

3. SHARING SOCIETY'S PRICE

What is a Fair Distribution of Society's Price?



Determining a fair way to distribute the price of society among people is just as complicated as distributing benefits.

Ms. Lerner Can you think of any ways?

How about the more money you have, the more taxes you have to pay? People with equal amounts of money should pay equal taxes!



Briana

I'll vote for that!



Jayden

I don't like that because I plan to have a lot of money. Anyway, just because I have a lot of money doesn't mean I have a lot more for taxes than Briana—who obviously won't have as much as I do! It takes a lot of money to support the life of the rich and famous. Here's what I think is fair: the more benefits you get from the government, the more taxes you pay. I don't need the government to pay for my education (or my kids') because I'll have tons of money to send them to the best private school there is.

People with equal benefits should pay equal taxes.



Carlos

I'll vote for that!



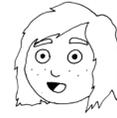
Jayden

Maybe the people who get the benefits don't have the money to pay the taxes. Just like Jayden got the benefit of his phone but didn't pay all its costs.



Maria

Carlos, even if you don't have the government pay for your education, the government helped build roads to your schools, keeps the streets safe and . . .



Briana

And I bet a lot of your employees working so hard to make you lots of money didn't all go to private school. They got education benefits from the government.



Maria

Jayden is clearly confused since he's voting for 2 different ways to tax, but even I'm confused now.



Carlos

He may be confused, but so are a lot of other people about what is the best theory or principle for taxation. The class has come up with the two main contenders: Briana's method for determining tax liability is based on the **ability to pay**. Maria's is based on the **benefits theory**. A lot of people have spent a lot of time trying to figure out both theories.



Ms. Lerner

The most common principle governments use today is the **ability to pay theory**: it says that the fairest way to tax is based on people's ability to pay. Generally the more someone has, the more able she or he is to pay taxes. So with an income tax based on the ability to pay theory, people with the same income should pay the same amount of income tax and people with more income should pay more income tax.

I guess that makes sense. When I have more income than Briana, I'll be able to buy food, fancy clothing, a luxury car or two, nice houses for me and my parents and lots of other stuff.



Carlos



Ms. Lerner

Exactly. That income left over after you've acquired the basics of life—like food and a reasonable sized house and so forth—is called **discretionary** income. You can use it to pay taxes because you don't need it to live on.

But how do we know how much you need to live on?
And what Carlos "needs" may be different than what
Briana needs...



Jayden

Especially if Carlos is supporting his parents.



Maria

And don't forget my gorgeous wife and
3 beautiful children.



Carlos

Who clearly take after their mother!



Briana



Ms. Lerner

Well, we know that distributing benefits fairly is complicated; fairly distributing the cost of those benefits (tax burdens) is also complicated.

To make it easier, let's talk about fair tax burdens by discussing an imaginary situation—that unfortunately, can be all too real.