



THE PROGRESSIVE INCOME TAX: A TALE OF THREE BROTHERS

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Once upon a time, there were three brothers, triplets, named Tom, Dick, and Harry Class. They were raised in the same home, with the same parents, had the same IQ, same skills and same opportunities. Each was married and had two children. They were all carpenters making \$25 per hour.

While they were very similar in all these respects, they had different priorities.

For example, Tom, chose to work 20 hours per week, while his brother, Dick worked 40 hours and Harry 60.

It should also be noted that Harry's wife worked full time as an office manager for a salary of \$50,000. Dick's wife sold real estate part time 10 hours a week and made \$25,000 per year. Tom's wife did not work.

Tom and Dick spent all of their family income. Since they paid into Social Security they figured, they didn't need to save for retirement. Harry and his wife, on the other hand, had, over many years, put away money each month and invested it in stocks and bonds.

Here's how it worked out: Tom made \$25,000 a year, Dick and his wife made \$75,000 and Harry and his wife, \$150,000.

When a new housing development opened up in their community, the brothers decided to buy equally-priced homes on the same private street.

One day the brothers decided to pool their funds for the purpose of improving their street. Concerned about crime and safety, and wanting a more attractive setting for their homes, the three families decided to install a security gate at the street's entrance; repave the street's surface; and enhance the lighting and landscaping. The work was done for a total cost of \$30,000.

Harry assumed they would divide the bill three ways, each brother paying \$10,000. But Tom and Dick objected. "Why should we pay the same as you?" they said. "You make much more money than we do." Harry was puzzled. "What does that have to do with anything?" he asked. "My family makes more money because my wife and I work long hours, and because we have saved some of the money we've earned to make additional money from investments. Why should we be penalized for that?"

"Harry, you can work and save all you like" Tom countered. "But my wife and I want to enjoy

ourselves now, not 25 years from now.”

“Fine, Tom. Do what you want. It’s a free country. But why should I have to pay for that?”

“I can’t believe your being so... unbrotherly,” Tom argued. “You have a lot of money and I don’t. I thought you’d be more generous.”

At this point, Dick, the peacemaker in the family, entered the conversation. “I’ve got an idea,” Dick said. “Our combined income is \$250,000, and \$30,000 is 12 percent of that amount. Why don’t we each pay that percentage of our income? Under that formula, Tom would pay \$3,000, I would pay \$9,000, and Harry would pay \$18,000.”

“I have a much better idea,” said Tom. “And one that’s fairer than what you’re proposing.”

Dick and Harry turned to Tom.

“Harry should pay \$23,450; Dick, you should pay \$6,550; and I will pay nothing.”

To Dick this sounded completely arbitrary, and not really fair. But it did have one big plus. His share would be \$2,450 less under Tom’s formula than under his own. So, he decided to be silent.

Harry, however, was stunned. “You want me to pay almost 80% of the bill despite the fact that each of us is receiving the exact same benefits? Where did you get such a crazy idea?”

“From no less an authority than the U.S. government,” Tom responded, as he pulled out a gray booklet.

“It’s all right here in the IRS tax tables. This is the progressive income tax system all U.S. taxpayers live under, and I don’t see we should be any different. In fact, I believe all future improvements should be paid in this way.”

“Works for me,” said Dick. So, by a vote of two to one, the cost of the street improvements was divided as Tom had proposed, even though they benefited equally, and even though the reason Harry had more money was that he and his wife had worked many more hours than his brothers and their wives, and saved some of what they had earned instead of spending it all.

Tom and Dick lived happily ever after with their new arrangement. Harry grumbled a lot, but whenever he complained his brothers called him greedy and selfish.

The end.