

Resource 2

Criteria for Evaluating Taxes

Congratulations! The U.S. Congress has decided to replace the tax code and start from scratch. The voters have already agreed that \$3 trillion in revenue is needed to fund the services they desire. You have been hired as economic consultants to craft guiding principles to design the new tax system. You do not need to design the precise taxes and rates, but rather create priorities and objectives for the overall system. These will become the criteria by which the final proposals will be judged.

Based on significant prior research, Congress has already included a number of possible criteria for you to consider. It would also like your suggestions for additional criteria. Your job is to read over the following suggested list, add any criteria of your own, and rank them according to your own priorities. Share your top five choices with your colleagues and come to consensus on the *three most important* goals for a tax system, which will become the criteria by which a tax system will be judged.

Rank (#)	Criterion
	People are able to keep what they earn. They have a right to make choices as to what is best for them and their family, and no obligation to provide for other people. People know best what they want, and resources are allocated most efficiently when people have maximum freedom.
	Taxes should be simple, clear, and consistent; people shouldn't need to think too much about them or devote much time to figuring out how much they owe (or how they might avoid paying).
	People should pay taxes in proportion with their wealth. People who have more can more easily make sacrifices, and should pay more to support those in need.
	Taxes should be based on strict equity—just like anything else, everybody pays the same.
	Taxes should create the right incentives; they should encourage economically productive and socially desirable activities, like working, saving, and investing, and discourage undesirable behaviors like polluting the environment.
	Taxes should generate enough revenue to provide a “social safety net,” including Social Security and Medicare, for everyone.