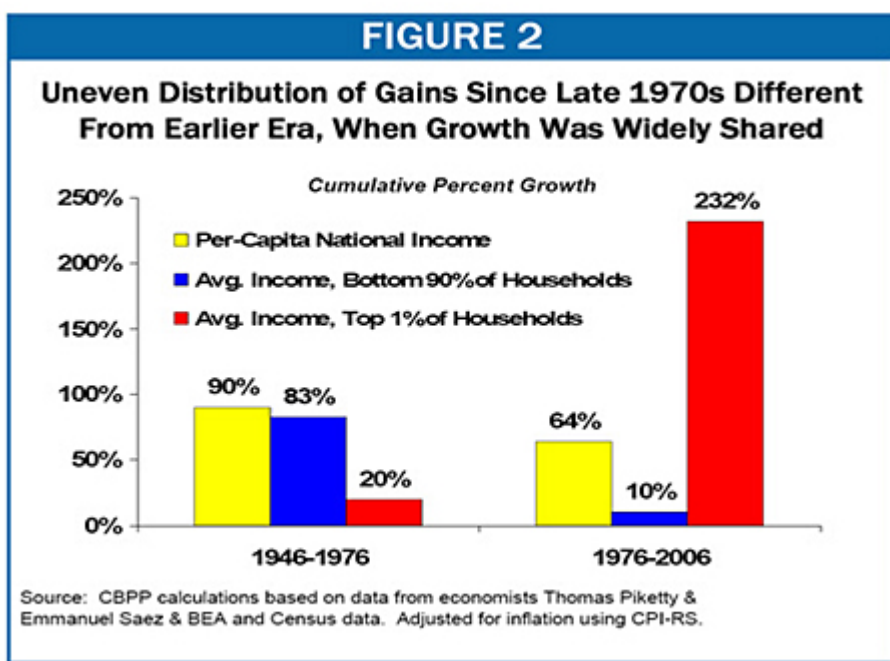


August 21, 2008

The "What's Fair" contest

At Café Hayek, George Mason's Russell Roberts opens up a brand new "[Inequality Chart Contest](#)." The chart in question is based on work by Thomas Piketty (professor, Paris School of Economics) and Emmanuel Saez (professor, University of California Berkeley), the essence of which is that the rich have gotten richer and everyone else not so much. (You can find a link to the Piketty-Saez paper, as well as updated data and executive summaries, on [Emmanuel Saez' homepage](#). Russell links to [more information from the Center on Budget and Policy Priorities](#).)

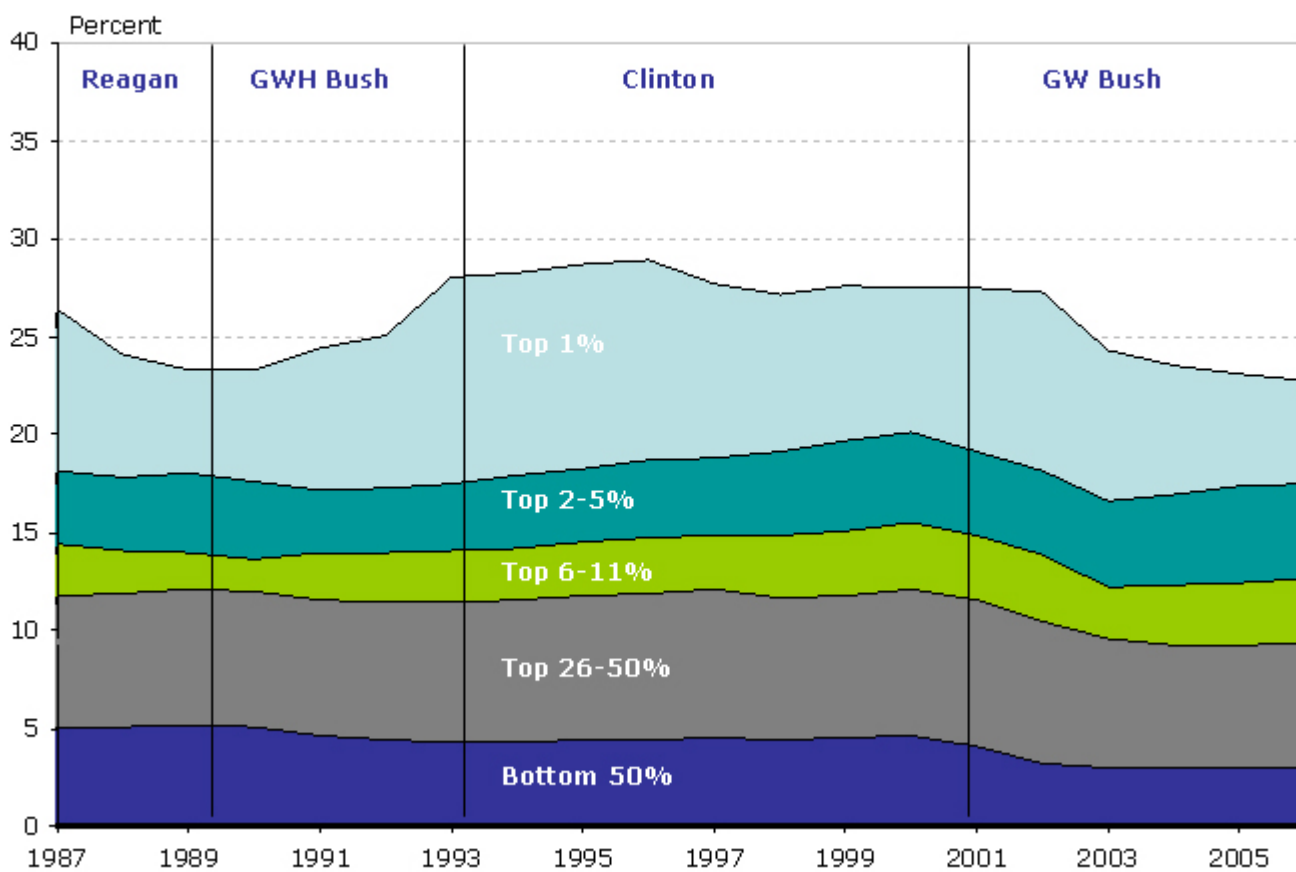
Here's the picture...



... and the contest is to construct "ONE sentence explaining ONE thing that is wrong with concluding that these numbers are evidence that the U.S. economy has become more tilted toward the rich at the expense of the poor."

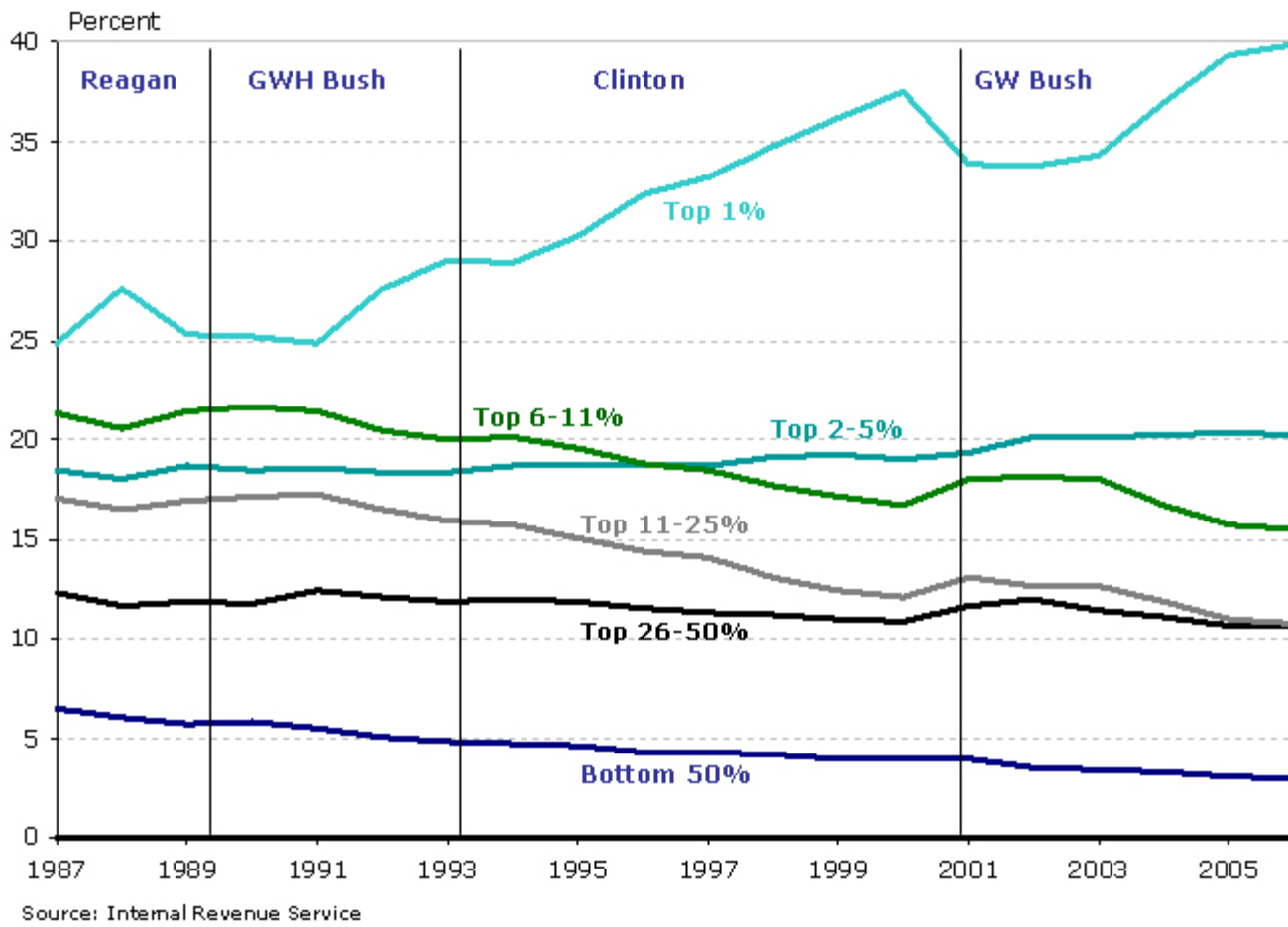
In the spirit of prompting reflection on issues of inequality and fairness, I invite you to think about the following three pictures, generated from [Internal Revenue Service \(IRS\) tax data](#) through 2006:

Average Tax Rates By Income Percentile

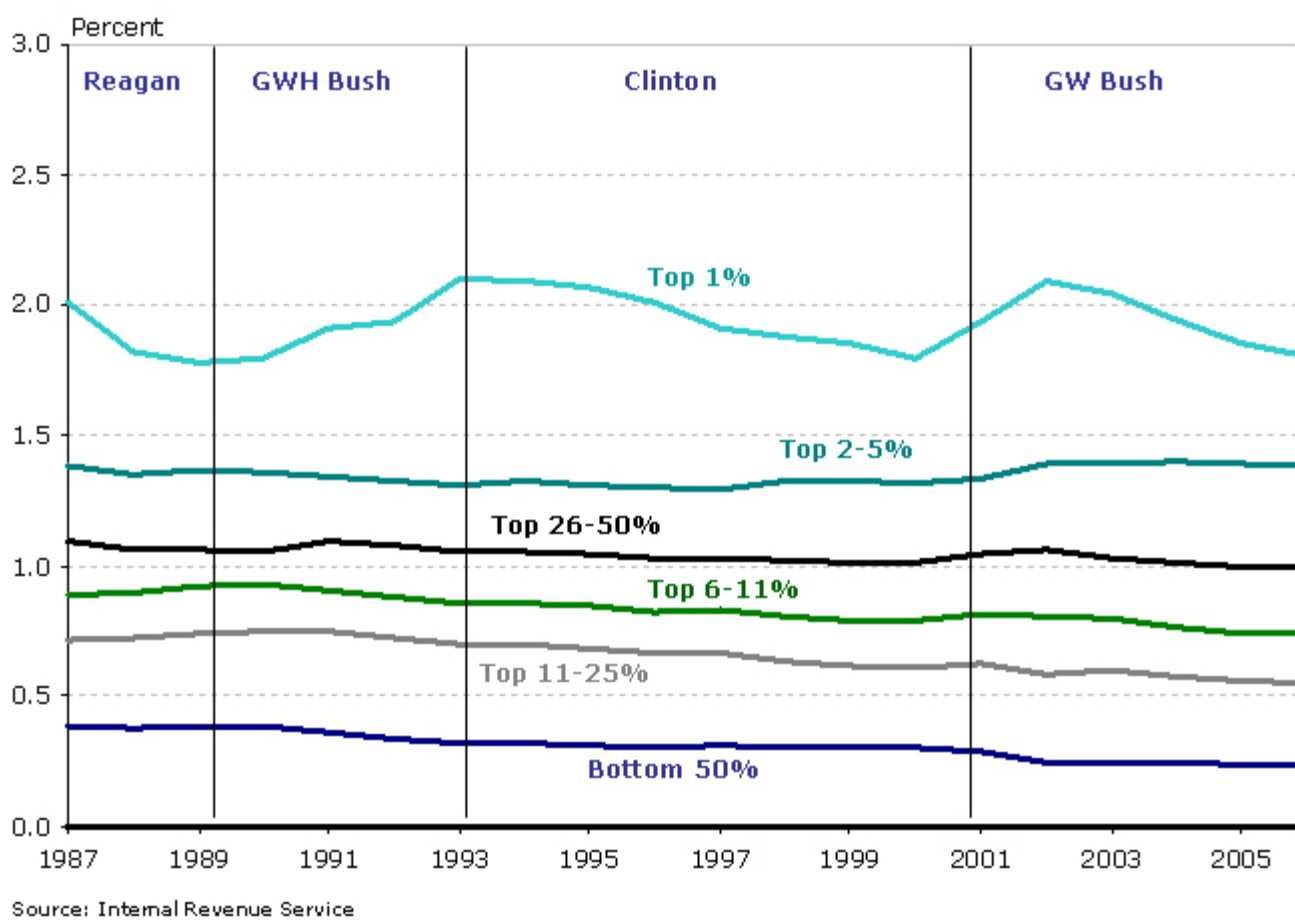


Source: Internal Revenue Service

Tax Shares By Income Percentile



Tax Shares Relative to Income Shares



Let's focus on the 1 percent of income-earners (by IRS defined [Adjusted Gross Income](#), or AGI). If you look at the average federal tax rate paid by this group—that is, taxes paid divided by AGI—it did fall substantially over the period from 2000–2006. The average tax rates for other income groups fell as well, but not as dramatically.

If you instead prefer to look at taxes paid, the share the top 1 percent forked over to the federal government rose from 37.4 percent in 2000 to 39.9 percent in 2006. The share paid by the next highest 4 percent rose only slightly over this period, and the share paid by all other groups actually fell or stayed roughly the same.

On the other hand, concentrating on the share of taxes paid relative to the share of income earned by each group would lead you to the conclusion that not much had changed between the year 2000 and 2006.

So here's the contest: Explain in one sentence which one of those pictures tells us whether the federal income-tax system has become more or less "fair."