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## The Most Efficient Tax Policy: The Federal Tax System vs. the Fair Tax Policy

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## **Introduction**

Throughout the history of every society, there has always existed some form of an organized government. The goal of the government is to protect the individual freedoms and promote well-being of society as a whole. In order to carry out these tasks, the government needs revenues, which is successfully raised through taxes.

The development of the U.S. Federal Tax System spans from the colonial times to the tax cuts of the Bush Administration. The U.S. federal government relies primarily on income taxes, state governments depend mainly on income and sales taxes while county governments mostly use property taxes for their revenues (Fair Tax). Society has gained benefits and experienced negative results from several forms of taxation and as a consequence, an alternative form of taxation has been developed and heavily promoted.

A new, single tax rate called the Fair Tax will be solely based on taxing consumption [[www.fairtax.org](http://www.fairtax.org)]. This new tax allows consumers to “decide when and if they pay taxes” (Ose). One of its most distinctive features is the prebate paid to all households under the poverty line. This prebate will cover tax expenses charged on items that meet basic needs. The Fair Tax eliminates “the income, payroll, corporate, gift, estate, capital gains, self-employment and alternative minimum taxes... increases take-home pay by at least 25.3%” (Ose). An extreme change in a tax system brings on many supporters and opponents alike who view the alteration as either progressive or regressive on economic growth and income distribution.

This paper will offer in depth analysis of the current federal tax system and the innovative Fair Tax policy from four different economic perspectives: Liberal, Radical, Austrian and Ecological. These perspectives will then propose the most efficient tax policy based on their merged economic values. The exploration of these diverse perspectives will present new insight into the current tax system and the possibility of a new structure.

## **History of the Federal Tax System**

The history of our National Tax System dates back to 1765 when the English Parliament passed the Stamp Act, which was the first tax imposed directly on the American Colonies. In addition to the Stamp Act, Parliament then passed a tax on tea, which created dissention among the colonies due to the fact colonists were forced to pay these taxes, but lacked representation in the English Parliament. This eventually led to the American Revolution and further established uncertainty towards taxation in American culture. When the constitution was adopted by the founding fathers, the government realized they could not function without resources and continuous dependency on other

countries, so as a result they began levy taxes in order to raise money.

The first major tax approved by government was the Revenue Act, which instilled a tax on individual's personal income. In addition to the Revenue Act, the 16<sup>th</sup> Amendment was ratified which allowed the federal government to impose tax on individual's lawful income without regard to the population of each state. The notion of taxes was not widely accepted by the American people for most citizens could pursue their private economic affairs without government knowledge or interaction however; income tax gave the government the right to know about individuals and businesses economic transactions.

When World War 1 came about three Revenue Acts were imposed each time to increase taxes on personal incomes and businesses in order to help pay for the war. After World War 1 during the 1920's when the economy was booming, the government cut taxes five times however, in 1929 when the stock market crashed which began the Great Depression, government once again began to increase taxes drastically to obtain revenue. As the economy shrunk the Federal governments tax burden increased. The economy's continual downward spiral caused government to create the Social Security Act, which gave unemployment compensation to individuals who lost their jobs. The act also gave public aid to the aged, needy, handicapped and other certain minors. Many tax cuts as well as tax increases were brought about in the following time periods, they were primarily used as a tool to increase revenue or change the incentives of the economy.

In 1965 the Medicare Program was passed by government with intentions to provide medical needs for persons aged 65 or older. The Medicare Program would also provide medical assistance for persons with low incomes. Shortly after, the Economic Recovery Tax Act was passed by government to help reduce marginal tax rates and income taxes. Also government sought to shift the tax burden from individuals to businesses, with the Tax Reform Act. And finally, in 2001 the Bush administration passed the Economic Growth and Tax Relief and Reconciliation Act, which intended to lower tax rates significantly over a progression of time and promote economic growth.

## **Overview of the Federal Tax System**

The National Tax policy consists of income taxes, corporate taxes, payroll taxes, transfer taxes, and excise taxes. In the United States the income tax policy is progressive. This means that the income that is taxed is based on a marginal tax rate. The marginal tax rates span from 10% to 35% depending on what the person's level of income is. The higher the marginal tax rate that the person falls under, the higher his income is taxed. Corporate Taxes are very similar in that they also tax based on a marginal tax rate from 10% to 35%. See Figure 1 for a

complete overview of the proportional tax rates. Payroll taxes are progressive when it comes to the income withheld portion, but flat when it comes to Medicare and Social Security. Excise tax and transfer taxes make up a very minimal portion of the US national tax policy. Overall, the tax policy in place is considered progressive because a substantial portion of it is progressive based. The more money a person or a corporation has, the more they are taxed.

### **Comparison with Germany and Canada**

Even a superficial look into the tax systems of Germany and Canada will give us an insight as to how our Federal Tax System can be so similar in one respect, but different in another.

The German Tax System, much like ours, is marked by the theme of progressivity only slightly nuanced in the fact that the percentages of one's income that can be taxed are slightly dissimilar. As of 2010 one's income could be taxed on a range of 10-35 percent as a resident of the United States (IRS.gov ) while our German brethren's range of taxable income ranged from 0-45 percent (Taxation in Germany). See Figure 2 for a graphical description of the German income tax. Taking a quick look into Canada we see that their tax, like ours, is progressive as well at a rate of 15-29 percent depending on your personal income bracket(Canada Revenue Agency). As we can see, the theme of taxing the privileged higher, while giving a break to those with lower income is an important trait in all three societies.

In regards to the corporate tax in each country, the United States has the ability to tax corporations between 15-35 percent on their taxable income (IRS.gov) Germany's corporation tax on the other hand is a flat 15 percent, but the caveat of this is that there is also a solidarity surcharge of 5.5 percent and a trade tax of 14 percent – bringing Germany's tax on corporations right under 30 percent(Taxation in Germany). Canada's corporate tax rate accounts for a much smaller portion of their annual revenue coming in at 11-18 percent for the federal and 2-16 percent for the provincial tax (Canada Revenue Agency).

One area of marked difference between the German and U.S. tax policies however comes in the form of German Trade and Value-Added Taxes. Entrepreneurs engaging in business operations in Germany are subject to a trade tax as well as an income tax or corporation tax. The rate levied is fixed by each local authority separately within the range of rates prescribed by the central government. As of early 2008, the average rate of profits subject to trade tax was 14 percent (Taxation in Germany). The Value Added Tax is a tax levied on all services and products generated in Germany by a business entity. The rate of the VAT in Germany is 19%, while there is a reduced rate of a 7% VAT for sales of certain foods, books, magazines, transports, etc. Some services/products that are

exempt from the German VAT include services provided by certain professional groups such as doctors and other physicians, cultural services such as museums and zoos, and general educational institutions (Taxation in Germany).

A stark contrast point between U.S. and Canadian Tax policy can be seen in Canada's management of provincial sales taxes. In Canada there are three types of sales taxes that can be levied; the Provincial Sales Tax (PST) that is levied solely by the provinces, a Goods and Services Tax (GST) which is a value-added tax (VAT) that is levied by the federal government, and the Harmonized Sales Tax which is also a VAT used in certain provinces. Figure 3 shows that the sales tax in Canada ranges from as low as 5 percent to as high as 15 percent (with all but one province above 10 percent) depending on where you live – this is considerably high in comparison to that of the U.S. where most states' sales taxes are in the single digits (Sales Taxes in Canada).

Although all three countries have banked on this idea of progressivity in their tax system – we see that there are differences between them, mainly in the areas where tax is most highly generated; Canada relies very little on its Corporate tax; but puts more emphasis on sales tax, while Germany relies pretty highly on Corporate and Income Tax - the United States, comprehensively, seems to be overall the country with the least amount of taxes out of the three. We can see this being true in a study done back in 2005 that compared the taxes paid by a household earning the country's average wage. Back in 2005, if you were a single German you were subject to as much as 51.8% of your income being taxed, 31.6% if you were a single Canadian, and 29.1% if you were a U.S. citizen. Those numbers dropped across the board if you were married with children – being 35.7%, 21.5%, and 11.9% respectively (Vrana).

## Overview of the Alternative System

The new Fair Tax rate works by replacing federal income taxes (alternative minimum tax, corporate income tax, capital gain tax, payroll tax, social security & Medicare tax, gift tax and estate tax) with a single national consumption tax on retail sales. The sales tax is set at 23% of total payment including the tax (equivalent to 30% traditional U.S. sales tax). Monthly payments would be made to all family households as an advanced rebate of tax on purchase up to poverty level. This fair tax rate is progressive on consumption and regressive on income at higher income levels. (Fair Tax)

The Fair Tax policy is based on several economic virtues and SMM social values. Consumers have the economic liberty to decide if and when they pay taxes. Basic economic needs for individuals are secured through the prebates which “ensures the poor pay no federal taxes” (Ose). The most fundamental virtue of efficiency is said to be achieved because the policy does not alter taxpayers

behaviors. The current tax system creates highly taxes and lightly taxed activities and taxes alter decisions such as what to consume and how to invest. It can be argued that when taxpayers alter their behavior in response to tax rules, “they often end up with a combination of consumption and leisure that they value less than the combination they could have achieved if they made decisions free of any tax influences” (Taxation). Economic opportunity is available because the progressive nature of this tax does not discriminate against income classes, providing a fair relative income distribution. Workers have more take home wage equating to greater opportunities for savings (if they choose not to spend) and this can give them the chance to climb up the social ladder. In terms of competition, retail prices no longer hide corporate taxes or compliance costs (which tends to drive up costs for those who can least afford to pay). The Fair Tax would eliminate hidden income taxes (that are passed onto consumer in the form of higher price), competition would drive prices down, employment opportunities would increase and retirement/pension funds would see improved performances. (Fair Tax)

Opponents argue that this alternative system would decrease the tax burden on high-income earners, increase burden on the middle class. In addition, the size of consumption tax would be extremely difficult to collect and it would lead to pervasive tax evasion. Supporters contend that the Fair Tax would decrease tax burden by broadening the tax base (taxing wealth and increasing purchasing power). There would also be positive effect on savings and investment, ease of tax compliance, economic growth, and incentives for international business to locate in U.S. and increase U.S. competitiveness in international trade.

This paper will offer in depth analysis of the current federal tax system and the innovative Fair Tax policy from four different economic perspectives: Liberal, Radical, Austrian and Ecological. These perspectives will then propose the most efficient tax policy based on their merged economic values. The exploration of these diverse perspectives will present new insight into the current tax system and the possibility of a new structure. When determining which type of tax system is most efficient, there are many factors to consider. Depending on the economic perspective one holds, the values that determine their choices will greatly impact the economic decisions they choose to make.

## **Liberal Perspective**

When determining which type of tax system is most efficient, there are many factors to consider. Depending on the economic perspective one holds, the values that determine their choices will greatly impact the economic decisions they choose to make. As a liberal economist, deciding which tax system is most

efficient is a topic of concern. We are being given the choice between our current National Tax Policies and the alternative, Fair Tax. To properly understand and analyze which tax system is most beneficial for our economy as well as our nation we will consider both the positive and negative aspects of each option from an economic liberal standpoint.

As a liberal economist we focus on key prescriptive values that help maintain economic order and achieve economic efficiency (Taylor 9). The prescriptive values are as follows, the focus being on economic rationality for market agent rationality, economic liberty, private property rights and contracts, and individual responsibility (Taylor 10). With this being said Pareto economic efficiency as well as utilitarian economic efficiency are seen as key values to achieve market system stability and rationality (Taylor 10). Lastly, according to the liberal perspective tax and expenditure and regulatory policies are used to ensure that provisioning, basic economic needs, and income and wealth distribution are properly managed (Taylor 11).

The prescriptive values listed above will play an important role when analyzing the Fair Tax plan. The Fair Tax plan seeks to dispose of federal personal and corporate income taxes, gift, estate, capital gains, alternative minimum, Social Security, Medicare and self-employment taxes (Fair Taxation). The substitution of all these additional taxes will be the Fair Tax, which will be a single broad national consumption tax of 23% on retail sales. Those individuals with incomes below poverty level, who might have difficulty affording this tax, will receive an advanced rebate. This tax plan will decrease the tax burden on higher-level income earners, and broaden the tax base (Wikipedia).

Many of the liberal prescriptive values are not met by the Fair tax plan, which promotes disfavor among economists who hold this view. The sales tax will be regressive on income, meaning middle and lower income individuals will pay a higher amount of their incomes towards goods and services. From the liberal perspective this is considered economically inefficient because wealth and income distribution are negated. In addition to a lack of wealth distribution, there is a concern that the Fair Tax plan will not have the capabilities to raise enough money to provide for needs such as education, health care, defense etc. (Messerli). This proposes a significant problem according to the liberal perspective because basic needs will not be met. With the elimination of taxes on income, we no longer have a way to raise money for social security, which provides insurance for the needs of the elderly and disabled (Messerli). The involvement of the government is crucial according to the liberal perspective for it establishes equal opportunity and the protection of human rights and needs, which the Fair Tax neglects to address.

With the elimination of the current tax system and a tax on consumer goods only, there is a chance economic growth could decline due to the fact that

individuals will increase their incentive to save and invest. The Fair Tax will greatly increase the prices of goods and services, which could deter individuals from spending their income. Also, this could cause individuals to engage in black market activities in order to evade the high prices of final goods and services. Corporate taxes will no longer be a responsibility for businesses under the Fair Tax, this could also contribute to the under ground economy since the tax burden is being shifted from profits to revenue which could allow companies to pocket extra cash. Lastly, as stated before the role of government in this new tax policy is limited which means equal opportunity, wealth distribution via tax policies, fiscal policy and basic needs will not be provided for. Fiscal policy is essential according to the liberal perspective in order to impact the economy when needed. The Fair Tax gives the government no ability to enact fiscal policies due to the lack of control they have over the tax system. The liberal perspective finds fiscal policy as economically efficient since it affects aggregate demand, resource allocation and distribution of income (Wikipedia).

The current National Tax System in place now is more favorable in the eyes of a liberal than the Fair Tax alternative. The National Tax System allows for greater economic equality and opportunity for individuals of lower income and promotes government involvement in the economy. Although the National Tax System is a better alternative than the Fair Tax, as an economic liberal the support towards research and advocacy organizations like Citizens for Tax Justice which seek to create awareness regarding tax policies that promote economic efficiency and equality are more appealing than the Fair Tax as well. Citizens for Tax Justice focus on a fair tax for middle and low-income families, the funding of government services, reduction of federal debt and adjusting corporate tax loopholes (Wikipedia). These types of policies are seen as favorable actions by liberal economists, which should be promoted in our tax system.

The most efficient tax system according to the liberal perspective would at this time be a progressive tax. A progressive tax creates an incentive to distribute income to those individuals who have a lower ability to pay for taxes (Wikipedia). The tax on personal incomes helps fund social/ governmental services that economic liberals see as a necessity. The progressive tax enhances economic opportunity for the lower and middle classes; which is a prescriptive value held by the liberal perspective (Wikipedia). Utilitarian efficiency is also achieved by the progressive tax because as the wealthy gain more wealth they experience diminishing marginal returns, which is why it is most economically efficient to tax their income more (Wikipedia).

Economic and social policies are seen as essential to the liberal perspective but without the involvement of government neither of these would occur. A progressive tax on income helps provide for the maintenance of societal goods such as security of private property rights, defense, public investments in

foreign aid etc (Wikipedia). In addition social policies that help better society such as greenhouse gases etc. benefit from the progressive tax because it helps shape economic activity toward necessities (Wikipedia). Finally, the progress tax reduces income inequality and increases societal benefits (Wikipedia).

The varieties of tax systems at our disposal all contribute both positive and negative aspects that affect our economy and individual lives. However, when choosing the most efficient tax system according the economic liberal perspective, a progressive tax is deemed most efficient. The progressive tax supports many of the prescriptive values held by the liberal perspective, by providing the most economic opportunity and achieving utilitarian efficiency.

### **Radical Perspective**

The most efficient National Tax policy can be said to be nonexistent at the moment. There are many parts of the current National Tax policy that RAD's would hold as inefficient, yet there are some parts that are considerably efficient. First, the decision between the current national tax policy and the alternative must be made. The fair tax is able to offer some of the most important prescriptive values for RAD, while the national tax policy has more ability to adapt to be more efficient. In order to get a true understanding, they must be compared.

Our current national tax policy is very efficient according to RAD because of its ability to help support fair income and wealth distribution. It has the potential to achieve utilitarian efficiency, but isn't there yet. At the moment it offers progressive taxes on the income tax, which constitutes 40% of the national tax policy. In other words, those with higher incomes are taxed more based on the tax bracket they fall under. Currently, the national tax policy uses marginal tax rates from 0-35% in order to tax progressively. The poor will fall under lower marginal tax rates, meaning the percent of income that is taxed is lower. The rich will be taxed a higher marginal tax rate. The Corporate and parts of the payroll taxes are also progressive.

Progressive taxes are necessary in preventing future class struggles. Capitalism inherently creates conflicts between the exploited working class, and the overly rewarded managerial class. Progressive taxes are the only effective tax in redistributing the wealth and consequently, the power. Those with power are the ones with the economic and political resources that can be used to enact change. "Economic opportunities are often the primary focus, but RAD holds that economic opportunity only comes about when political opportunities to influence public policy to bring about economic opportunities are promoted for disadvantaged citizenry through voting and running for public office" (Taylor, Radical Perspective). Regrettably, those with the resources to enact change in the system are the ones that want to keep the unstable system of capitalism in place.

Those that make money under one system do not want to change it.

Progressive taxes are necessary in bringing about fair income and wealth distribution. Without fairer income and wealth distribution, social justice can never be achieved. An efficient national tax policy will help bring social justice about. Social justice includes the highest beliefs of RAD. First, an efficient tax policy will help support basic economic needs for everyone, meaning food, clothing, and shelter. Second, it will help distribute fair income and wealth, and third, economic and political opportunity for all. These are beliefs about rights that are entitled to every person, not just beliefs. These rights span beyond just the economic dimension, but also the cultural and political. These will help bring around a much more efficient system in the US, aka a socially democratic system.

Overall, RAD wants a fully socially democratic system that encompasses all social dimensions, the economic, social, and political. A tax policy needs to be able to support all these things in order for RAD to believe it is efficient. Right now the wealth distribution in the United States is completely unequal. Roughly 70% of the wealth is given to the top 10% of income earners. The bottom 30% of the wealth is given to the next 90% of the population. The bottom 60% of income earners receive 4.5% of the wealth (Domhoff). It is a complete injustice for wealth to be distributed as such. In order for more wealth distribution there needs to be a change. The predictions on the future of income and wealth distribution in the US are bleak. As long as capitalism is in place the distribution of wealth will get exponentially worse. Some possible solutions to the predicament stated above are, the fair tax system, more progressive taxes, or changing the economic system in place.

The fair tax brings many RADs in because of its attention to basic economic needs. The tax rebate is necessary in helping the bottom of poverty. Basic needs are the highest of all rights that every citizen should be entitled to. It is a complete travesty to let the population live in poverty without any help from the government. The rebate will help cover expenses of the poor, as well as many middle class citizens. Unfortunately, the nature of the consumption tax is a downfall for RAD. It helps promote savings through the consumption tax (Fair Tax). Those that wish to be taxed less will consume less and save more. This means that the rich will have more of an incentive to spend less of a percentage of their income and save more. In other words, the poor will be helped by the rebate, the rich will be helped through promotions of savings, and the middle class will take the brunt of the tax burden. If this is not the solution then taking a look into the economic system might create one.

Capitalism is the economic system in place in the United States. Capitalism is also the main causes of the economic problems society is facing today. Capitalism is known to disproportionately favor the elite classes within a society. It is the reason the distribution of wealth is so unequal. It usually

distributes wealth in favor of the managerial classes. Though, the contradictions of capitalism will eventually lead to its downfall. There are a few ways that capitalism could fall. It could evolve into a fully socially democratic system, or it could exploit the working class to the point of revolt. It is through this that true democracy or socialism will be achieved. It is necessary for capitalism to fall in order to gain full political and economic opportunity for all. It is also important for capitalism to fall because it can never offer truly equal distribution to everyone. Currently, capitalism is creating a social class struggle. The working class is consistently exploited by the proletariat class. This system will either lead to its own demise through the contradictions of capitalism, or it will end in revolt leading to socialism. Page 13 of the RAD perspectives reading shows us one of the most important contradictions in capitalism, it states “Capitalist competition leads to economic success for fewer and fewer firms as economic concentration increases generate an increasing percentage of proletariat, increasing class social tension and making the proletariat economically weaker but potentially more politically powerful.” (Taylor, pg. 13) In other words, the structure of capitalism will only worsen class conflicts over time and eventually lead to its downfall. Also, Capitalism on its own can also never provide the basic needs to everyone without government intervention. Capitalism is characterized by its emphasis on a free market system. Many holding the AUS view think that capitalism can take care of itself. Unfortunately, capitalism will never be able to take care of the poor and undervalued because the system does not care about them.

It is not necessary to change the national tax policy to the fair tax. RAD would rather enact changes to the national tax policy in place. To help adjust for the massive inequalities in wealth distribution the current taxes in place should be more progressive. Higher marginal tax rates can help lead to a more fair and equitable society. It is necessary to get a fair society because this will strengthen the democratic framework. Strengthening the democratic framework will help lead to more economic and political opportunity for all. When all of this is achieved then society is one step closer to a socially democratic system on all three social dimensions. It is important to take these steps because it will help hasten the fall of capitalism and bring about a truly fair and efficient system. Though, with all this being said, it is necessary for the people to enact the change. The system will never change itself, in other words, people have to become more active in enacting change, because RAD does not wish to see the destruction of capitalism, only its evolution to a fully democratic system.

### **Austrian Perspective**

The current federal tax system is long overdue for a revision; and while many proponents would advocate our current system or the proposed Fair Tax system -

as a good Austrian we simply cannot do either.

The whole perspective of Austrian Economics itself hinges upon a few important prescriptive values: market individual rationality as praxeological economic rationality, economic liberty, private property protections, and a governance consisting of the rule of law based on the U.S. Constitution and Democracy (AUS Taylor, 11). The importance of these four ideas cannot be overstressed – and in turn shapes the way that we believe the current tax system is to be handled.

First we must discuss the idea of praxeology. Praxeology can be defined as “The study of those aspects of human action that can be grasped a priori; in other words, it is concerned with the conceptual analysis and logical implications of preference, choice, means-end schemes, and so forth.” (Praxeology). This concept of praxeology was applied in economics by Ludwig Von Mises and we accept that economics is the broader study of human action in general, which is to say “...that the basic principles of economics are inherent in the concept of action itself, resting on universal inner human experience and not external and separate individual experiences”. (AUS Taylor, 4) This is to say that for the Austrian, economics should be seen as an analysis of the means of a choice and not to be seen as an analysis of the ends; that the process should be more important than the outcome. We believe that agents adhere to this praxeology in a market system.

The caveat is that in order for the praxeology to take place there must be economic liberty in a free market system. This value is so incredibly important for the Austrian that much of what we believe centers around this liberty. Economic liberty absolutely NEEDS to be upheld because it promotes creative action and viable change by allowing competing individuals and entrepreneurs to mold the market and progress it for the better. These creative ingenuities only truly thrive in an environment that is void of government restriction and interference – a suffocating environment marred by regular government intervention would restrict too many individual choices and actions and is exactly what we are NOT looking for.

So then “How is economic liberty upheld in the marketplace?” would be the next logical question. Well, in order for one to feel that they are free to better themselves economically and creatively shape their sphere of influence – there needs to be set into place private property rights. These protections and rights are indispensable to preserve economic liberty. After all, how could one feel truly free in the marketplace if there were no laws to protect their hard work and creativity? How could one feel free to start a business, if there were no laws to protect them from vandalism, and robberies? They wouldn’t be. And this is why it is another integral value; because private property protection provides individuals with both the means and the incentive to seek gain within a market system, because these rights allow individuals to WANT to flourish economically – it is a

necessity.

The last cog needed to insure that this all functions appropriately is governance; a governance that is rooted in the ideals and values of democracy, a governance that is grounded in a constitution, a governance that is willing to protect private property rights above all else, because a governance that is not emphasizing the private property rights of it's citizens is no governance at all. The citizen living in said government must be completely confident that they are being protected – any shred of doubt must be eliminated.

All of these values ultimately lead us to a marketplace that is free, thriving, flourishing, and ultimately “the best of all scenarios”. It allows for the entrepreneur to function and allows for the greatest amount of good to be done. Our focus is ultimately preserving economic liberty, and protecting private property rights.

What does this mean for taxes? It means that we **STRONGLY** oppose progressive taxes.

People need to understand that inequality is completely natural and expected from a free market system – and any government interference with the market will only make things worse. The whole reasoning behind progressive taxes is to try and help those who are generating less income, it is to help those who are unequal, those who are “worse off” – but really this is no help at all. We can only see progressive taxes as the government interfering with the market – and ultimately this only hinders, not helps.

Instead of progressive taxes, a better alternative would be proportional taxes and lump sum taxes; this is because it does not allow the government to interfere with the market based on this view of “inequality”, it also gives the government less tax revenue to spend which is a good thing. As Austrians we also oppose tax increases in any shape or form, tax reductions are always in the economy's best interest because it necessitates a decrease in the government's ability to spend in proportion to the citizens' – this decreased government spending means increased private spending because the worker and entrepreneur will have more of their income to use.

Ultimately we want to reduce taxation as much as possible, and do away with progressive taxes; we want to see more creative entrepreneurialism and freedom in the market and as little government interference as possible. Because of all of these beliefs and values – we simply cannot support either our current Federal Tax System, or the newly proposed Fair Tax.

## **Ecological Perspective**

The ECL perspective advocates for modifications to the current federal tax system in order to achieve a bio-efficient economy. The ECL prescriptive

economic virtues are sustainability, which they achieve through a participatory democracy, and property protection. The second virtue is anthropocentric environmental liberty so they also believe in amenity rights, freedom from harm, basic needs, fair income/wealth distribution and economic opportunity. These values are a perfect set for promoting various levels of taxes. In general, ECL aims to promote a bio-economic efficient economy that is sustainable and much of the current federal tax system does this.

The existence of cognitive scarcity makes a single consumption tax of the Fair Tax proposal appealing to citizens. The current federal tax system contains several levels of taxation, a number of income brackets and various tax rates that apply to a variety of agent groups. But that appeal alone is not substantial to a whole systematic change. ECL believes that agents have myopic economic rationality, giving them a tendency to make decisions in the present time without seeing the implications of individual actions on the environment in the future. If the Fair Tax is applied into the economic system, agents would have an increase in take-home wage which, in turn, would increase their consumption power. Herman Daly, in his article "The Crisis", argued against the benefits of increasing consumption by stating that the "marginal costs of additional growth in rich countries, such as global warming, biodiversity loss and roadways choked with cars, now likely exceed marginal benefits of a little extra consumption" (Daly) This increase in demand will call for greater production and greater resource uses. In addition, larger waste is generated that will have degenerating effects on the biophysical system. These strings of events upset the goal of a sustainable steady state and prevent the achievement of liberty, a prescriptive value of ECL.

"Liberty is redefined to include the environment in addition to human rights, solely" (Taylor). Individuals may have control over their own decisions but they "have little control over the long-term negative outcomes they will experience" (Taylor). The Fair Tax policy does not provide the same rights, contracts and arrangements as the federal tax system in order to provide amenity rights to the environment "along with the expanded liberty right to be freed from environmental harm from economic activities" (Taylor). As seen throughout this analysis, a major downfall of the Fair Tax policy is elimination of several tax policies needed to protect both humans and the environment from pollution and other negative externalities.

The Fair Tax system would also push agents onto a constant utility treadmill with the constant motivation to gain better material goods. Humans desire to climb the social ladder and believe that increasing their wealth and material goods will provide them with increased utility. But ECLs believe in a bio-economic efficiency, which promotes greater human happiness. ECLs argue that this happiness is not only the satisfaction of material needs but derive from

emotional and spiritual well being and a balanced relationship with the environment. These additional needs are not met by an increased in income and no limitations on negative effects towards the environment.

With respect to resource use and the nature of the steady state, the Fair Tax does promote more investment than current consumption and that provides a way to deal with environmental problems if a consumption tax is combined with some specific taxes on nonrenewable resources use or tax credits for reducing pollution. The current federal tax structure allows for the biased tax system needed in ECLs perspective. This system would be biased towards those business/industries that pursue sustainable business practices. ECLs encourage several taxing methods that would move the economy towards a steady state. Public property contracts or rights should be given to clean air/water and freedom from harm (air pollution, health hazards, and contaminated water). Through a cap and trade system, taxes or permits are sold to the highest bidder (business who will create negative externalities from their production process and services). This will increase the price of using nonrenewable resources and the cost of producing goods or services that pollute. The cap-and-trade works as a carbon-limiting way to prevent global warming. Presently available to stimulate business growth are federal energy credits. The ECL perspective is gaining popularity as many businesses and individuals are focused on greening their business operations and homes. But the high cost of adopting these technologies can be eased when taxpayers factor in state and federal energy credits. These tax credits “typically range from 5% to 50% of the qualified equipment costs. The typical federal energy tax credit falls within a 30% to 50% range, which can dramatically reduce the payback period for these environmentally beneficial capital investments” (Christian, 2010). The IRS energy tax credit programs include a wide range of investments that are qualified and can generate helpful incentive tax credits like hybrid vehicle credits, alternative refueling stations (such as plug-in electric and liquid nitrogen gas), alternative fuel production, “bio-diesel blended fuels conversion to alternative fuels”, equipments which can convert bio-degradable feedstock into energy, and qualified energy property (solar, geothermal, wind and other renewable equipment) (Christian).

Additional taxes include a resource use tax on nonrenewable resources such as oil and minerals and amenity taxes on exceeding carrying capacities of environmental amenities like beaches, recreational lakes or the wilderness are advocated by ECL. This idea has already been implemented into the federal system when tax credits for hybrid cars and energy-efficient appliances appeared as new lines on the federal form 1040. The Energy Policy Act of 2005 was passed in response to public disgust over the rapid rise in gasoline prices. Signed into law by President Bush, it included all sorts of tax provisions supporting both clean energy innovation and traditional dirty energy. Overall, substitution of a

consumption tax with a large exemption for low-income citizens would limit current output and provide incentives for savings, which could be used for environmental repairs.

Modifications to the current federal tax system through policies will achieve another ECL economic virtue which emphasizes on the importance of protecting property rights. Private property allows for wealth distribution and economic opportunity and would be eliminated if a single rate consumption tax existed as the main system, making the Fair Tax policy lacking in this aspect. However, ECL identifies that there are several positives aspects to the alternative tax system represented by the Fair Tax initiative. This initiative would cover the basic needs of households through pre-bates which is an important virtue for ECL. In addition, the elimination of other taxes could increase investments and savings. This creates further economic growth and could limit the use of nonrenewable resources. President Obama said “Each of us has a part to play in a new future that will benefit all of us. As we recover from this recession, the transition to clean energy has the potential to grow our economy and create millions of jobs -- but only if we accelerate that transition.” The Fair Tax policy provides this needed acceleration by promoting more investment than current consumption which can provide a way to deal with environmental problems. ECL push for society to “make the investments in clean energy sources that will put Americans back in control of our energy future, create millions of new jobs and lay the foundation for long-term economic security” (The White House). However, the downfall of the single consumption rate is the elimination of all the environmental taxes previously stated taxes that would bring the economy towards a steady state and bio-economic efficiency. From the in-depth analysis provided of the ECL perspective, it is clear to see why modifications to the current federal tax policy are vital to achieving a bio-economic efficiency steady state.

## **Recommendation/Conclusion**

The most efficient tax policy that justifies all social and economic values would be a modified federal tax system. The current economic crisis reveals the need for policy changes to pull the market towards a more efficient state. We believe that the focus should not be about cutting or raising taxes but what to do about the obscenely unequal distributions of income and wealth which have to be dramatically changed if economic growth is to occur. Tax policy changes would include additional support to state and local government, number of other expenditure activities that could do more to help the recession, and focusing tax cuts on those most likely to spend them. The current system, although it is overall progressive, is somewhat irrational, overly complex and hidden with loopholes. It

hurts economic growth because corporate taxes are high relative to the revenue they raise. The ideal system would have a broad base, relatively low rate and an additional avenue source like a value added tax (VAT) phased in over time. A VAT could provide an economic stimulus and build in inflationary expectations. Presently, people are apprehensive about spending money because they predict prices to go down. To remove risk and uncertainty, PMMs that affect human decisions, a VAT should be implemented. People will increase their spending and raise revenue, which over the long term, could increase savings.

Other adjustments include an increase in the marginal tax rates for both income and corporate taxes. If the cap on the marginal tax rate is increased to 50% instead of the current 35% this will ultimately redistribute the wealth back into the society through government expenditures. This will also give the government an increase in revenue from the tax policy. This will help alleviate the inequalities in wealth distribution in the US. Also, to enact the prebate system from the Fair Tax policy, but to change the prebate to those falling under the poverty line. Fair income and wealth distribution and basic needs are moral imperatives. A truly efficient tax policy should encompass all the social values of the economic, political and cultural dimensions.

## Appendix

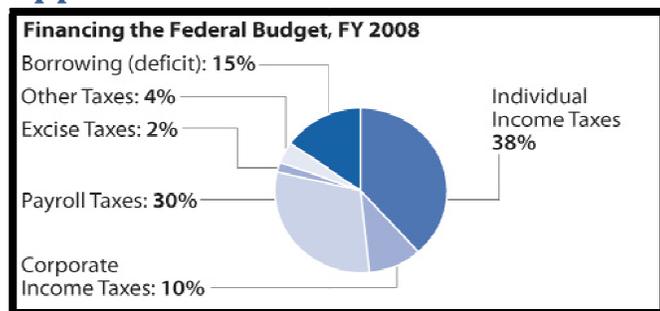


Figure 1

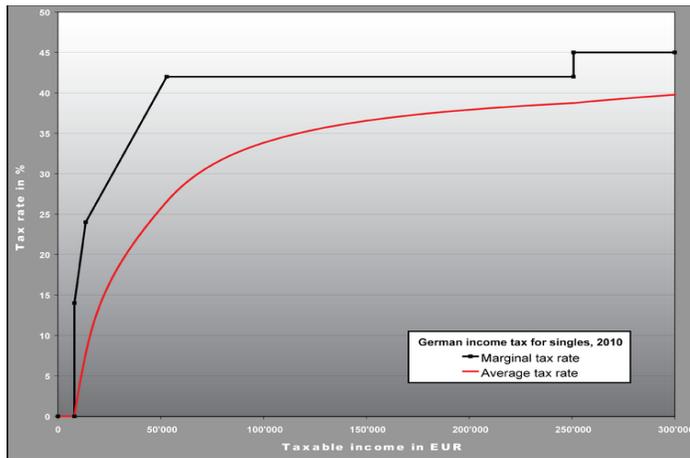


Figure 2: The rate of income tax in Germany ranges from 0% to 45%. The German income tax is a progressive tax, which means that the average tax rate (i.e., the ratio of tax and taxable income) increases with increasing taxable income.

Province	HST	GST	PST	Total Tax
Alberta		5%		5%
British Columbia	12% <sup>1</sup>			12%
Manitoba		5%	7%	12%
New Brunswick	13%			13%
Newfoundland and Labrador	13%			13%
Nova Scotia	15% <sup>2</sup>			15%
Ontario	13% <sup>1</sup>			13%
Prince Edward Island		5%	10%	15.5% <sup>3</sup>
Québec		5%	7.5%	12.875% <sup>3</sup>
Saskatchewan		5%	5%	10%

Figure 3: In Canada, three types of sales taxes are levied. These are as follows: Provincial sales taxes (PST), levied by the provinces Goods and Services Tax (GST), a value-added tax levied by the federal government. The combined Harmonized Sales Tax (HST), also a value-added tax, a single, blended combination of the PST and GST which is used in British Columbia, Ontario, and the Atlantic provinces of New Brunswick, Newfoundland and Labrador, and Nova Scotia. The HST is then collected by the Canada Revenue Agency, which then remits the appropriate amounts to the participating provinces. Works Cited

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