

The taxman's justification

Nic Tideman considers the four paths to ethical taxation and concludes that governments that stray from those paths are abusing their power.

TAXATION is ethically problematical because it is coercive. Through fines, confiscation of property and prison sentences, governments enforce their insistence that taxes be paid. When, if ever, is such coercion ethical?

There are four paths through which taxation can be ethical. First, taxation at a local level can be justified as the preference of those who form a local community. Second, taxation can be a mechanism through which injustice in possession of assets is rectified. Third, taxation can be a mechanism through which people pay the costs of their choices. Fourth, taxation can be a mechanism through which societies allocate the costs of public services in approximate proportion to the benefits of those services. When taxation does not fall into one of these categories, it is simply a mechanism through which those with power impose their will on those without power, and it is not ethically justified.

A particular method of taxation can be the preference of a local community. When those who do not wish to pay a tax can easily escape it, a political majority who favour a tax can properly assert a right to provide for themselves a society that has the kind of tax system they want. The ethical acceptability of this rationale is conditional on:

a. the cost of leaving being minimal for

those who wish to leave, and

b. the share of natural resources controlled by the local community being no greater than their share of population.

If either of these conditions is not met, the fact that a particular tax system represents the preference of a preponderance of those in the community does not suffice to justify it ethically.

Secondly, taxation can be the rectification of unjust distributions. There are two very different ethical traditions in which taxation is justified as the rectification of an unjust distribution. The first is the taxation of land according to the rental value that it would have if it were unimproved. The ethical rationale of this tax is that the rental value that land would have if it were unimproved is the product of nature and of the growth of the community. The person with title to the land has no ethically respectable claim to the explicit or implicit income that exclusive access to land provides. Taxation of land according to its unimproved rental value permits the value of exclusive access to land to be shared in an ethically defensible way. This ethically defensible way of sharing this value is that the component of land value that is due purely to nature should be shared globally among all persons, and the component due to the growth

of the community should be used for purposes of the local community.

The second example of taxation as the rectification of unjust distributions arises in a framework that asserts that people do not have a right to the benefit of being highly innately talented. Advocates of this theory favour an income tax as a way of rectifying what they see as the injustice of an unequal distribution of innate talent. Against such a theory, it can be pointed out that since innate talent is not transferable from one person to another, a highly innately talented person, by being innately talented, does not deprive a less innately talented person of any innate talent that he or she could have. Furthermore, any effort to require those who are highly innately talented to pay for expressing their talent compromises the liberty that is valued in Western societies, for people to be able to freely cooperate with whom they choose on whatever projects they wish to cooperate, as long as they do not harm others.

Thirdly, taxation can be payment for the costs of choices. There are two types of examples of taxation as payment for the costs of choices: payments for harm of voluntary choices and payments for goods or services.

Taxation is payment for the harm of a voluntary choice when the tax represents an estimate of the cost to persons other than the

	Income Tax	cigarette, beer and wine taxes	business taxes	National Insurance (payroll tax)	Fuel Duty
very fair	9%	28%	11%	9%	7%
fair	14%	20%	17%	18%	10%
neutral	32%	19%	33%	34%	18%
unfair	24%	12%	12%	21%	22%
very unfair	17%	17%	6%	13%	38%
don't know	4%	4%	21%	5%	5%

taxpayer of a legally permitted action that the taxpayer chooses. Examples of this are the London Congestion Charge and taxes on pollution. Taxation is a payment for a good or service when a government supplies a good or services in exchange for a tax payment.

Taxes that are payments for choices are ethically acceptable if the tax represents a good estimate of the cost of the harm or good or service.

Finally, taxation can be levied as payment for a jointly consumed service. A tax is a payment for a jointly consumed service when the revenue from a tax is used to provide a public service, such as parks or police protection, that is inseparably consumed by the whole population. For such a tax to be ethically acceptable, the amount of tax paid by each person must be a good estimate of the value of the public service to that person. A tax that is a payment for a jointly consumed service is more ethically problematical than a voluntary exchange for two reasons. First, we generally cannot observe the value of a public service to a person, and therefore we do not know when we are levying on a person a tax that is greater than the benefit that he or she receives. Second, even if we are completely confident that the tax on each person is less than the benefit that he or she receives, a compulsory payment

for a jointly consumed service is ethically problematic because it infringes on the liberty of those who are taxed. People who can choose how to spend their money have more liberty than those who are forced to pay for the things that they would have chosen.

Despite the problematic nature of such compulsory payments, we sometimes accept them. The compensation for destroyed property that a person receives after an accident is in a similar ethical category. We tolerate some accidents that could be prevented rather than requiring people to do everything that could be done to prevent accidents. Similarly, we tolerate forced exchange of public services for taxes. One of the costs of living in civilisation is the risk of the 'accident' that you will be required to exchange some of your wealth for public services that are actually not worth as much to you as the taxes you pay, though officials may believe that the public services are at least as valuable to you as the wealth that you are required to give up in taxes. The ethical acceptability of these forced exchanges is conditional on reasonable efforts being made to ensure that no person's tax exceeds his or her benefits, and on there being no restrictions on the departure of those who wish to leave.

It is possible for a public program of support for persons with economic problems

– financed by taxes that are intended to be no greater than the benefits received by those who pay the taxes that support the programme – to fall into this category of ethically acceptable jointly consumed services. For this to happen, the tax that each citizen pays must be no greater than a reasonable estimate of the satisfaction that he or she receives from the existence of the program of support.

If a tax is not justified as the preference of a local community that does not appropriate for itself more than its share of natural resources and that dissenters can easily leave; and if it is not justified as a rectification of an unjust pattern of ownership of assets; and if it is not justified as an appropriate payment for a choice of the taxpayer or an appropriate share of the cost of a jointly consumed public service; then it is a convenient exaction, undertaken by those in power to serve their own purposes and lacking a suitable ethical rationale. We would do well to establish a consensus, if it does not yet exist, that convenient exactions are abuses of power by governments. **L&L**

Nic Tideman is Professor of Economics at Virginia Polytechnic Institute and State University. He is the author of Collective Decisions and Voting: The Potential for Public Choice (2006).

Council Tax (local property tax)	Inheritance Tax	Stamp Duty (transaction tax)	Air Passenger Duty
4%	5%	3%	11%
8%	5%	6%	12%
17%	15%	20%	23%
27%	17%	25%	19%
40%	48%	34%	26%
4%	10%	12%	9%

A recent survey by pollsters YouGov quizzed people's opinion on the ethics of taxation. 2,162 UK respondents were asked to "please indicate what you think of these taxes in terms of fairness". Surprisingly, the pollsters didn't seem interested in people's opinion about VAT (sales tax) which accounts for almost one fifth of UK taxes. Data © 2007 YouGov plc. All Rights Reserved. www.yougov.com