



The Good and Evil of Taxation

by David Hogberg

In the first chapter of *POLITICS, TAXATION, AND THE RULE OF LAW*, a new book available from Public Interest Institute, Donald P. Racheter and Richard E. Wagner establish some fundamentals in the relationship between government, taxation, and individual rights. They state that “government is not the source of our rights of person and property.”¹ Rather we establish government to preserve and protect our rights. This is part and parcel of democratic ideology.

They acknowledge that taxation is the price we must pay to have a government that protects our rights. But they note that this justification for taxation is often abused to pay for things that have nothing to do with protecting rights. In one hypothetical example, the authors encourage us to imagine a small town with only three residents. The first two enjoy playing tennis, while the third does not. Yet because the first two comprise a voting majority, they decree that the building of a tennis court is a town activity. They are able to compel the third resident to contribute to the provision through taxation. This lowers the cost of building the tennis court for the first two residents.

Racheter and Wagner note that “democratic ideology” often conflicts with “democratic practice.” A government rooted firmly in democratic ideology would not use taxation as a means of robbing Peter to pay Paul. But as the authors state, “taxation may be a necessary means of preserving and protecting rights of person and property, but it might also operate in various ways to undermine, abridge, and erode those rights.”² That which preserves our liberty can also be used to undermine it.

The authors then trace the intellectual history of public finance, particularly the major theoretical division. They focus on two theorists, Francis Edgeworth and Knut Wicksell. Edgeworth “construed taxation as something that a ruler does to improve the lot of his people.”³ Edgeworth assumed that a ruler could improve the general welfare of a nation via redistribution of income. He theorized that a person had less need for income the more income he or she had. To satisfy the needs of those with low incomes, the ruler was justified in redistributing income from those with a lot to those with little. This way, the ruler improved the general welfare of the nation. The authors note that this theory of public finance is more suitable for a nation “where the state or ruler was treated as a smart and benevolent means for improving society.”⁴ This theory is better suited to a despotic form of government than a democratic one.

A Publication of:

Public Interest Institute at Iowa Wesleyan College

600 North Jackson Street

Mt. Pleasant, Iowa 52641-1328

Phone: 319-385-3462 Fax: 319-385-3799

E-Mail: public.interest.institute@limitedgovernment.org Web Site: www.limitedgovernment.org

Wicksell, on the other hand, disliked a theory of public finance that was based on near absolute power of a ruler. He preferred a “catalactical approach” to public finance, that is, an approach based on the institutions that govern “political and fiscal relationships.”⁵ Instead of concerning itself with how a ruler can improve society, the Wicksellian approach to public finance focuses on the social interaction of people. This approach might lead to a system that benefits all citizens. However, “it might involve cases where some people gain at the expense of other people.”⁶

The authors explain that the extent to which a system of taxation works for the benefit of all as opposed to bringing gains to some by imposing losses on others, is largely “controlled by the constitutional framework”⁷ of a society. They note that taxation is the price we pay for government and civil order. They also note that this does not justify unlimited taxation and state power. Taxation can be destructive if “it is too high or wrongly imposed.”⁸

ENDNOTES:

¹Donald P. Racheter and Richard E. Wagner. “The Constitutional Framework for Democratic Taxation,” in *Politics, Taxation, and the Rule of Law: The Power to Tax in Constitutional Perspective*, Kluwer Academic Publishers, Boston, 2002, p.1.

²Ibid., p.2.

³Ibid., p.2.

⁴Ibid., p.3.

⁵Ibid., p.3.

⁶Ibid., p.3.

⁷Ibid., p.4.

⁸Ibid., p.4.

This Institute Brief is one in a series on the chapters of a recently-published book, POLITICS, TAXATION, AND THE RULE OF LAW, edited by Dr. Don Racheter, President of Public Interest Institute, and Dr. Richard Wagner, Economics Professor at George Mason University and Chairman of the Institute’s Academic Advisory Board. POLITICS, TAXATION, AND THE RULE OF LAW looks at the balance between providing government with the power to operate while preserving and protecting our rights of person and property.

The authors of this chapter of POLITICS, TAXATION, AND THE RULE OF LAW are Dr. Don Racheter and Dr. Richard Wagner.

This summary of Dr. Racheter and Dr. Wagner’s chapter was written by David Hogberg, a Research Analyst with Public Interest Institute.

Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used: “Reprinted by permission from INSTITUTE BRIEF, a publication of Public Interest Institute.” The views expressed in this publication are those of the author and not necessarily those of Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.