — that accompanies increases in incomes. Henry Simons and many other economists advocating progressive taxation, however, concluded that marginal utility analysis could not justify

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[8] For further discussion of this issue see, Roy E. Cordato, "The Mirage of Tax Fairness," *IRET Byline*, No. 95, (Washington, D.C.: Institute for Research on the Economics of Taxation), March 8, 1991.

[9] For an extended discussion of this conclusion, cf. Norman B. Ture, "Taxation and the Distribution of Income," in Arleen A. Leibowitz, ed., *Wealth Distribution and the Income Tax* (D.C. Heath and Company, 1978), pp. 9-41.

disproportionate taxation based on an ability to pay principle.[10] The ability-to-pay concept remains an ambiguous and shaky basis for progressivity in the assignment of tax liabilities.

Even if one is prepared to disregard the conceptual frailties and assume that income, however defined, reflects one's ability to pay taxes, it does not follow that ability to pay is relevant to the fair share argument. The fair share argument addresses the shares of an aggregate tax burden assigned to the individuals in designated income classes. Typically the argument calls for the imposition of a disproportionately large share of the total tax load on the upper income class(es). But this does not necessarily require a progressive rate structure. A proportional or even a regressive tax structure might well be consistent with such a "fair" assignment of tax shares.

For example, imagine a simple case of two individuals, one earning $25,000 a year and the other earning $50,000. Suppose they are subject to a steeply regressive rate structure, under which the first $25,000 of income is taxed at 20% and the second $25,000 is taxed at 10%. The person earning $25,000 would pay $5,000, and the $50,000 earner would pay $7,500. The higher income person would pay 60% of the $12,500 in total tax revenues collected. The amount of taxes paid, even with this extremely regressive tax structure, would appear to satisfy the fair share criterion. If ability to pay is deemed to be roughly proportionate to income, however, these tax liabilities surely are at odds with ability to pay.

This example highlights the ambiguity that is apparent in the current debates of fairness and fair share. At times, the discussion appears to focus on the tax structure, on whether the change in the amount of taxes that an individual pays, given a change in his or her income, is proportional, more than proportional, or less than proportional to the income change. In the example, the tax structure is clearly regressive; the lower-income individual pays 20 percent of his or her income in taxes, while the higher-income person pays only 15 percent. At other times, the emphasis appears to be on tax shares by income level, a wholly different matter; as the example shows, on a share basis, the tax system is certainly progressive. A highly regressive tax structure may produce results that appear to be highly progressive in terms of shares borne by income classes, while a highly progressive tax structure may well fall short of what fair share advocates deem to be appropriate.

The experience of the 1980s illustrates this confusion. If progression is identified by reference to shares of total taxes paid by each income class, the income tax system became increasingly progressive during the 1980s. According to some estimates, between 1979 and 1988, the share of

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[10] Economists generally argue that utility or satisfaction is inherently subjective and cannot be cardinally measured or compared among individuals. (See James Buchanan, *Cost and Choice* (Chicago: University of Chicago Press, 1969)). Measurement and comparison of utility are both required in order to argue for progressive taxation on the basis of marginal utility analysis. It has been argued that higher income people should be taxed proportionately more because they receive less satisfaction from additional income than lower income individuals. Therefore, if income were shifted from higher to lower income individuals, total satisfaction in society would be increased. (For an overview of "utilitarian" arguments for progressive taxation see Richard Musgrave, "Horizontal Equity, Once More," *National Tax Journal*, Vol. XLII, pp.113-122).

income taxes paid by the top 5% of income earners rose from 37.6% to 45.9%. For the top 10% of income earners, the proportion rose from 49.5% to 56.9%. As of 1988 the top 50% of income earners were paying 94.5% of all income taxes. This is up from 93.2% in 1979.[11] One would think that those who insist on the fair share view of tax fairness would applaud these developments and the changes in the tax structure that contributed to them. In fact, however, those tax changes are identified as highly regressive and "unfair" by fair-share advocates.

Fair Share, Progressivity, and the Ethics of Liberty

There is, indeed, a perception of "fair share" that is consistent with the ethics of individual liberty and voluntarism, discussed above. Assume that income is the appropriate economic magnitude to determine tax liability and that income can be appropriately defined for tax purposes (both assumptions are subject to serious challenge). Defining fair share in a way that is consistent with the principle of equality before the law requires that the ratio of total taxes to total income should not vary across income classes. In other words, the ratio of tax to income should be the same for all persons. The principle of equality before the law therefore supports a proportional, i.e., flat tax rate structure.

It should be clear from this discussion that the tax fairness issue is not, as some would suggest, one of fair taxes vs. unfair taxes. The debate centers around conflicting visions of fairness and morality.

While not its purpose, a completely "flat" tax would ensure that high income persons pay a relatively high proportion of total taxes. On the basis of the arithmetic example above, a flat tax at a rate of 16.67 percent, producing the same $12,500 of total tax revenue, would exact $4,166.67 from the person with $25,000 of income and $8,333.33 from the person with the $50,000 income. This distribution of tax burden certainly appears to conform with the dictate of the literal fair share approach. No rigorously reasoned or stated principle is offered by the fair share advocates to show why this burden distribution fails a fair share test or what other distribution uniquely passes it. The fundamental ethic of American society, individual liberty with equality before the law, imposes an enormous burden on proponents of progressive taxation. It is incumbent upon them to reconcile their desire for fairness with the far more basic concept of justice served by proportional taxation.

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[11] Gary Robbins and Aldona Robbins, "Tax Fairness: Myths and Reality," (Dallas, Texas.: National Center for Policy Analysis, 1991).

Conclusion

It should be clear from this discussion that the tax fairness issue is not, as some would suggest, one of fair taxes vs. unfair taxes. The debate centers around conflicting visions of fairness and morality. Supporters of progressive taxation suggest, either in the name of income equality or in the name of some unspecified perception of fair share, that people should be disproportionately penalized by the tax system on the basis of their income. Under this ethic, the use of coercion is moral because of the egalitarian ends that are being pursued.

The alternative ethic is based on private property and voluntary exchange and is inconsistent with the egalitarianism of the progressive tax advocates. More importantly, it is consistent with America's own moral heritage. This moral vision has as its highest value individual liberty and voluntary action. The distribution of income in such a setting, regardless of how equal or unequal, is fair so long as it is the result of voluntary activity. Ultimately, people are rewarded on the basis of how much they contribute to society's total output and to the well being of all of their fellow citizens. Relative incomes will reflect these contributions. Debates regarding the fairness of the tax code should focus on the relative merits of these competing moral visions. It is only in light of such a debate that the ethics of competing tax policy proposals can be judged.

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