

BRIEF FORAY INTO TAXATION ETHICS

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Ethics, according to a dictionary definition¹ represents the "study of practical and theoretical aspects of morality, all moral standards of conduct appropriate to an ideology of a certain class or society". Therefore, the taxation action may be assessed, as any product of human interaction and in terms of ethics.

But... is the taxation ethical?

Any vision upon taxation is indissolubly linked to the state and conceptions occurred along history in relation to its role on economy.

Thus, etatist doctrines argue that taxation is an exchange between citizens (those who "contribute") and state. According to this view, taxation would appear to be, in fact, a voluntarily act. Etatism, however, is based on the idea that government is "our owner and master" and the citizens must obey. The state knows better than his citizens what do they need. From this perspective, voluntary transfer (read "confiscation") of the fruits of our labor through taxation is crucial for state's health. Protector with force, because people really do not pay taxes on a voluntary basis, on the grounds that the killing (in favor of government) of a part of their properties would be the best investment they can make, the state (government) is the one setting, in fact, how much should each pay for their own security and for a sea of other "public interests" which they believe they are necessary, in general, in favor of others and on the account of another.

"Taxation as exchange" it was always the favorite speech of the political elites involved in and favored by the

consolidation of state. Invoking illegitimately, we consider "the criterion of efficiency", the government (state) decides that it must increase a tax or another or to change its tax regimen, and that "for the well-being of economy".

The economy is a system of voluntary interactions between the holders of the legitimate rights of property. In the architecture of this system, government policies do nothing but to share some advantages for others and disadvantages for another, hence the nature inherently conflicting of all the arrangements based on coercion, so devoid of ethics and legitimacy.

Illustrious names of political economy and philosophy have scored on these ideas: Jean Baptiste Say, Frédéric Bastiat, Herbert Spencer, Lysander Spooner, Franz Oppenheimer, Ludwig von Mises, Murray Rothbard, Robert Nozick, Helmut Schoeck, arguing that, in reality, only the order of private property has a voluntary nature, as it is based eminently on social cooperation, production and exchange of *legitimate* rights of property.

Any other institutional arrangement, they argue, is the result of the partial abolition of natural rights, by the institutionalization (coercive) of a policy of aggression, expropriation and exploitation of legitimate property. This policy does not bear the imprint of market relations, but represents the defining attribute of power (political). Moreover, Oppenheimer said in his paper published in 1908 "*Deer Staat*"² that the state is "the organization of political means" of acquiring the wealth in society, meaning

¹ Florin Marcu - *Marele dicționar de neologisme*, Editura Saeculum, 2006.

² Franz Oppenheimer - *The State*, Free Life Editions, New York, 1975.

the organization which has a comparative advantage in violence, and consequently the monopoly of taxation in a given geographical area.

Seen like this, taxation becomes the best example of institutionalization of state coercion in society, which draws attention upon the lack of legitimacy and ethics of tax.

Radical liberals (libertarians³) dispute the legitimacy of any taxation, considering that this action, as the influence carried out over the citizen in order to compel him to assign a part of the income which belongs to him by law, is a deliberate action of the state. In this regard, it is said that the state makes the worst robbery on people because, unlike a certain thief, the state dispossesses:

- systematically not occasionally;
- not only certain people, but a large majority;
- not only what man owns, but whatever the state thinks that it might own;
- finally and without hope of recovery.

It is easy to recognize that taxation divides society into two big contestant categories, as John C. Calhoun demonstrated since 1851 in his study "*A Disquisition on Government*"⁴. Even if, formally, we all have the quality of "taxpayer", however, economically, some are more taxpayers than others. It is, on one hand, about those who acquire their income from the private sector (*the net taxpayers of taxes*) which are dependent on the market, on satisfying the consumers' preferences. On the other hand, it is about those paid from the public budgets (*the net consumers of taxes*) as well as those whose earnings

come from "the business" with the state, who are not subordinated to the market, but to the preferences of state bureaucracy.

Currently, in the public opinion and economic theory, the ethical argument against the tax has been altered and replaced, subtly, with the utilitarian discourse from the theory of "market failure". Thus, it is more often spoken about the situations when free markets do not lead to an efficient allocation of resources. In this context, it becomes necessary the action of governments with corrective role and the phenomenon known as market failure appears. The allocation of resources which would contravene to the criteria of efficiency is made when at least one of the hypotheses of perfect competition is not present.

The most known cases of market failure are: monopoly, externalities, common-use resources, public goods.

The analysis of cases of failure of the markets fall in the economic theory of welfare, developed as the foundation of some recommendations regarding the government intervention in the markets' function. The economic theory of welfare shows that market failures lead to inefficient allocation of resources, which, in their turn, are the source of some welfare loss.

The problem is that the argument of public goods can be abused, and even was, in order to extend the wealth and the power of governmental bodies. The theory of public goods is based on an optimistic idea upon the efficiency of public choice and the government intervention in the functioning of the markets. The fact that things are not so simple one shows a series of failures of government intervention in the functioning of the markets.

But even when it is agreed on some priority public interests and the utility of taxation, not all the difficulties in explaining the possible ethical character of taxation disappear.

³ *Libertarianism* is a political doctrine that supports the full freedom of individuals in all matters, whether civil, political or economic. The Libertarianism has its roots in classical liberalism of the XIXth century. The libertarian ideas were refreshed by some American thinkers in the second half of the XXth century, such as Ludwig von Mises, Friedrich Hayek, Ayn Rand, Milton Friedman, Murray Rothbard, David Friedman sau Robert Nozick.

⁴http://www.constitution.org/jcc/disq_gov.htm

Contrariwise, new questions arise, including of moral order, regarding the optimal public policy of taxation.

Minimum or maximum tax rates?

Progressive tax rate or fixed rate (proportionally)?

What amounts should be deducted (tax excluded)?

Who should be exempt from taxation?

What are the priorities in using the amounts collected from different types of budgets?

Must we use the money obtained through taxation (inclusively from people with low incomes) to support private entrepreneurs, certain companies considered (on what criteria) important for the national economy?

Must the money from taxes be used to guarantee some loans of private companies (presumably of high economic interest)?

Is there any moral sense that a normal taxpayer (having a low-income or an average-income) to contribute to supporting or securing some operations decided by owners and entrepreneurs (usually high-income people), which will also be the beneficiaries of the profit obtained in the end.

The answers are likely to be partisan in terms of on what part of the barricade our interests will be! *But is it morally right?*

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