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## Ideal Taxation\*

*Lawrence C. Becker*

Vain is the word of a philosopher which does not heal any suffering of man. For just as there is no profit in medicine if it does not expel the diseases of the body, so there is no profit in philosophy either, if it does not expel the suffering of the mind.

Epicurus, *Fragments*

People ask me, if I were on a desert island, what one cosmetic would I take. My usual answer is a blusher—although, if I were on a desert island, I'd be tan.

Cheryl Tiegs, *Parade Magazine*

Moral philosophy is in constant danger of sliding into absurdity. If it rejects the epigraph from Epicurus, it runs the risk of being a mere pastime—more closely related to chess than to medicine. If it accepts that epigraph, it risks an overweening ambition—which hopes for too tight a connection between theory and practice, for example, or which wants philosophers to be kings. Philosophy must

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\*This paper was drafted over ten years ago and put into its present form in 1982. I still stand by its eccentric results, but if I were to rewrite the paper today I would—in addition to taking account of recent legislative developments—replace much of its syncretistic theoretical argument with an account of why the moral requirement of reciprocity supports these conclusions about taxation.

For discussion and bibliographical help, I owe thanks to Thomas Edwards, Richard Epstein, Mary Houska, and the participants in Rice University's 1978 conference on justice, equality, and the distribution of wealth.

be more like medicine than like chess, else its self-estimate and somber tones for the last 2500 years have been pretentious absurdities. But it must also be more like basic science than like medicine, else its claim to be distinct from ordinary deliberation is false. (When philosophers forget the distinctly theoretical nature of their enterprise—and still try to give professional advice—the result is usually something like the second epigraph.)

Moral philosophy can do better than that. Without application it is pointless, and without theory it is powerless; so it must have both. The best theory accommodates itself to the requirements of practice; the best practice accommodates itself to the requirements of theory.

This essay explores the requirements of theory for practice. I take some principles on which competing moral theories agree and apply those principles to a topic moral philosophers usually ignore. The results are somewhat surprising and adequately illustrate, I hope, the legitimacy of this form of applied ethics.

#### TAX THEORY: GENERAL REMARKS

Since the late nineteenth century, political philosophers have left most of the details of tax theory to economists, lawyers, and politicians. Philosophers of a libertarian or anarchist bent have continued to address themselves to the general justifiability of taxation and, along with others, to the question of what sorts of tax-supported public programs can be justified. But discussions of equally fundamental topics, such as the forms and limits of taxation, have all but disappeared from philosophic literature.<sup>1</sup>

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<sup>1</sup>There are, for example, only three indexed references to taxation in the *Philosopher's Index* since 1967. There is no indexed reference to taxation or to the theory of public finance in *The Encyclopedia of Philosophy* (New York: Collier-Macmillan, 1967). In part this is due to the Balkanization of academic fields. In a perfectly good sense of the term, anyone who writes on the theory of public finance is a philosopher. Similarly, political essayists often make sustained philosophical arguments on these matters. But, in terms of "professional" philosophy, my point remains true. An example: at its December 1979 meetings the American Philosophical Association offered a symposium on taxation; the main paper was by an economist.

This neglect has been a serious mistake. Experts in public finance proceed unchallenged with a highly contestable assumption: that "equity" is simply one element in the list of desiderata for an ideal tax.<sup>2</sup> (The other elements in the standard list are administrative efficiency, adequacy of the tax base, and neutrality or nonneutrality of economic impact.) Technical discussion of ideal taxation simply assumes the legitimacy of taxation *per se* and then asks what sort of tax would be ideal. Equity naturally appears as one of the elements of the ideal. (After all, who would claim that an inequitable tax was ideal?) The problem is that, when equity is regarded as *only one* of the characteristics of an ideal tax, it looks as though it could justifiably be compromised on behalf of any of the others—compromised to get the best overall mix. Thus it is that we find staunch defenders of progressive taxation who admit that sales taxes are regressive, but are willing to vote for them because they are so easy to collect.

I conclude here that such trade-offs are wrong. I argue that both of the equity principles in the theory of public finance (proportioning tax burdens to ability to pay and to benefits received) are actually indispensable conditions of the moral justification of taxation *per se*. If this is so, then equity cannot be compromised on behalf (say) of efficiency. To do so is simply to construct an efficient but unjustifiable tax. If I am correct, this has startling consequences for tax theory.

In brief, those consequences are as follows. First, contrary to what is implicit in some current accounts, the benefit and ability-to-pay principles (the two equity principles) do not stand in opposition to each other. Second, the equity principles are necessary conditions for justifiable taxation, whereas the other standard elements of the ideal tax are mere desiderata. (This much is the burden of the argument in section II.) Finally, on the basis of the results of section II, I argue in section III that only an individual-expenditure tax is clearly justifiable. Sales taxes, property taxes,

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<sup>2</sup>For example, one of the standard texts in public finance does this: R. A. Musgrave and P. B. Musgrave, *Public Finance in Theory and Practice*, 2nd ed. (New York: McGraw Hill, 1976), pp. 210–11; hereafter, Musgrave and Musgrave. Richard Posner does the same in *Economic Analysis of Law*, 2nd ed. (Boston: Little Brown, 1977), pp. 371–72.

corporate-expenditure or income taxes, and *ad valorem* taxes are in principle *unjustifiable*.

It should be noted that user taxes (such as the tax on gasoline) present special problems and that the choice of the expenditure tax over the income tax is a very close call. But if the argument of the paper is sound, the consequences (in moral theory) for tax policy are sweeping nonetheless.

My conclusion in favor of the expenditure tax is not novel, of course, even among recent writers. (Nicholas Kaldor believed in part of it.<sup>3</sup>) But in the current intellectual climate it is certainly eccentric—and on its face naive. The fact that it appears so is entirely due, I think, to neglect of some important considerations in the justification of taxation *per se*.

#### *Definitions and Method*

I shall treat the problem of justifying taxation *per se* as a special case of the problem of justifying nonvoluntary social obligations. By an *obligation* I shall mean a normative requirement on conduct, rather than merely a value or an ideal for it. By a *social* obligation I shall mean an obligation designed to benefit all the members of the group that generates it. Membership obligations, the duties of citizenship, and familial obligations are good examples. By a *nonvoluntary* obligation I mean simply an obligation imposed without regard to whether the bearer wants or has consented to it.

There are, of course, cases in which people want to pay or explicitly contract to pay taxes. These voluntary tax obligations present different and interesting justificatory problems of their own. But to confine the discussion of ideal taxation to those cases is to confine oneself far too narrowly. The problem of nonvoluntary obligations is the more difficult problem and, with respect to taxation, by far the more important. Most taxes are collected without regard to people's desire to pay or explicit agreement to pay.

I shall not, however, tackle the entire problem of nonvoluntary obligation. I want to show only that the principles of equitable taxation are necessary components of any plausible strategy for justifying such obligations. By *plausible strategies* I mean utilitarian,

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<sup>3</sup>Nicholas Kaldor, *An Expenditure Tax* (London: Allen & Unwin, 1955); hereafter, Kaldor.

contractarian, and natural-rights theories. I leave aside collectivist, natural-order, divine-order, and divine-right approaches. (If these other theories work at all, I am confident they will generate the same equitable principles. I simply do not think they show much promise of working—at least in terms of current standards of philosophical rigor. That is why I do not consider them here.)

A final word about method. An essay like this cannot do much to resolve the conflict between competing moral theories. As it happens, I do not believe that the conflict *can* be resolved; I believe that each of the major types of theory is necessarily incomplete and that we should spend at least as much theoretical effort on finding ways to coordinate the theories as we do on elaborating new versions of each one. But that is another story. The fact is that competing ethical theories agree on many principles for conduct. What I shall do here is describe one such area of agreement and show its consequences for tax theory. It will not be a case of shoring up one bad argument with others. It will rather be a case of showing that, whatever our final judgment may be on the relative merits of these theories, the consequences for tax theory (at least the consequences discussed here) will be unchanged.

#### NECESSARY CONDITIONS FOR JUST TAXATION

Moral theories converge at two points relevant to tax policy: (a) they impose obligations only on those competent to carry them out, and (b) they try to provide compensatory benefits scaled to the sacrifices imposed on obligation bearers. These two convergence points define requirements, rather than mere desiderata, for non-voluntary obligations—and these are joint requirements rather than substitutable alternatives. With respect to tax theory, they yield the principles called *ability to pay* and *benefits received*, respectively.

Fair warning: The thesis that the ability-to-pay and benefit principles are *joint* requirements is just as important and just as controversial as the thesis that they are requirements rather than desiderata. The two principles have often been treated as competing alternatives—alternatives that support radically different choices in tax policy. (The benefit principle, for example, favors user taxes; the ability-to-pay principle is associated with the graduated income tax.) I cannot, however, find any basis in moral theory for thinking that the two principles are competing alternatives.

*Utilitarian Theory and Nonvoluntary Obligation*

The controlling concern of utility theory is aggregate welfare. Every act, every social policy or practice must ultimately meet the test of being the best choice available for maximizing welfare. Obligations are no exception. Whether *any* are justifiable, and if so which, must be answered in the same way that all other moral questions are answered—by considering the consequences. Obligations must produce a net balance of favorable consequences for aggregate welfare.

The question is, Can they do so? Can it ever maximize welfare to obligate people to do things that they never consented to do or wanted to do? I shall assume here that the answer is Yes—that is, that some acceptable version of utilitarianism will justify some nonvoluntary obligations (such as the obligation not to commit murder). What I will argue is only that, in order to meet the test of utility, any nonvoluntary obligation must also satisfy two subsidiary (necessary) conditions—called the *possibility rule* and the *compensation rule*, respectively.

*The Possibility Rule*

In most cases it clearly makes no sense, in terms of utility, to impose obligations on people which are impossible for those people to fulfill. Obligate me to fly to the moon if you like, but it will do no good. Such obligations, when beyond one's power to fulfill, are unjustifiable. Some utility will be lost in the process of imposing the obligations and will not be recovered by getting benefits from the successful performance of the obligations, so there will be a net loss of aggregate welfare. Satisfaction of the possibility rule, then—the rule that people are never obligated to do the impossible—seems a necessary condition of any workable utilitarian theory of obligation.

The only apparent difficulty with the rule is raised by the issue of indirect benefits. Granted that we will not get “direct” benefits from imposing impossible obligations, are there not times when we realize indirect benefits? Strict-liability rules, for example, may have utility either as loss-distribution arrangements (e.g., as in no-fault accident insurance) or as general deterrents. If vendors, for example, know that selling liquor to minors will be punished no matter how innocent the circumstances, they are likely to be much more careful about all their sales. And that indirectly realized

benefit may be worth the cost. Further, setting impossible tasks for ourselves or others may be instructive or useful in developing our abilities. (Think of an athlete setting an impossible goal.) If so, they too might be worth the cost. Such cases appear to violate the possibility rule.

They do not, however. Strict-liability rules have utility, after all, only where it is possible for people either to absorb the cost of violations or to eliminate their exposure to the risk of liability. Consider: in loss-distribution cases, there can be no utilitarian advantage in imposing costs on people who cannot pay. And in general deterrence cases, there is no point in imposing strict liability unless people in general can take steps to reduce their exposure to risk. (That is the indirect benefit one seeks in imposing such obligations.) So although it may not be possible, at a given level of risk, to fulfill such an obligation, it must be possible to avoid that level of risk. Strict-liability rules therefore meet the test of possibility. Similarly, I submit that imposing impossible tasks as a way of teaching or achieving (indirectly) other goals has utility only in very special circumstances. I can think of cases in which impossible *goals* or *standards* can be productive, and even cases (though this begins to strain the imagination) in which impossible *voluntary* obligations might have utility. But the usefulness of imposing impossible *nonvoluntary social* obligations seems extremely remote. Certainly taxation would not be such a case. Requiring more from people than they can possibly pay simply leads to failure to collect, evasion, or rebellion. Simple failure to collect is not cost-effective. And though evasion and rebellion might have utility in moving a social order toward justice, they cannot be anything more than temporary expedients. A well-ordered society would have no need of them.

As an ingredient in the utilitarian theory of nonvoluntary obligations, then, the possibility rule seems secure. I shall argue later in this section that the possibility rule can be extended to yield one of the standard principles of equitable taxation: ability to pay.

### *The Compensation Rule*

The other principle of equitable taxation (the benefit principle) comes out of another aspect of utilitarian theory—one I shall call the *compensation rule*. Maximization of social utility is the theory's controlling principle. But it is individuals, not abstract entities



called "societies," whose welfare is ultimately at stake. Improvements in social welfare serve no useful purpose unless they result in improvements in individual welfare. The question is, therefore, one of distribution: To whom are the benefits of one's sacrifice to go? The answer from utilitarian theory is unequivocal: Other things equal, they must go to everyone, oneself included. Each person counts for one and only one. With respect to one's own interests, there is no reason (in terms of maximizing *social* utility) to distribute one's own goods to others, unless doing so adds to social welfare. In some cases, the principle of utility will require self-sacrifice. But it is clear that whenever I can improve my own welfare (while still doing the best I can for everyone else's) I should clearly do so. Any other course would by definition fail to maximize social welfare. Failing that, my object must be to preserve as much of my own welfare as possible.

Translated into the context of constructing a theory of non-voluntary obligations, the moral is obvious: Utilitarians must adopt whatever versions of the needed obligations best improve (or failing that, best preserve) the welfare of the obligation bearers. Concern about compensatory benefits is therefore a necessary ingredient in any utilitarian theory of obligations. Faced with two otherwise equally good options, one of which compensates the obligation bearer and the other of which does not, utility necessarily favors the former. Further, it favors alternatives that *scale* benefits to sacrifices. Benefits that exceed the sacrifice are best; benefits commensurate to sacrifice are second best; benefits proportional to sacrifice are next in line. But in any case the scaling of benefits directly to sacrifice is necessary whenever we have the chance to do so within the frame of the controlling concern for maximizing aggregate utility.

#### *Requirements, Not Desiderata*

With respect to tax theory, the thing to notice here is that utilitarian theory treats these two rules very differently than it treats matters of efficiency, collectability, and neutrality of economic impact. These latter factors (elements in the standard list of desiderata for an ideal tax) are matters of degree which, at the extremes, are also requirements. (A tax that "costs" more than it yields is prohibited by utilitarian theory.) But these factors are *also* second-level issues. Once the necessary conditions for justifiability have been met, the

theory will want to *maximize* the efficiency, collectability, and desired economic impact of the tax system. And one may well trade off a little efficiency to get more of a desired economic impact (e.g., stimulation of a certain industry). But the question of maximizing these things does not even arise if the tax is not minimally justifiable—that is, if it does not meet all the *necessary* conditions of justifiability. The possibility rule and the compensation rule are among the necessary conditions. Their satisfaction cannot be sacrificed to get second-level benefits.

### *Contractarian Obligations*

In social-contract theory, justifiable obligations are obligations to which people actually agree to be bound (“actual” contract theory) or to which people *would* agree, if asked (“hypothetical” contract theory). It is reasonable to believe that both varieties incorporate the possibility and compensation rules as necessary conditions of justifiable nonvoluntary obligations.

### *Actual Contracts*

It is notoriously difficult to construct a satisfactory account of justice by reference to actual contracts. And it is implausible to suppose that any large-scale society ever has or ever could manage to organize itself according to such a theory. But suppose for the moment that it is possible. Suppose, that is, that some society either has achieved or can achieve the following:

1. It has found an effective, nonarbitrary, and noncircular method for determining who will be parties to the contract. (Children? The senile?)
2. It has obtained unanimous consent from the parties on a set of procedural rules for creating and enforcing obligations—e.g., rules for creating a constitution, etc. (The agreement at this stage must be unanimous. Just as a private contract is not binding—as a mutual agreement—unless there is agreement among all the parties, so too for the social contract. Majority rule is a procedural device—without moral force in the contract unless agreed to by all.)
3. It has solved the problem of binding new arrivals, *contractually*, to those procedural rules. That is, it has found a fair and workable way to deal with children coming of age and immigrants—people who were not parties to the original agreements.

The question then is, Would such a society adopt the possibility and compensation rules as necessary conditions of nonvoluntary social obligations? I know of no way to answer that question empirically, because I know of no large-scale society that has organized itself along these lines. But if the evidence from small communities can be extrapolated safely (which I doubt) the answer is Yes. Such communities certainly do not enforce impossible nonvoluntary *social* obligations on members, and they go to some lengths to insist that the obligations they do impose benefit everyone—the obligation bearers included.<sup>4</sup> But extrapolation from such evidence is little better than free speculation.

### *Hypothetical Contracts*

The alternative is no more comfortable. It is to construct an account (in terms of some assumptions about human nature) of what sort of contract actual people *would* agree to if they had the chance. This might be called *actual-agent* contract theory. Here everything turns on the psychological assumptions used. If sadism/masochism is assumed to be strong, the possibility rule might be ignored. If altruism is assumed to be strong, the compensation rule would not be necessary. But I shall assume that something closer to the broad outlines of a Hobbesian view of human nature is correct—specifically, that human beings are basically egoistic, but with an important and limited amount of altruism. I take it that those assumptions have been confirmed by behavioral science. And I think it is clear that, on those assumptions, the adoption of the possibility and compensation rules—as necessary conditions of nonvoluntary obligations—is highly probable.

Similarly for versions of social-contract theory that deal with hypothetical rather than actual agents—versions that ask what agreements “rational” people would make under conditions of free

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<sup>4</sup>It is, after all, implicit in the very idea of small “communities within communities” that they are better for their members than life-as-usual in the wider world. So even in purely “nonprescriptive” communities (where the only obligation, in principle, is noncoercive behavior) all the members are meant to benefit. See, for example, Michael Fellman, *The Unbounded Frame: Freedom and Community in Nineteenth Century American Utopianism* (Westport, Conn.: Greenwood Press, 1973).

and fair choice. Again using plausible assumptions about the egoism and altruism of human beings, the reasoning leading to the adoption of the two principles is straightforward, as follows.

*The Possibility Rule.*

Obligations impose liability. What rational ground could there be for agreeing to such liability (for oneself) in cases where the conduct in question is impossible to perform? Strict liability rules might be agreed to, but, as in utilitarian theory, only on the condition that one has some control over exposure to risk or the ability to absorb the sanctions for failure. So, in either case, the agreement to a strict-liability rule is not an agreement to an impossible obligation. Likewise for impossible tasks imposed as a means to other goals. One might well want to try such a task voluntarily, but would one agree to a rule that allowed others to impose such tasks against one's will? I suggest there is no reason to think so. Everything points to the conclusion that hypothetical contract theory would adopt the possibility rule as a necessary condition for all nonvoluntary obligations.

*The Compensation Rule.*

The same is true for the compensation rule. Rational contractors are by definition agents who want something for themselves from the bargains they strike. They must (to make the theory work) achieve unanimous agreement. Perhaps none (but certainly not all) would agree to a disadvantageous sacrifice. Returns in excess of sacrifice would be best; commensurate benefits would be second best; proportionate benefits would be next. But, in any case, the principle of scaling benefits directly to sacrifice is required to get consent from rational contractors.

*Rights Theory*

Theories of justice based on natural rights yield the same results even more directly. If *X* has a natural right to life, then others have nonvoluntary obligations to refrain from murdering *X*. So the existence of some nonvoluntary obligations is built into the theory from the outset. (Whether paying taxes can be among them will be considered in the next section.) The question here is merely whether

natural-rights theory requires that such obligations meet the possibility and compensation rules. I think it must. The reciprocal nature of rights and obligations builds the benefit rule into the very structure of rights theory. The return to me for my fulfillment of obligations is my right against others for the same conduct toward me. And the possibility rule is likewise built in. Any deontic theory (a theory that makes duties and rights fundamental) will argue, just as Kant did, that "ought implies can" is a *formal* principle that limits the imposition of duties.<sup>5</sup>

### *Equitable Taxation*

I hope I have said enough to establish that the possibility and benefit rules are necessary ingredients—requirements—in the justification of nonvoluntary obligations *per se*. (At least this is so with respect to the three justificatory strategies I have discussed.) What remains in this section is to show how these requirements translate into requirements on taxation—specifically, how they become the so-called "principles of equitable taxation": scaling taxes in accord with ability to pay and in accord with benefits received by the taxpayer.

### *The Benefit Principle*

"Benefits scaled to sacrifice" is a rule embedded in all three justificatory strategies, and it needs no translation to become the benefit principle of equitable taxation. Only two things need emphasis. One is that this principle, as it comes out of moral theory, does not state a mere desideratum—something that can be compromised (say) to get an increase in administrative efficiency. It states a precondition of all justifiable nonvoluntary tax obligations. In Rawlsian jargon, this condition is lexically prior to the desiderata of efficiency, adequacy of the tax base, collectability, and desired economic impact. The importance of this point—about both the benefit and ability-to-pay principles—is hard to overstate. The fact

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<sup>5</sup>In fact, since the "ought implies can" thesis is usually taken to be a purely definitional matter, this will be a formal principle of any sort of theory where the notion of moral blameworthiness is considered cogent.

that justifiable taxes must conform to these requirements rules out many sorts of taxation at the outset.

The other point to be emphasized is that the benefit principle provides a ground for exempting (from the relevant obligations) those who are unjustifiably excluded from social benefits and for imposing more heavily on those who reap higher than average benefits. A tax *rate*, as opposed to a simple tax, is an analytic consequence.

### *Ability to Pay*

The possibility rule presents a bit more difficulty. It is apparently an all-or-nothing affair, whereas the ability-to-pay principle is scalar. My contention is, however, that scaling obligations to the level of an agent's abilities is simply a necessary extension of the possibility rule. People who are able to fulfill an obligation may nonetheless be so disadvantaged with respect to it that fulfilling it would consume an inordinate amount of their time or energy or resources. (An inordinate amount, for example, compared to what an "average" person would have to use.) We may properly think of such cases as analogous to impossibility—on the ground that increasing difficulty approaches impossibility as a limit. Somewhere along the path toward impossibility we typically draw a line that says "If it is this difficult, we do not have the obligation." This is no more than a recognition of the fact that whether or not a person "can" fulfill an obligation is often tied to the presence of and ability to fulfill other, equally important obligations. For example, suppose that fulfilling obligation *X* is so difficult for me that doing so would mean that I then would have no resources with which to fulfill three other obligations, each of equal importance to *X*. Yet if I were released from *X*, I could easily fulfill the other three. The justifiability of releasing me from *X* is clear.

The ability principle is double-edged, however. Increased ease of performance removes an obstacle to increases in obligations. It does not, by itself, *justify* an increase; it simply removes an obstacle. But the consequence for taxation is this: tax obligations go down as ability to pay diminishes; they *may*, if otherwise justified, go up as ability increases.

But is this scalar principle required by the justificatory strategies? I think so. We have seen that the benefit principle is required,

and the “level of ability” principle is necessary to permit coherent use of the benefit principle. The argument goes this way: consider a case in which it costs me more and more (in time, energy, or other sacrifices) to fulfill my obligations as I age. (Suppose my tax obligations go up after I retire on a fixed income.) Now suppose that the benefits I receive from performing these obligations are inelastic. (There is only so much national defense one can “consume”; yet reducing it is also out of the question.) How can we keep benefits scaled to sacrifice in such a case? Clearly, the only way to do it is by reducing obligations—by scaling sacrifices to ability to pay. Thus the level-of-ability principle is not merely desirable. It is required to render the theory of nonvoluntary tax obligations coherent.

### *Joint Requirements*

One final thing: the justification of nonvoluntary tax obligations requires *both* the ability and benefit principles. As principles of equitable taxation, then, they are neither competitors nor substitutable alternatives. Justifiable nonvoluntary taxation must satisfy both requirements.

### IDEAL TAXATION

We are now ready to consider the question of the ideal form of taxation. In a sense the term ‘ideal’ is misleading. I shall instead be concerned with what sort(s) of taxes can be justified *at all* (as nonvoluntary social obligations). As I said at the outset, my contention will be that only a comprehensive individual expenditure tax passes muster.

### *Taxation Is Not Theft*

The first thing to dispose of is the libertarian slogan that “taxation is theft.” Such a view is plausible only if one makes one or both of two assumptions: first, that voluntary agreements provide the only rigorous and clear justification for social obligations—a view that casts a very dark shadow on all nonvoluntary obligations from the outset (taxes included); and, second, that property can be acquired unencumbered by social obligations. Neither assumption is justified. I have already said enough about nonvoluntary obligations to

indicate plausible justifications for them. And I have argued elsewhere<sup>6</sup> that no sound general justification of private property can yield an immunity from social obligations with respect to the property. I shall not repeat the property arguments in detail here, but a brief summary is in order, stating the case explicitly in terms of taxation.

It should be intuitively clear that a utilitarian theory of property cannot support a general immunity from taxation. No doubt, confiscatory taxation would discourage people from acquisition enough to damage social welfare. But history makes it plain that taxes *per se* will not do so. As a result, even if considerations of utility mandate an extensive system of private property (as I think they do), they do not yield the conclusion that taxation cannot be justified.

Similarly for the libertarian's favorite property argument—the labor theory. As nineteenth-century critics of Locke made abundantly clear, the only way (in Locke's version of the argument) that my labor alone can give me debt-free ownership of anything is for it to meet the following two conditions. The first is that the labor I do must be beyond what I am morally required to do for others. Otherwise, the labor—and hence its products—would be “owed” to those others. The second condition is that my acquisition of things must not constitute a “loss” to others. The quickest way to see the necessity for this is to paraphrase Proudhon's outraged response to Locke: Why should I pay—in the form of respecting your property rights—for labor I did not ask you to perform?<sup>7</sup> The only satisfactory answer (within the framework of the labor theory) is Mill's: Well, you shouldn't have to pay me, that's true. But when it is “no payment” at all—when my having the thing constitutes no loss for you—then why shouldn't I have property in the things I produce with my labor?<sup>8</sup>

Under these two conditions then, Locke's labor theory is sound. But the second condition—the no-loss requirement—is *very* strin-

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<sup>6</sup>*Property Rights: Philosophic Foundations* (London: Routledge & Kegan Paul, 1977).

<sup>7</sup>Pierre Joseph Proudhon, *What Is Property?* [published in 1867] (New York: Howard Fertig, 1966), p. 84.

<sup>8</sup>J. S. Mill, *Principles of Political Economy*, in *The Collected Works of John Stuart Mill*, vol. II (London: Routledge & Kegan Paul, 1965), book II, ch. II, 6 (p. 230).



gent indeed whenever goods are scarce. The first condition makes prior satisfaction of moral obligations to others a necessary prerequisite of property acquisition. In other words, the argument leaves open the issue of whether or not there are social obligations that limit one's right to property.

The only other sound version of the labor theory which I can construct fares no better. It holds that, if my labor produces benefits for others (as well as for myself), then sometimes the granting of property rights is an appropriate (i.e., deserved) reward for me. But this principle is obviously double-edged. Far from establishing immunity from taxation, it creates a justification for it whenever my labor *damages* others (e.g., by being a nuisance or by depleting scarce resources).

The final argument for property—the argument from political liberty—also fails to block the justification of taxation. This argument proceeds on the assumption that people need to and want to acquire things and that, to make a general prohibition on acquisition actually effective, we would have to abridge political liberties to which people are entitled, morally. It should be obvious that this argument is too weak to prohibit taxation *per se*. Some taxation—indeed, quite a lot of it—is perfectly compatible with extensive systems of political liberty.

In short, the libertarian's sweeping attack on taxation fails. Voluntary agreements are not the only sources of obligations; there are some nonvoluntary obligations as well. And property theory provides no justification for general immunity from taxation. So the way is clear for the justification of a nonvoluntary obligation to pay taxes.

### *Tax Obligations*

In fact, the justification of a general nonvoluntary obligation to pay taxes is not very difficult. The tricky questions are, What kinds of taxes? and How much? I leave those questions aside for the moment. Here I simply want to outline the obvious rationale for tax obligations *per se*.

The starting point is that we are born into citizenship in a state in which the government does all sorts of things for which it needs tax revenue and in which very few of the citizens favor the abolition of all such governmental activity. As a result, the inevitability of

taxation is plain, and (in principle) has general support from the populace. The obligation to pay taxes is in fact imposed, and not opposed by any group powerful enough to change matters. That is the nonvoluntary part.

The justification for such obligations—when they are imposed on people who do not consent to them or whose “consent” is compromised by the lack of available alternatives—is a straightforward application of the strategies outlined in section II. Whether one talks only about the ideal—that is, the way government ought to be arranged, given what we know of human nature—or whether one starts with what exists and asks how it should be changed, all the available strategies support taxation in principle. Utility supports it, for there are some essential public goods that rational self-maximizers will not voluntarily cooperate to produce, even though they want them and recognize their necessity. (I have in mind, here, the usual sort of *n*-person Prisoner’s Dilemma analysis of public-goods problems.<sup>9</sup>) Contractarianism supports it, even if the state is to be restricted to a night-watchman role. And rights theory supports it—at least to the extent that taxes are required to enforce rights.

#### *What Kind(s) of Taxes Can Be Justified?*

As I remarked at the outset of this paper, standard discussions of the forms of taxation make “equity” (meaning the benefit and ability principles) simply one element in a list of desiderata for an ideal tax. As the preceding arguments have shown, however, the principles of “equitable taxation” control the very justifiability of (nonvoluntary) tax obligations *per se*. The possibility, benefit, and ability principles are not things one can play off against administrative efficiency (or whatever) in the process of constructing justifiable taxes. Nonvoluntary tax obligations that do not satisfy these principles cannot be justified at all.

It turns out that many forms of taxation can be ruled out on these grounds alone. The desiderata of an ideal tax apply only to the remaining possibilities.

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<sup>9</sup>See, for example, Mancur Olsen, *The Logic of Collective Action* (Cambridge, Mass.: Harvard University Press, 1965).

*Personal versus Ad Rem and Indirect Taxation*

For example, all taxes are paid ultimately by individuals—that is, by “natural” persons as opposed to corporations or other entities. Individuals are said to be taxed “personally” when taxes are levied *directly* on their incomes, expenditures, or wealth. Taxes levied on corporations are paid *indirectly* by individuals—passed on to them either in increased prices or in reduced earnings from wages, salaries, and dividends or in reduced wealth (e.g., in the value of capital investments). Similarly, taxes levied on “things”—so called “*ad rem*” taxes such as the retail sales tax, property taxes, and value-added taxes—are paid by individuals either directly or indirectly.

Indirect and *ad rem* taxes are by definition not proportioned to the individual’s ability to pay. They are therefore not justifiable as parts of a system of nonvoluntary tax obligations. The point can be made without an elaborate argument. Retail sales taxes—as we know them—are obviously not scaled to ability to pay. No one considers how much income or wealth individuals have in order to determine the amount they must pay. Similarly for use taxes. Even if they are scaled to benefits received, as the gasoline tax is supposed to be, they are not scaled to ability to pay. And the use of *both* principles is necessary for the justification of a nonvoluntary tax obligation. Property taxes—as distinguished from taxes on personal wealth—are also *ad rem* in character. They are by definition not scaled to ability and in practice not scaled to benefits either. The same is true of all the taxes corporations pass on to people. Whether the burden falls out in the form of higher prices or in lowered income or wealth, the nature of the tax prevents the requisite scaling.

The conclusion is thus inescapable: to be justifiable, a nonvoluntary tax obligation must be scaled to benefits and ability, and the only taxes that can be so scaled are “personal” taxes levied directly on individual expenditure, income, and wealth.

*Objections.*

It might be objected that this conclusion is both naive and unworkable. It is naive (it might be said) for two reasons. First, it ignores the autonomous nature of corporations—the fact that they have “lives of their own” which give practical significance to the legal fiction of the corporation as a “person.” Thus surely corporations

can be taxed in ways that are not passed on to individuals (e.g., taxes on net profits or on retained earnings). And, even if that were not so, surely they must be taxed to prevent vast and permanent concentrations of economic power.

Second, the objection continues, the conclusion is naive because it ignores the necessity for governmental controls (in the form of tax policy) in areas crucial to a healthy economy—and perhaps even to our survival. If we must slow corporate growth or consumption of fossil fuels, then we must be able to tax these things.

The third source of naiveté concerns the market system. If it is morally justifiable to let free markets fix the price of goods, then people must pay prices—even for survival goods—which are not scaled to their ability to pay. How does that differ from obligating them to pay use taxes or sales taxes? There is an inconsistency here.

And, finally, it might be said that the elimination of all indirect and *ad rem* taxation is just unworkable. Governments need vast revenues; indirect and *ad rem* taxes are already in place as important sources of revenue, and people would just not tolerate the replacement of these customary and mostly hidden taxes with a dramatic increase in direct taxes on income, expenditure, or wealth.

### *Reply.*

These are important objections, but not cogent ones. I shall take them in order. First, whatever autonomy corporations have, it is not the case that they can pay taxes without passing them on. Taxes on profits or retained earnings *must* show up in the pocketbooks of investors and employees—either in the form of reduced dividends and earnings or in the form of the reduced value of their capital assets.<sup>10</sup> They are thus passed on to individuals, and not in ways that can be scaled to ability to pay.

Second, on the matter of preventing concentrations of economic power and controlling the economy generally, I remind readers that these objections depend on the confusion—mentioned earlier—which treats the benefits and ability principles as simply elements in

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<sup>10</sup>For a review of the incidents of taxes on business, see R. A. Musgrave, *The Theory of Public Finance* (New York: McGraw Hill, 1959) ch. 13; hereafter, Musgrave.

the list of desiderata for an ideal tax. They are instead part of the justification of nonvoluntary tax obligations *per se*. The very conditions that make a tax justifiable cannot be sacrificed to make the tax a more powerful instrument of social control. When that happens, one just gets a powerful but unjustifiable tax. Further, tax policy is not the only means of control at the government's disposal. Direct regulation is often possible. And, finally, of course, individual income, expenditure, and wealth taxes provide significant tools for controlling the economy and accumulations of wealth.

As for an inconsistency with the market pricing of goods, so much the worse for market pricing. I take it that just this sort of objection to the market system (i.e., about some people's inability to pay market prices) lies behind the various social programs that provide a safety net or pricing "offsets" for the disadvantaged. These programs are supported by tax revenues. How ironic it is to collect those revenues—designed to improve ability to pay—with forms of taxation that are *not* scaled to ability to pay! But the crucial flaw in this objection is that, through welfare programs, market pricing in principle permits (indirect) scaling for ability to pay. *Ad rem* taxation does not.

I therefore do not think that the proposal to disallow indirect and *ad rem* taxes is naive. And, on the matter of its workability, I can only say that a government forced to perpetuate injustice through deception cannot be a very good government. If people are unwilling to pay *directly* taxes that they are now paying *indirectly*, there seems to me to be a presumption in favor of the conclusion that the government is at fault—either for not educating its citizens or for not producing benefits commensurate with the taxes it assesses. Until that issue is resolved, I am not willing to concede the point about unworkability. How fast the needed changes can be made is an empirical question. But that they *ought* to be made is clear, and that they *can* be made by a decent government and a reasonably well-informed public is something I choose to believe until I see evidence to the contrary.

#### *Objection.*

It might also be objected, however, that at least some direct or *ad rem* taxation is as harmless in practice as it is objectionable in principle. Sales taxes on \$90,000 yachts, after all, though not in theory

scaled to ability to pay, are so scaled as a practical matter, since only the very rich will pay them. Similarly, it has been argued recently that existing property taxes, which in principle have a regressive character, in practice do not have the character (or at least, not enough to worry about.<sup>11</sup> Thus it might be said that there is no need for sweeping aside indirect and *ad rem* taxes just because they cannot *in principle* be proportioned to ability to pay. If as a matter of fact (as in sales taxes on high-priced luxuries) they are in general paid only by those who can “afford” them, then they are permissible.

*Reply.*

My reply to this objection has two parts. First, taxes whose legitimacy is purely fortuitous are likely to run into serious justificatory trouble as social and economic conditions change. Henry Simons, for example, thought that the gasoline tax was perfectly legitimate because people who could afford the luxury of driving could afford the taxes.<sup>12</sup> And, writing in the late 1930s, he was probably right about the “overall” impact of the tax. But times have changed. What was once a luxury is now a near necessity. Yet the tax remains. It is much better, it seems to me, to impose a tax that is justifiable in principle than to be constantly testing the impact of other taxes to see whether or not they remain fortuitously justified.

Second, it should be noted that what is true “in general,” or in the aggregate, is not necessarily true of every case. To say that, overall, property taxes are not terribly regressive in their impact is not to deny that they are *quite* regressive for many individuals. Similarly for taxes on the most extraordinary luxuries. One can easily imagine cases in which relatively poor people need such goods and for whom an *ad rem* tax would have quite a different impact from what it has on the typical buyers of such goods. I think, for example, of the need a small entrepreneur might have for a yacht or the need a blind person might have for otherwise luxurious audio equipment.

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<sup>11</sup>See the publication from the Brookings Institute: Henry J. Aaron, *Who Pays the Property Tax? A New View* (1975).

<sup>12</sup>*Personal Income Taxation* (Chicago: University of Chicago Press, 1938), p. 38.

*Objection.*

Now it might be thought that the *aggregate* of consequences is precisely what concerns utilitarians. A utilitarian, so the argument goes, would be willing to put up with occasional damage to a few individuals if, overall, the tax at stake was not regressive in its impact. Consequently, it appears that utilitarian theory might justify some indirect and *ad rem* taxes even if contractarian and rights theory would not.

*Reply.*

That sort of reasoning has a superficial plausibility, but it will not withstand scrutiny. To begin with, the first question for the utilitarian here is the same as for other theorists: the justifiability of imposing nonvoluntary tax obligations across the whole class of citizens. And I have argued that, no matter whether one is concerned about aggregate welfare or about individual rights, a rule imposing nonvoluntary tax obligations can be justified only if the obligations are scaled to ability to pay and to benefits received. The question is whether, given the way things actually work out with respect to aggregate welfare, the utilitarian rule can ignore these principles.

The answer is No. Taxes that do not conform to those principles will always harm some people, and, unless their refusal to pay would decrease aggregate welfare (which is unlikely), it is not justifiable to force them to pay. Indeed, on utilitarian grounds they ought *not* to pay. Yet sorting out these people in the collection process (for indirect and *ad rem* taxes) would be administratively inefficient at best. So we are back where we began—with the unjustifiability of taxes that cannot, in principle, be scaled to the individual's ability to pay and to benefits received.

My conclusion, therefore, remains that all indirect or *ad rem* taxes are unjustifiable. That leaves only taxes on individual income, expenditure, and wealth as possibilities. And, since income and expenditure taxes are mutually exclusive options (because to have them both would be inefficient at best),<sup>13</sup> the next steps in the argu-

<sup>13</sup>It should be noted, however, that economists generally think that an expenditure tax would have to be phased in gradually and carefully. So for a time it would coexist with the income tax. The only attempts of which I am aware to change from the income to the expenditure tax were in India (1957-

ment are, first, to decide which of the two is best and, then, to decide whether to tax wealth as well.

### *Income versus Expenditure Taxes*

Taxes on the flow of wealth to and from individuals may in principle be of two sorts, as mentioned: taxes on accretions to a person's wealth (i.e., income taxes), and taxes on the "spending" or "consumption" of wealth (i.e., expenditure taxes). Wealth is defined in static terms—as one's "stock" of goods or one's exchange-value "position." All these indices of "taxable capacity" are to be measured in money terms.

### *The I-Tax.*

The income tax is a familiar device; so I shall defer discussion of it for the moment—except to remark that a major difficulty with it has always been finding and applying the proper definition of 'income'. Cash income is not a particular problem, whether it comes in the form of wages, salaries, interest, dividends, gifts, bequests, or even in the form of "realized" capital gains—that is, the gains people get when they actually sell something for a higher price than they paid for it. There may be arguments about whether all these sorts of income should be taxed at the same rate—whether, for example, capital gains should be taxed at a lower rate than wages. But there is no serious dispute over whether any of these accretions to a person's wealth is "really" income.

The situation is a bit more confusing, however, with respect to income "in kind" (such as fringe benefits), unrealized capital gains (that is, accretions to the value of property one holds but does not sell), and "imputed income" (such as whatever cash value one can assign to leisure, the perquisites of a job, and so on). But more of that later.

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66) and Ceylon (1959–63). The two taxes coexisted there for a time, but the expenditure tax never gained a significant foothold and was eventually abandoned. For an overview of the practical problems of expenditure taxes, see Richard E. Slitor, "Administrative Aspects of Expenditure Taxation," in Richard A. Musgrave, ed., *Broad-based Taxes* (Baltimore: Johns Hopkins University Press, 1973), pp. 227–263.



*The E-Tax.*

The expenditure tax is less familiar than the income tax, but the general idea is simple. The expenditure tax is levied on *persons* (in this case, on human individuals) in much the same way an income tax is. The only difference is that one reports (and is taxed on) spending rather than income. Spending, moreover, is not merely income minus savings. It also includes "dis-savings"—that is, spending *from* savings or capital. So, under an expenditure tax, if I am spending not only the \$10,000 a year that I earn, but also \$10,000 a year from the family fortune, I would be taxed on the total of \$20,000 a year. It should be noted that an E-tax is, therefore, sharply distinct from retail sales taxes and various indirect taxes placed on the things we buy. Unlike them, it can be scaled to ability to pay.

The expenditure tax has been thought superior to the income tax—on equity grounds—by a long line of distinguished writers.<sup>14</sup> Until recently, however, it had also been thought—by those same writers—to present insuperable administrative difficulties. Those difficulties have now been solved (Kaldor, pp. 12-13). So what remains is the question of equity—which in this essay becomes the question of which of the two forms of taxation can best be scaled in accord with the benefit and ability principles. In addition, there are some technical issues concerning the economic impact of both income and expenditure taxes, but they are of secondary importance.

*Ability to Pay: The E-Tax.*

Most of the argument over equity, here, concerns which of the two taxes is the better way of getting at "taxable capacity"—that is, which can best be scaled to an individual's ability to pay. Proponents of the expenditure tax have pointed to several flaws in existing income-tax laws. For one thing, at present, the money that low- and middle-income people save is often taxed no differently than the income they spend—or the income spent from a great fortune. It does not seem fair that the part of my income I have to put aside for

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<sup>14</sup>Kaldor, *An Expenditure Tax*, p. 11, lists Hobbes, Mill, Alfred Marshall, and A. C. Pigou, among others.

emergencies and retirement should be treated in just the same way as the income I can spend—or in the same way as the income the wealthy derive from their fortunes, *all* of which is spendable (since they already have a stockpile for emergencies).

Further, at present, capital gains are either not taxed at all (for example, when holdings appreciate in value but those gains are not cashed in—not “realized” by selling the holdings) or taxed at a more favorable rate than other income. And “dis-savings”—or spending from capital—are not taxed either. Thus someone with a large fortune can spend from those parts of it which show no capital gains, pay no income tax at all, and (counting the unrealized gains on the rest) be no worse off than before. Or perhaps be better off. All of this favors the wealthy by ignoring important aspects of their “spending power” or “ability to pay.”

In addition, Mill and a long list of others have argued that an income tax that does not exempt savings actually taxes savings twice—first by taxing the income from which they are derived and then by taxing what they yield (i.e., interest). In contrast, the same money, if spent rather than saved, would be taxed only once (by the income tax) since the goods it yields would not themselves be taxed.<sup>15</sup>

#### *Ability to Pay: The I-Tax.*

Proponents of the income tax, on the other hand, have argued that all its supposed flaws as a measure of ability to pay can be remedied by a suitably revised definition of ‘income’.<sup>16</sup> Savings for retirement can be exempted if desired; realized capital gains can be treated as ordinary income; unrealized capital gains can be reached through taxing, as income, gifts and bequests; and, if necessary, interest on savings can be exempted.

Furthermore, most important kinds of “imputed income” (such as is received “in kind” through perquisites and fringe benefits) can in principle be reached by the income tax every bit as well as by the expenditure tax. [On the other hand, it is not clear to me how any

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<sup>15</sup>See Mill, *Principles of Political Economy*, book V, ch. II, 4, and works referred to by Kaldor, p. 80.

<sup>16</sup>Musgrave and Musgrave, pp. 220–1 and 243.

income tax could reach the spending (in effect) of unrealized capital gains through dis-savings.]

Finally, everyone is agreed that regressive, proportional, and progressive tax rates, income (or expenditure) averaging, time payment of taxes, and indexing to the inflation rate can be managed easily under either sort of tax. Similarly, complex structures of exemptions and deductions are possible under each.

In short, on the matter of ability to pay, arguments for income rather than expenditure, or the other way around, seem indecisive. Most writers think an income tax, suitably defined, has the edge; but their reason for thinking so—apart from the comfort they take in the number of people who agree with them (see Musgrave, p. 163)—is not very clear. A few writers continue to press for the expenditure tax, admitting that the balance of arguments on the ability-to-pay issue is “delicately poised (Kaldor, pp. 52-3). But, again, I do not have confidence that the case can be decided on this ground.

#### *The Benefit Principle.*

The justification of tax obligations, however, requires that taxes be scaled in accord with the benefit principle as well as the ability-to-pay principle. Here the expenditure tax seems to me to have a decided edge—and this is not usually denied by defenders of the income tax (Musgrave, pp. 163-64).

The argument is straightforward, and can be traced at least as far back as Hobbes.<sup>17</sup> It holds that it is fairer to tax people on what they “take out of the common pool of resources” (as represented by their spending) than on what they put into it (as represented by their income). In terms of the present essay, the point is that what one “takes out” are, by definition, benefits of the sort that justify nonvoluntary obligations. What one “puts in” are the benefits reaped by others. And taxes must be proportioned to people’s effective demand for benefits—not to their effective provision of benefits to others. Such demands—insofar as they are for consumer goods and services, public or private—are directly measured by expenditures. Income is at best only an indirect measure here. Thus it may

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<sup>17</sup>Kaldor finds it in *Leviathan*, ch. XXX.

be said that one's spending level is a more appropriate index to the benefits received from a society than is one's income level.

Still, the decisiveness of the case should not be exaggerated. Income is not always unreasonable as an index to benefits received. And the notion that spending is "taking" benefits whereas getting income is "putting them in" can be a misleading metaphor. After all, getting income often involves activities that deplete resources, create the need for public services, and so forth.

#### *The Preferability of an E-Tax.*

But the conclusion must be, I think, that, in terms of the purely conceptual elements in the justification, the expenditure tax has a slight overall edge. Since it is only slight, the final choice may be influenced, I suppose, by the answers to various empirical questions. For example: What would the impact of each type of tax be on savings? On the incentive to work? On inflation? On the administrative efficiency of tax collection? On the stability of tax revenues? The expenditure tax would obviously stimulate savings. But is that good? It would be more difficult to collect (through withholding schemes), but is that bad? It is probably a less predictable source of revenue than income, but is that a serious problem? The conventional wisdom favors the income tax in all of this. But, in an overheated economy, which is fast depleting its nonrenewable resources, there is much to be said for the other side.

In addition, Nicholas Kaldor makes a final technical argument which again tips the balance decidedly toward the expenditure tax. He reminds us that the argument for the income tax (as a measure of ability to pay) depends on adopting a comprehensive definition of income—one which includes *both* realized and unrealized capital gains, for example, and both actual and (some kinds of) imputed income. Now the expenditure tax must reach these things too, but it has one great advantage: taxpayers themselves, in deciding how much to spend, automatically do the computations (so difficult to do "from the outside") of the actual value of unrealized and imputed income. Kaldor's argument is worth quoting:

Once actual spending is taken as the criterion [of taxable capacity] all the problems created by the non-comparability of work-incomes and property-incomes, of temporary and permanent sources of wealth, of genuine and fictitious capital gains resolve themselves; they are all

brought into equivalence in the measure in which they support the actual standards of living. . . .

Accruals from the various sources cannot be reduced to a common unit of spending power [taxable capacity?] on any objective criteria. But each individual performs this operation for himself when, in the light of all his present circumstances and future prospects, he decides on the scale of his personal living expenses. Thus a tax based on actual spending rates each individual's spending capacity according to the yardstick which he applies to himself. . . .

[I]f capital gains are taxed to the extent that they are actually spent, there is no need to inquire how far they are fictitious; it is left to the individual recipient of these gains to sort these things out for himself, in deciding how far he is justified in treating them as spendable gains.<sup>18</sup>

If Kaldor is right about this, the case for the expenditure tax is significantly improved. I think, all things considered, that this is decisive—at least at the level of political philosophy.

### *Taxes on Wealth*

I turn now to the final possibility for justifiable tax obligations—namely, taxes on an individual's stock of goods, or wealth. These taxes, as long as they are levied on persons rather than things—i.e., on net or gross worth rather than on pieces of property—can also be scaled according to the benefit and ability principles.

### *Efficiency and Equity.*

The argument for a wealth tax is rather thin, however. Assuming that we have a suitably comprehensive income or expenditure tax—which reaches capital gains, imputed income, gifts, bequests, and so forth—we will already have had an opportunity to tax wealth when it is acquired or expended. Further, a wealth tax will not be needed for revenue—since it is reasonable to assume that either income or expenditure alone will be an adequate tax base. So wealth taxes would not be needed for what is presently a large part of their rationale—as a supplement to other individual taxes, both to remedy inequitable loopholes and to add needed revenue.

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<sup>18</sup>*An Expenditure Tax*, pp. 47–8. (The three excerpts are not in the order in which Kaldor presents them.)

But what about the economic efficiency of a mixed system (wealth plus either noncomprehensive income or expenditure taxation) versus a "pure" system of either I or E taxes alone? Here the standard texts on public finance come to two conclusions: wealth taxes alone do not make sense in a modern industrial society; and there is no particular *economic* advantage to a mixed system.<sup>19</sup>

*The Ideal of Equality.*

So the crux of the matter is really something altogether different: the use of wealth taxes to help realize the ideal of equality. For it might be thought that, without wealth taxes, even if we have confiscatory gift and death taxes and steeply progressive income or expenditure taxes, we might not be able to prevent individuals from accumulating large fortunes. Further, the break-up of existing fortunes would be hampered. If great inequalities of wealth are not justifiable, then wealth taxes may be necessary. Or so the argument goes.

I do not find this argument persuasive, largely because I think that all justifiable progress toward the ideal of equality can be achieved through a properly defined income or expenditure tax. But it is worth going over the arguments against inequality of wealth to see why this is so.

*Wealth and Control of Organizations.*

The social consequences of wealth as opposed to income or expenditure—that is, of static stocks of valuables as opposed to the movements of them—mostly have to do with a certain sort of economic power: the power to create or eliminate jobs, to hire and fire workers, to raise or lower workers' incomes, and the power to decide what will be produced.<sup>20</sup> In other words, the economic power associated with wealth is typically mediated through organizations and consists in having control of them. Having such control con-

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<sup>19</sup>Lester C. Thurow, for example, who does argue for a mixed system, does so on grounds of distributive justice—and on the assumption that unrealized capital gains would not otherwise be reached. See his *The Impact of Taxes on the American Economy* (New York: Praeger, 1971), ch. 7.

<sup>20</sup>Kaldor, pp. 99–100. My argument here was suggested by Kaldor's remarks.

tributes to our well-being to the extent that it gives us control of our lives. It may also increase self-esteem.

The difficulty here for moral philosophy is that the exercise of such economic power often involves manipulating other people to their detriment. But it is evident that taxes designed to limit such power will merely shift the locus of it away from the possession of wealth and toward the possession of status in the organization. After all, managerial power will not evaporate, and, from the point of view of the people being manipulated, the consequences are the same whether that power is vested in plutocrats, salaried managers, civil servants, or workers' councils. At bottom, then, the issue is essentially how we want to control the allocation of managerial power. If we want it controlled politically, wealth taxation is irrelevant. Instead, the enterprises must be put under political management, and, since the wealthy can gain inequitable control of politics only by using their wealth—by *moving* their holdings—the appropriate tax remedies are income or expenditure taxes.

*Wealth and Direct Control of Individuals.*

People can also be manipulated directly, of course, in ways unmediated by organizations. But unmediated control—such as paying people to do one's bidding—necessarily involves the *movement* of valuables. Merely threatening to benefit or harm others is not sufficient to control them if they know the threat cannot be carried out. Carrying out the threat—in any way that taxation can frustrate—requires the movement, or “flow,” of wealth. And such flows can in principle be reached by flow taxes: income or expenditure taxes. To the extent that an individual's exploitation of others can be controlled by taxation, therefore, it is controllable through properly designed income or expenditure taxes.

*Objection.*

Now I suppose it might be objected that it is easier to conceal transactions than it is to conceal great wealth. Thus it would be possible for the wealthy to fail to report those exploitative transactions which they did not want taxed. A wealth tax, on the other hand, would go directly to the sources of exploitative power.

*Reply.*

But that objection is self-defeating. If great wealth cannot be concealed, then neither can transactions, for they must show up in audits. So again, whatever power wealth taxation has as a means of social control can be exercised through flow taxes as well.

*Objection.*

As a last-ditch maneuver, it might be argued that certain spendthrifts would still be exempt. Suppose my wealth was acquired before the imposition of a properly defined income or expenditure tax, and I use my wealth to exploit others without any attempt to restore what has been used. Without a tax directly on my wealth, would I not then be immune from tax control of my exploitative activities?

*Reply.*

The answer is: Not necessarily. The spendthrift example is too far-fetched to be taken very seriously. But even so, an expenditure tax could control this directly and immediately. An income tax could not, and that is, perhaps, one more thing to be said in favor of the expenditure tax. But, in any case, such a situation could last only until the wealth was either used up or transferred or transmitted at death. I do not think it poses a serious problem.

I therefore see no justification for adding a tax on individual wealth to a properly designed income or expenditure tax. To the extent that a properly designed "flow tax" is politically or administratively impossible to achieve, of course, wealth taxes may be a needed supplement. But, in principle, they are not needed, no matter how egalitarian one's purposes.