

Taxation and Justice

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“In this world nothing can be said to be certain, except death and taxes.”
— Benjamin Franklin¹

“Your scheme yields no revenue; it yields nothing but
discontent, disorder, disobedience.”
— Edmund Burke²

However much may set apart Hobbes and Locke, these two progenitors of our modern intellectual tradition are in full agreement on one cardinal point, namely “that *civil government* is the proper remedy for the inconveniencies of the state of nature, which must certainly be great.”³ For anyone impressed with the arguments of these two and many other great thinkers, taxes must appear as more than “what we pay for civilized society,” as Oliver Wendell Holmes, Jr., famously put it.⁴ Taxes are what we pay for living in any kind of lasting peace and security at all.

How far the scope of legitimate state action might extend, what revenue might be necessary to sustain it, and how benefits and burdens are to be distributed, are matters of conviction and debate; what is certain, however, is that the requisite expenses will not be trivial, and hence that the serious question of just taxation cannot be wished away. Even for so staunch an erstwhile libertarian as Richard Epstein, “The sad truth is that even the limited government called for by *laissez-faire* is a large and complex undertaking” — and thus an expensive one.⁵ Nor is it at all self-evident, as none less than Adam Smith

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¹ In a letter to Jean Baptiste Le Roy, 13 Nov. 1789, as quoted in *The Oxford Dictionary of Quotations*, 5th edition, edited by Elizabeth Knowles (New York: Oxford University Press, 2001), p. 323 (no. 15).

² “Speech on American Taxation,” in *Select Works of Edmund Burke* (Reprint of the Payne Edition), vol. 1 (Indianapolis: Liberty Fund, 1999), pp. 216-17.

³ John Locke, *Second Treatise of Government*, edited by C. B. Macpherson (Indianapolis: Hackett, 1980), par. 13, p. 12. Hobbes’ famous chapter 13 of the *Leviathan*, envisioning the war of every man against every man that must ensue in the absence of government, leaving the life of man “solitary, poor, nasty, brutish, and short,” is too well known to require review. It is less widely appreciated that Locke, too, recognized “this *state of war* ... wherein every the least difference is apt to end where there is no authority to decide between the contenders.” (*Second Treatise*, par. 21, p. 16)

⁴ *Compañia de Tabacos v. Collector*, 275 US 87, 100 [1904].

⁵ Compare Locke, *Second Treatise*, par. 140, p. 74: “It is true, governments cannot be supported without great charge.” In his latest book, Epstein concedes that the idea of “some kind of libertarian order ... in which minimal state involvement becomes no involvement at all” is “wishful thinking.” In addition to the core state functions of maintaining law and order domestically, of defending against foreign aggression, and of defining, adjudicating, and enforcing contracts, Epstein now recognizes that “markets do not operate in a void, but ... depend on a social infrastructure that often only the state can create.” Thus: “No matter how one combines notions of autonomy, property, contract, and tort, they *cannot* independently

reminds us, that taxes deserve to be associated with servitude; on the contrary, proud and self-confident citizens ought to consider their payment of taxes “a badge, not of slavery, but of liberty,” denoting that while they are indeed subject to government, they are their own masters rather than someone else’s property.⁶

I Species of Taxation

Though some taxes are clearly more problematic than others, all taxation introduces distortions and unequal burdens of one kind or another⁷ and can therefore be challenged on grounds of expediency and justice alike. Taxes on such commodities as salt and sugar — even cooking oil, in ancient Egypt — were once the staples of raising state revenue. When China introduced the payment of taxes in paper money in the 14th century, for example, some eighty percent of revenue came from salt, and in pre-revolutionary France, where a tax on salt was likewise the leading source of state income, popular anger against the *gabelle* helped to undermine the *ancien regime*.⁸ Taxes on tea, sugar, and newspapers were implicated in the alienation of colonial America from Great Britain, and various duties on imports and exports furnished the bulk of revenue for most states from at least Roman times until the early twentieth century.⁹ Today the targeted taxation of kitchen supplies would seem silly and arbitrary, of course, and a significant reliance on customs duties would run afoul of expanding free trade.¹⁰

Taxes on dividends, capital gains, and other fruits of investments are widely criticized for discouraging saving and jeopardizing future growth, while levies on corporations

provide for the social infrastructure and public goods that secure the very rights they are meant to recognize and protect.” (Richard A. Epstein, *Skepticism and Freedom* [Chicago: Chicago University Press, 2003], vii, 1, 5, 33, 34-35, 260 [hereafter Epstein, *Skepticism*])

⁶ Adam Smith, *The Wealth of Nations*, edited by Edwin Cannan (New York: Modern Library, 2000), book v, ch. 2, pt. 2, p. 923. Smith recounts the touching instance of tax honesty so scrupulous that revenue could once be raised in Hamburg without any declaration or examination at all (Ibid. 916). Machiavelli tells a similar story of civic virtue about the Germans of his day in book I, ch. 55 of his *Discourses on Livy*.

⁷ Thus Benjamin Constant: “One incontestable axiom no sophism can obfuscate is that any tax, of any sort, always has a more or less unfortunate influence.” (*Principles of Politics Applicable to All Governments*, edited by Etienne Hoffmann, translated by Dennis O’Keeffe [Indianapolis: Liberty Fund, 2003], p. 219) Or, as David Ricardo put it yet more stridently, “Taxation under every form presents but a choice of evils.” (*On the Principles of Political Economy and Taxation*, vol. 1 of *The Works and Correspondence of David Ricardo*, edited by Piero Sraffa [Indianapolis: Liberty Fund, 2004], p. 167)

⁸ As Constant points out, however, the problem was not only the tax: “What was odious about the *gabelle*, which was so absurdly intended to blend in with the salt tax, was its ordering citizens to consume a given quantity of this commodity.” (Constant 212)

⁹ In the United States, the first income tax was introduced during the Civil War, then repealed shortly after, revived briefly in the 1890s, but elevated to a permanent fixture of the American system only in 1913 with the passage of the 16th Amendment. It was the two world wars that fully established the system. A form of progressive taxation was first introduced in Great Britain in the Lloyd George government’s so-called “People’s Budget” of 1909-10 (compare Bertrand de Jouvenel, *The Ethics of Redistribution* [Indianapolis: Liberty Fund, 1990], p. 5).

¹⁰ The questions raised by interference with trade are closely related to those of taxation and justice, but to explore them here would exceed the bounds of this essay.

have long been considered particularly unavailing and ill-advised by many economists.¹¹ Taxes on estates, widely castigated as “death taxes” in certain circles, are blamed for the perversity of their incentives and their unintended consequences,¹² as well as an unduly cavalier attitude towards the right of owners to bequeath (as opposed to the right of heirs to receive).¹³ Special taxes on such items as gasoline consumption or emissions are most compelling when aimed narrowly at recouping externalities or public investments in the infrastructure they presume, but are by that very logic not available for general revenue.¹⁴ Mandatory contributions to state-run health insurance and pension schemes may often be used as covert taxes for the general revenue, but they raise such complex questions in their own right that they cannot be taken up here. Meanwhile “sin taxes” on activities widely deemed to be unhealthy, ill-considered, or even immoral tend to be so attractive to legislators that one might balk at the inconsistency of a state that aggressively fills its coffers with the proceeds from activities it is denouncing and ostensibly discouraging.¹⁵ Though raising questions of justice, however, such matters of political pedagogy go much beyond issues of taxation and cannot be resolved here.¹⁶

¹¹ In his entry for the *Concise Encyclopedia of Economics*, Rob Norton speculates that confusion about who ultimately pays the taxes on corporations has been a major factor behind their popularity (Rob Norton, “Corporate Taxation” in *The Concise Encyclopedia of Economics*, edited by David R. Henderson [online edition: www.econlib.org]). The issue cannot be resolved here, though it bears stressing that only people can pay taxes and that there is much to be said for Friedman’s classic argument for imputing corporate profits to shareholders and taxing them under the individual income tax. Friedman’s warnings about the unintended consequences of the familiar tax structure — encouraging the retention of profits and thus fostering the excessive growth and horizontal diversification of corporations — are also well-taken, as are the common concerns about double-taxation of profits taxed first at the corporate level, and then again when they are paid out as dividends (Milton Friedman, *Capitalism and Freedom* [Chicago: Chicago University Press, 1982], pp. 130, 132, 174, 198 [hereafter Friedman]). On the other hand, corporations do enjoy rights normally reserved to persons (in the domain of free speech protection, for example), and they are among those corporate bodies enjoying the “fantastic preference over real people” that Jouvenel discusses at Jouvenel 61-63, 67. On the advantages enjoyed by corporations, compare also Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: Chicago University Press, 1978), p. 320 [hereafter Hayek, CL].

¹² The absurdity being that one is permitted, without penalty, to fritter away a fortune in riotous living, but not to pass it on intact to an heir (Friedman 164). The unintended consequences are likely to include the pursuit, by the wealthy, of alternative means for securing advantages for their children, alternatives likely to be much more costly from a social point of view than the bequest of a fortune (compare Friedrich A. Hayek, *The Road to Serfdom* [Chicago: Chicago University Press, 1994], p. 113 [hereafter Hayek, RS] and Hayek, CL 89-91; also Friedman 163-64).

¹³ Compare Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974), p. 168.

¹⁴ As a means of funding highway construction, taxes on gasoline are a reasonably efficient alternative to user fees; pollution taxes linked convincingly to real externalities likewise accord well with the logic of free markets. Problems arise when these taxes are expanded beyond what can be justified by infrastructural investment and demonstrable externalities: as a source of general revenue, such taxes may seem as arbitrary as taxes on sugar or tea.

¹⁵ Benjamin Constant is especially scathing in blaming excessive excises for “smuggling, that apprenticeship in crime, that school of lies and intrepidity.” (Constant 212) He is equally critical of using lotteries to raise revenue: “No tax ... is so pleasurably paid as the lottery... But lotteries, offering a way to wealth that does not derive from industry, work, and prudence, throw into people’s calculations the most dangerous sort of disorder.” (Ibid. 213)

¹⁶ One might well ask, in the spirit of Mill’s *On Liberty*, whether the state has any business in the realm of activities that do no harm to third parties, though one would have to consider that the classic objects of

There is, finally, a wide consensus that broad consumption taxes (such as state sales taxes in the United States and value-added taxes in Europe) are generally fair and efficient, encouraging saving and distorting economic activity in more benign ways than most alternatives.¹⁷ Such taxes are sometimes criticized for being “regressive” and falling too heavily on the poor; but such criticisms are answered quite easily by the reminder that big spenders will bear the brunt of this form of taxation (even if frugal big earners might not) and that the worst-off can be compensated without difficulty, if need be.¹⁸ The implications for trade across borders in common markets have been resolved somewhat differently in various jurisdictions,¹⁹ but the problems raised are far from intractable, and consequently there are few governments that do not rely on this form of taxation for a good share of their revenue. Efforts at moving entirely to consumption taxes have been rare, however, at least at the national level,²⁰ bringing us to and leaving us with the form of taxation whose justice has been most widely debated, affirmed and denied with equal fervor: the taxation of income.²¹

such taxation — tobacco and alcohol — can have serious externalities and social costs. While the costs of smoking are open to all kinds of computational disputes and are particularly liable to exaggeration in today’s climate of opinion and in a world of socialized medicine, all drugs tend to take a toll that goes beyond the consumer himself, even if such externalities are not always easy to capture. If revenue must be raised somehow, perhaps such taxes are tolerable enough, even if they involve difficult exercises of drawing somewhat arbitrary and not always consistent lines between different activities and levels of taxation.

¹⁷ The case against taxes targeting luxuries was made well by Adam Smith, no friend to the frivolities of the rich. Not only do such taxes rarely yield much revenue, but their discouragement of certain branches of industry is arbitrary and ultimately hurts the common people more than they may realize: “Such taxes, in proportion to what they bring into the public treasury of the state, always take out or keep out of the pockets of the people more than almost any other taxes.” (*Wealth of Nations*, bk. v, ch. 2, pt. 2, p. 968)

¹⁸ Big spenders might object that they should not have to sustain their more frugal counterparts, but that is not the usual direction taken by critics of consumption taxes. The concern about consumption taxes falling most heavily on the poorest is valid but easily remedied (as it is in Canada, for example) by issuing the needy (or everyone, for that matter) a blanket refund of the amount that would go towards the tax out of a representative budget at the minimal subsistence level. One only wished that such solicitude for the poor were applied consistently: when it comes to food prices artificially inflated by subsidies, for example.

¹⁹ In the United States, all sales taxes on interstate commerce are banned under the Constitution, but states compete freely on the level of their taxes. The Europeans have taken the extra step of pushing for broad VAT harmonization across their common market.

²⁰ The American movement of recent years to replace the income tax entirely with a national sales tax has no major counterpart elsewhere, so far as this author is aware. The unique animus directed against the Internal Revenue Service may owe something to the country’s origins in a tax-revolt.

²¹ Head taxes have appeared “superefficient” to some (Joseph J. Minarik, “Taxation, A Preface” in *The Concise Encyclopedia of Economics*, edited by David R. Henderson [online edition: www.econlib.org]), but this needs to be severely qualified. The poorest who simply could not pay their share of such a tax would need to be exempted outright, and among those who could pay, however barely, the impact would be viciously regressive. The burdens of such a tax would in any case fall disproportionately upon the middle class, running afoul of the “benefit principle” so long as one agrees with Hayek that “a person who commands more of the resources of society will also gain proportionately more from what the government has contributed.” (Compare Hayek, CL 316) Politically, even a modest move in the direction of a capitated poll tax proved devastating to the Thatcher government in 1990, and no further initiatives towards the head tax have been forthcoming. (Compare Richard A. Epstein, “Can Anyone Beat the Flat Tax?,” *Social Philosophy and Policy* 19, no. 1 [Winter 2002], 156-57 [hereafter Epstein, Flat]) Perhaps

II The Taxation of Income

Before we turn to specific schemes for the taxation of income, something may need to be said about the charge, most prominently advanced by Robert Nozick, that we ought to regard taxes on income with the same moral revulsion that we would feel at the demand for forced labor.²² Nozick briefly acknowledges those who would object that income taxes, unlike forced labor, leave their payer a free choice of what to do, and when and how to do it. In fact, since most jurisdictions make provisions for protecting minimum subsistence from taxation (or else effectively refund taxes through subsequent transfers), one could even argue that money taxation can be avoided altogether as forced labor presumably could not.²³ In other words, income taxes partake of the great liberating function of money that Hayek rightly singles out for especially effusive praise.²⁴ Nozick imagines a system of labor that would mimic the dynamics of income taxation by offering a choice of labor provided, hours worked, and the like, but he does not stop to consider that this might indeed make a difference to our intuitions, if only by degrees (until we reach the full range of freedoms implied in money taxes). Nor is Nozick prepared to consider that our apprehensions about forced labor may have something to do with the fact that it is usually possible to maintain the basic functions of the state without making such harsh demands on its citizens. But can we not all imagine circumstances — times of war, natural catastrophe, or other dire emergency situations — in which the best of liberals²⁵ might deplore, but would still permit, mandatory services to be required from citizens? Conscription, civilian or military, ought never to be imposed lightly; but even in peacetime, it has been defended as a necessity by many a credible liberal, as has mandatory jury duty, which could likewise be presented, tendentiously, as a kind of forced labor. A Nozickian position fails, most importantly of all, to give us any perspective from which to make distinctions between better and worse systems of

David Hume's warning ought to have been taken more to heart: "In general, all poll taxes, even when not arbitrary, which they commonly are, may be esteemed dangerous." ("Of Taxes," in *Essays Moral, Philosophical, and Literary*, edited by Eugene F. Miller [Indianapolis: Liberty Fund, 1987], p. 346)

²² Thus Nozick 169: "Taxation of earnings from labor is on a par with forced labor." Rousseau, with his usual rhetorical bravado, took the further step of arguing, in book III, ch. xv of his *Social Contract*, that forced labor (the *corvée*) was *less* inimical to liberty than was the payment of taxes. ("Give money and soon you will be in chains. The word finance is a slave's word.") Rousseau's strange but rather fascinating ideas on the matter of finance and the *corvée* are developed at greater length in his "Constitutional Project for Corsica" (Jean-Jacques Rousseau, *Political Writings*, translated and edited by Frederick Watkins [Madison: The University of Wisconsin Press, 1986], esp. pp. 318-19).

²³ This argument could quickly veer towards the cynical, but it is used here only to reply to Nozick's charges, which have cynical implications of their own.

²⁴ Because money allows us to let losses fall on our most marginal wants, that is, on what we feel to be our least important desires, money ought to be more widely recognized as "one of the greatest instruments of freedom ever invented by man." (Compare Hayek, RS 98-100)

²⁵ This essay will use the terms "liberal" and "liberalism" in the original sense that still prevails in Europe — "the rightful and proper label" for a philosophy of freedom (Friedman 5). For a discussion of the issues raised by these terms under contemporary North American conditions, compare Friedrich A. Hayek, "Why I Am Not a Conservative," Postscript to *CL*, op. cit., pp. 397-411.

taxation, or, for that matter, between more or less excusable forms of government coercion in general.²⁶ Yet political responsibility is largely about making just such distinctions.

Once the legitimacy of taxing income is accepted in principle and we can turn to discussing how the burdens might be distributed most equitably, Aristotle offers a good starting point: “The just, then, is a species of the *proportionate*,”²⁷ a principle that has been echoed and applied to taxation by John Locke,²⁸ Adam Smith,²⁹ Benjamin Constant,³⁰ and many others since.³¹ As anyone quoting the *Nicomachean Ethics* should be aware, however, Aristotle is also one of the intellectual forebears of those who view the middle class as the only reliable bulwark of good government:³² “It is therefore the greatest of blessings for a city that its members should possess a *moderate and adequate* property.”³³ While presenting a classic defense of private property,³⁴ Aristotle also held lawmakers responsible for making men so disposed, through legislation and education, that “the property of each is made to serve the use of all.”³⁵ The healthy and natural art of household management was for him quite distinct from the pursuit of unlimited gain,³⁶ and he had no qualms about limiting by taxation or other means what he deemed to be unnecessary and excessive wealth.

²⁶ Compare Richard A. Epstein, “Taxation in a Lockean World,” *Social Philosophy and Policy* 4, no. 1 (Autumn 1986), p. 59.

²⁷ Aristotle, *The Nicomachean Ethics*, translated by David Ross, revised by J. L. Ackrill and J. O. Urmson (Oxford World’s Classics, 1998), book v, ch. 3, 1131a, p. 113 (italics added).

²⁸ Thus Locke, *Second Treatise*, par. 140, p. 74: “It is true, governments cannot be supported without great charge, and it is fit every one who enjoys his share of the protection should pay out of his estate *his proportion* for the maintenance of it.” (Italics added) Hobbes, who stresses with especial vehemence that the state must be funded without stint (“Commonwealths can endure no diet”) favored taxes on consumption, not income or wealth, but would have held the rich accountable for the debt owed by their subordinates for the protection provided by the state (Thomas Hobbes, *Leviathan*, edited by Edwin Curley [Indianapolis: Hackett, 1994], xxiv.8 [p. 162], xxx.17 [pp. 227-228]).

²⁹ Thus Smith: “The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state... In the observation or neglect of this maxim consists what is called the equality or inequality of taxation.” (*Wealth of Nations*, book v, ch. 2, pt. 2, p. 888)

³⁰ Thus Constant 207: “A second right of the governed with regard to taxes is that their nature and mode of collection should cause as little hardship as possible for the taxpayers, tending neither to harass nor to corrupt them... From this right it follows that the governed may also demand that taxes fall equally on all, proportionately to their wealth.”

³¹ Compare Hayek, CL 308, for some further examples.

³² Book iv, chapter 11 of Aristotle’s *Politics* (references are to the translation by Ernest Barker, revised by R. F. Stalley [Oxford World’s Classics, 1995]) elaborates that the middle class is most ready to listen to reason, least liable to faction or prone to envy on the one side and contempt on the other, and generally most moderate, so that the best prospect for good government exists where power is vested in a large, strong middle class (1295a-1296a, pp. 157-160).

³³ *Ibid.* 1295b (p. 159), italics added.

³⁴ *Politics*, book II, chapters 3-7. Thus: “What is common to the greatest number gets the least amount of care. People pay more attention to what is their own: they care less for what is common.” (1261b, p. 42)

³⁵ *Ibid.* 1263a-b (p. 47-49).

³⁶ *Ibid.* 1257b (p. 27).

Unless one would side with Burke's categorical stance that *any and all* thoughts of "too much" and "too little" are treason against property,³⁷ a position so strident and inflexible that it will do little to persuade the skeptic, one need not be an orthodox believer in the decreasing marginal utility of wealth to wonder whether some graduation of income tax rates beyond strict proportionality might not be justifiable.³⁸ Surely Adam Smith had a point when he observed that it was "not very unreasonable that the rich should contribute to the public expense not only in proportion to their revenue, but something more than in that proportion."³⁹ Even Hayek and Friedman, for all their wariness of progressive taxation, could concede without difficulty that there is a good case to be made for "some measure of graduation, both on grounds of assessing costs in accordance with benefits and on grounds of social standards of equity."⁴⁰ The question, then, turns not so much on whether graduated income taxes could be justified at all, but rather what kind of a progression would be appropriate and whether we could realistically hope to attain and *maintain* it.

For just beyond the narrow ledge that runs along the mountain of proportionate (or flat) taxation gapes the abyss of steep progressive rates that are as problematic in principle as they are unworkable in practice. If the deplorable, protracted history of experimentation with this form of taxation throughout the world these past decades has yielded anything, it is the conclusion that great expectations have always been disappointed. However reluctantly dreamers and ambitious social engineers may resign themselves to the fact, steeply progressive rates have only ever existed, for any length of time, on paper. The more marginal rates veer towards the confiscatory, the more do the resulting disincentives sap all energies not devoted to aggressive tax avoidance or evasion, quickly overwhelming all efforts at collecting on the paper rates. Thus the bucket that is lowered

³⁷ Edmund Burke, *Reflections on the Revolution in France*, edited by J. G. A. Pocock (Indianapolis: Hackett, 1987), p. 91.

³⁸ Just because interpersonal comparisons are problematic does not mean one needs to go to the other extreme of ruling them out completely. It is important to realize and acknowledge that we cannot say with confidence when the diminishing marginal utility of wealth sets in for a given person, and indeed there is a distinct possibility, as Epstein points out, "that those individuals who labor mightily to accumulate wealth are, *ceteris paribus*, just those for whom additional increments of wealth hold their highest marginal utility." (Epstein, *Skepticism*, 58) Jouvenel adds the important consideration that people with uncommon tastes are always at a disadvantage for the satisfaction of their wants in a consumer-driven market and that raising their incomes may be the only way for them to compensate for that disadvantage. The inversion of the argument would suggest that a disproportionate number of those pursuing wealth would be hit rather harder than the average individual by barriers put in the way of their efforts. (Jouvenel 38-39) Even if we should, therefore, refuse to accept the axiom of diminishing marginal utility of wealth across the board, we may still be prepared to heed it as a sensible rule of thumb. As Epstein puts it, "No one should argue skeptically that the need for the marginal dollar is as great for the billionaire as it is for the person on the edge of poverty. Private charity is a coherent and durable institution only because people widely reject that skeptical view of the relative need for additional amounts of wealth." (Epstein, *Skepticism*, 58, 61-62; *Flat* 160, 163)

³⁹ Adam Smith, *The Wealth of Nations*, edited by Edwin Cannan (New York: The Modern Library, 2000), p. 907.

⁴⁰ Friedman 174 and Hayek, CL 307. Epstein, too, grants that the flat tax "might perhaps be found to be inferior to the optimal system of progressive taxation, if we could determine what that optimal system is (Epstein, *Flat*, 171).

into the well of prosperity quickly proves itself full of holes, and what can be dispensed is usually fit only for the ladle, if not the spoon.⁴¹ In the face of this reality, progressive rates have everywhere been qualified by exceptions and loopholes that narrow the base of what is taxed and thereby reduce the real rates to levels that may in fact no longer be progressive at all, abandoning vertical and horizontal equity alike as the substance of the system is quietly buried and only the specter of its pretenses remains.⁴² To the extent that steep marginal rates can actually be made effective, they must have the paradoxical side-effect of discouraging risk-taking and shielding established fortunes from the competition of newcomers, in fact perpetuating the most glaring inequalities and turning wealth into the very privilege to which both the liberal and the egalitarian stand opposed!⁴³ What remains, all-too-often, is either a well-meaning charade camouflaged by sincere self-delusion or else a cynical exercise in confused class legislation by the back door.

A system of moderately graduated taxation might be able to avoid all this; so long as it were kept simple, applied to a broad base with reasonable rates and generous brackets, the costs of compliance would not likely be excessive and collection should actually be possible, as the experience with tax reform in the 1980s has shown. The problem with the kinds of simple tiered systems introduced in the United States and Britain twenty years ago is that they are prone, over time, to revert towards the model they were designed to replace. Premised on a broadening of the tax base by a rigorous slashing of exemptions, deductions, and loopholes, such systems can be hard to protect against a wide range of encroachments: the thicket of exceptions grows back, inflation produces “bracket creep” and surreptitiously raises rates over time, and the definition of brackets itself — owing to its inherent indeterminacy — is always liable to mischievous revision.⁴⁴ Perhaps the system’s weakest feature vis à vis flat or proportionate taxes is that it continues to allow one class of taxpayers to impose rate-increases that only affect another. In other words, the system lacks what may be the most attractive aspect of its rival, namely the self-

⁴¹ Epstein uses the metaphor of the leaky bucket, which he takes from Arthur Okin (Epstein, Flat, 165).

⁴² In less technical language, a system that is introduced for the purpose of soaking the rich tends to spray everyone and often leaves those wettest whom it has promised to shelter. Filers at comparable levels of income (horizontal) end up paying at very different effective rates depending on the “discounts” with which they are favored, while underneath the impenetrable thicket of steep nominal, but heavily discounted real rates, better-off taxpayers may end up paying less than the worse-off (vertical), and may sometimes even manage to escape income taxes altogether. (Compare Friedman 172-73 on the “capricious and unequal” effects of taxation on this model.)

⁴³ Compare Friedman 173 (“these taxes are much less taxes on being wealthy than on becoming wealthy”) and Hayek, CL 321. The unique financial sway long held by a single family of investors in arch-egalitarian Sweden is a remarkable case in point. Of course there is also the Ikea fortune, new wealth if ever there was any; but it could hardly be better suited to substantiate de Jouvenel’s depiction of the redistributionist state as one dominated by the biases and projections of (lower) middle class taste (Jouvenel 24-25).

⁴⁴ Such revision has occasionally been downward, of course; but there has also been a tendency to raise rates or introduce surcharges. Though there are intuitive posts in defining brackets (usually basic fractions such as a third (33%), a fourth (25%), a fifth (20%), a tenth (10%), etc.), these are merely guideposts that can be moved at will. An intuitive limiting principle that might be applied to the graduated system has been proposed by Hayek, namely to cap the maximum admissible marginal rate of direct taxation at that percentage of the total national income collected by the government (Hayek, CL 323).

limiting effect that results where any increase in the taxes of some is *eo ipso* an increase for all.

An alternative model that would avoid some of these concerns and that would have other attractive features besides would graduate rates along a different dimension altogether, using lifetime rather than annual earnings as its baseline. Developed by Roger Martin, dean of the University of Toronto's business school, and championed by one of the main contenders in provincial and national Canadian Conservative leadership races in 2002 and 2004, it would leave the first \$250,000 of lifetime earnings untaxed, taxing the next \$250,000 at 14 percent, the next at 17 percent, and so on, gradually raising the rates to 27 percent for the increment of lifetime earnings over \$1,000,000.⁴⁵ The system would help students and young families, end all distortions resulting from variable incomes between years, and otherwise combine some of the advantages of a flat-tax regime with those of a moderate graduation. For all its conceptual ingenuity and integrity, however, such a model would require rethinking the issues along generational lines that may be unfamiliar and unwelcome, and it lacks the straightforward intuitive appeal and simplicity that make flat-rate models so attractive.⁴⁶

In the end, although the flat tax is by no means the only imaginable model that could satisfy the traditional demands of simplicity, efficiency, fairness, and revenue sufficiency,⁴⁷ it may be the most robust one “in any world that worries about the mix between theoretical conceptions and practical implications.”⁴⁸ The biggest concern about the flat-tax paradigm, namely that it would overburden the poor and struggling, is convincingly addressed by the “degressive” variants that are most commonly proposed

⁴⁵ These figures are in Canadian dollars and were designed to be revenue neutral relative to current income tax rates there, which are by most accounts considerably higher than those in the United States.

⁴⁶ The transition to such a system would be difficult because it would take a full lifetime before applying equally to everyone. The treatment of immigrants and other (perhaps temporary) new taxpayers would be problematic, as would all changes in the system (which would as it were set the clock back and require another lifetime to spread around fully). Tax competition with other jurisdictions (in the Canadian case primarily with the United States) would add considerable complications of its own. Thus it is perhaps not surprising that the proposal never gained much traction, and it may have been designed as much for the purposes of provoking thought as for being considered a serious possibility. (For Martin's articles on the subject, see www.rotman.utoronto.ca/rogermartin/publications.htm, especially “The Tax of a Lifetime” [*National Post*, 18 Feb. 2004].)

⁴⁷ Compare Minarik, *op. cit.* On strictly pragmatic grounds of how to raise revenue most simply, reliably, and cheaply, minimizing economic decisions made with an eye to the taxman, the flat tax appears a sure winner. Under such a regime, a minimum of energy would be diverted to elaborate exercises of tax avoidance; the simplicity of the system would drastically reduce administrative and consultation costs; the hidden (but considerable) costs of tax lobbying and like distractions would all but disappear (Epstein, Flat 164), and so on. Actual experience, especially the “flat-tax revolution” that has been sweeping Eastern Europe in recent years — producing the historical irony that every flat-tax country today (except Hong Kong) is now a former Communist nation — seems to confirm in practice the high hopes that flat-tax champions have long held out in theory. Such pragmatic considerations do not, however, exhaust our purposes here.

⁴⁸ Epstein, Flat 145. It would also accord well with Frank H. Knight's understanding of the liberal ideal as “always one of balance and compromise, on the basis of ‘judgment,’ between conflicting principles and values, as well as interests.” (Frank H. Knight, *Freedom and Reform: Essays in Economics and Social Philosophy* [Indianapolis: Liberty Press, 1982], p. 472)

today, which combine a flat tax on income above a certain threshold with generous exemptions below. Thus under Paul Kirchhof's proposal for a flat tax in Germany, which was denounced with near-hysterical venom in the recent federal elections, a family of four would not have owed any tax at all on the first E34,000 of income, and the 25-percent flat rate would have been phased in over the next E10,000 such that it would have applied in full only to incomes over E44,000.⁴⁹ Steve Forbes' proposal for a 17-percent flat tax would likewise kick in, for the same family of four, only with annual incomes of \$46,000 or more. While it is true that the degressive approach effectively reintroduces a kind of tiered scheme — with an implied gradation that has often been overlooked by its detractors — its structural logic should help to forestall iniquitous tampering better than its outright graduated rival.⁵⁰

Perhaps what is at stake in the choice of a flat rather than a graduated or progressive income tax goes beyond even these arguments, touching directly upon what it means to be a citizen. For as de Jouvenel argues, the wearing down of income equality by means of legislation pitting a majority that stands to gain against a minority that submits unwillingly threatens to corrupt the institutions and injure the very spirit of a commonwealth: "It is implied in the definition of the citizen that he lays no obligations upon fellow citizens that he does not himself assume."⁵¹ Though we may find much to criticize in the republicanism of Rousseau (let alone in his treatment of economics and financial matters), we may still agree with what was most important to his thinking about the state, namely that "justice, to be admitted among us, ought to be reciprocal."⁵² If Rousseau was right that the legitimacy and authenticity of law demands that "each person necessarily [submit] himself to the conditions he imposes on others," then a tax that applies in equal measure to all would appear as no less than an affirmation of citizenship — its opposite, as an equally emphatic denial of the same.⁵³

⁴⁹ One of the great ironies in the misrepresentations of Kirchhof's position was that he had done more than perhaps anyone else, during his time on the Federal Constitutional Court, to free the "existential minimum" of all taxation and thereby unburden the worst-off, and also to introduce more family-friendly tax policies.

⁵⁰ Compare Friedman 174 and Epstein, Flat 160. Epstein worries that taxpayers relieved of "first-dollar constraints of some sort" would compromise the self-limiting dynamic that makes the flat-tax regime so attractive, and he would have much classical thought on his side in insisting on some financial contribution from all political participants. (Ibid.) On the other hand, the degressive model is the best answer one could give to those worried about the fate of the worst-off under proportionate taxation, and the exempt would need support reaching well into the non-exempt middle class for any nefarious political projects. No tax can be perfect: but the degressive flat tax strikes a reasonable balance here as well.

⁵¹ Jouvenel 75-76.

⁵² Jean-Jacques Rousseau, "On the Social Contract," in *Basic Political Writings*, translated and edited by Donald A. Cress (Indianapolis: Hackett, 1987), book II, ch. vi, p. 160.

⁵³ Ibid., book II, ch. iv, p. 158.

III Taxation and Redistribution

The idea that taxes could and should be used to temper the glaring inequalities naturally produced by free markets is one that has occurred not only to the critics and enemies of the market system, but also to many of its most acclaimed friends and defenders. Thus Frank H. Knight, for example, identified “the grossly unequal distribution of economic capacity, and consequently of the product, among individuals,” as nothing less than “the major ethical problem of economic organization”:

[T]he working of the free exchange system naturally tends toward increasing inequality. The simple and obvious remedy for inequality, insofar as it is unjust and is practically remediable, is ... progressive taxation, particularly of inheritances, with use of the proceeds to provide services for the poorer people. Particularly in point are relief of destitution, health measures, and educational opportunities for the young.⁵⁴

Other liberal icons like Hayek and Friedman have likewise argued that so long as measures to redress privation are undertaken cautiously and outside the market, they are quite legitimate and may indeed be desirable. Though voluntary efforts should always be preferable to the liberal, private charitable efforts may not always be sufficient, as Hayek acknowledges:

There are common needs that can be satisfied only by collective action⁵⁵ and that can thus be provided for without restricting individual liberty. It can hardly be denied that as we grow richer, that minimum of sustenance which the community has always provided for those not able to look after themselves, and which can be provided outside the market, will gradually rise, or that government may, usefully and without doing any harm, assist or even lead in such endeavors.⁵⁶

Thus Hayek and Friedman are open to modest provisions for the weak and the infirm by means of cash benefits for housing, for example, or a negative income tax (and its contemporary cousin, the earned income credit)⁵⁷ — though not without registering their regret at having to substitute compulsory for voluntary action and drawing attention to

⁵⁴ Knight 430; compare *Ibid.* 456-57.

⁵⁵ Compare Friedman 191: “[W]e might all of us be willing to contribute to the relief of poverty, *provided* everyone else did. We might not be willing to contribute the same amount without such assurance.”

⁵⁶ Hayek, CL 257-58. As Adam Smith pointed out in his *Wealth of Nations*, “necessities” cannot be confined to constant physical needs, but must take into account evolving standards of living: “By necessities I understand not only the commodities that are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without.” In his own day, for example, Smith cites the example of leather shoes as something that custom had, by established “rules of decency,” rendered a necessity of life in England even to the lowest rank of people (Book v, ch. 2, pt. 2, 939-40).

⁵⁷ For Friedman’s classic proposal for a negative income tax, compare Friedman 191-95. See also Jodie T. Allen, “Negative Income Tax,” in *The Concise Encyclopedia of Economics*, edited by David R. Henderson (online edition: www.econlib.org).

the likely unintended consequences of such measures, including but not limited to the inevitable crowding-out of private efforts.⁵⁸

Though the argument for redistribution tends to go hand-in-hand with that for progressive taxation, the connection is neither logically nor practically necessary. As we have seen, the degressive component of most current flat-tax proposals gives them a redistributive dimension, and stricter versions of the model could accomplish similar effects by subsequent transfers to the poor. Indeed, as Epstein shows convincingly, not only can flat taxes in principle be used for extensive redistribution, provided only that sufficient numbers of voting taxpayers be willing to take on the burden, but they have an inherent, if subtle, redistributive effect as soon as one supposes that inequalities in terms of money overstate the variation in individual wealth measured by a more comprehensive, non-pecuniary measure.⁵⁹ As Epstein concludes, “The case for the flat tax remains strong ... even in a system that ... favors some degree of redistribution.”⁶⁰

What no version of the flat tax — or of a moderately graduated tax for that matter — will be able to accommodate, however, are the pervasive demands for using the tax structure to effect a systematic redistribution from richer to poorer at all levels. Though Marxist influences have made themselves felt in this debate,⁶¹ an even stronger motivator has been the eagerness of earlier generations of economists to bring marginal analysis, so triumphant in other domains, to bear on matters of taxation — a project that has been looking dated and misguided for some time.⁶² While the postulate of a decreasing marginal utility of wealth remains plausible enough as a broad generalization, the economic rationale for systematically progressive redistributive schemes requires more than such a rule of thumb and is undone even if we are merely wary of such interpersonal comparisons, rather than ruling them out more categorically. What is more, if the redistributive logic were ever pursued with the rigor to which some economists have aspired, it would not stop at our borders, as it has usually been made to do: for if the case for decreasing marginal utility is ever compelling with regard to wealth, it is so when comparing the average member of our economically advanced societies with his — and even more starkly, her — counterpart in the poorer parts of the world.⁶³ That the utility of

⁵⁸ Hayek, RS 133, 146, 230 and CL 101; Friedman 178, 190-95. Even Epstein, for all his reservations (“there is many a slip between cup and lip”), grants that a genuine redistribution from rich to poor “cannot be dismissed in a cavalier fashion,” and he does not rule out such measures provided that they be taken up *last*, that is, only after the non-coercive remedies have been exhausted (Epstein, Skepticism 58; Flat 145; Simple 141, 148).

⁵⁹ Epstein, Flat 142, 158-59. De Jouvenel is among those who stress how much the reliance on monetized transactions misrepresents the needs of a vibrant culture and civilization and blinds us to the destruction of values and goods that are not commercialized (Jouvenel 56, 68-69).

⁶⁰ Epstein, Flat 144.

⁶¹ Compare the notorious call for a “heavy” progressive income tax in Marx’ “Communist Manifesto” (*The Marx-Engels Reader*, edited by Robert C. Tucker [New York: Norton, 1978], p. 490).

⁶² To Hayek, writing in 1960, “the use of utility analysis in the theory of taxation was *all a regrettable mistake* (in which some of the most distinguished economists of the time shared).” (Hayek, CL 309, italics added) Compare also Jouvenel 32-34.

⁶³ Hayek’s *Road to Serfdom* stands as perhaps the most resounding indictment of the all-too ready accommodation of socialist to nationalist ideas, and of the all-too easy denial to the world’s poorest of

an extra dollar for a typical representative of the working poor in our midst exceeds that for the average taxpayer, let alone the above-average one, seems certain enough despite everything; but that the marginal bang for our buck is shockingly dwarfed by what it would mean for those entire families who live, in substantial numbers, on less than a dollar a day throughout the world is well-nigh indisputable.⁶⁴

IV Progress

To the extent that aggressive taxation could actually succeed in effecting a sustained and substantial top-down redistribution across the spectrum of earnings (and it remains worth considering that its actual consequences could be just the opposite),⁶⁵ it is liable to produce a host of insidious side-effects that should give anyone pause.⁶⁶ Beyond the fact that the net effect of redistribution combined with the tangled, opaque web of transfers under real-existing welfarism as we know it⁶⁷ is not likely to follow any clear pattern,⁶⁸

what is claimed as a matter of course for members of one's own society. Witness the current tone of polemics by certain Western European socialist leaders against jobs "lost" to Eastern Europe, or equivalent talk in American labor circles about India or China.

⁶⁴ It is true that comparisons of GDP or similar measures do not properly capture the real wealth differential between rich and poor countries. It may be possible to survive on a dollar or less a day in some countries, both because of an entirely different price structure and because non-monetary transactions do not enter into the accounting. Yet, cautious as one therefore needs to be in interpreting such figures, the point stands unassailable that a dollar transferred from the richest to the poorest countries would multiply its impact many times along the way. How such transfers are supposed to be carried out without propping up dysfunctional and nefarious regimes, without greasing the wheels of corruption, without causing severe dislocations, and without otherwise inviting unintended consequences that vitiate the benefits of such transfers is an open question, and perhaps an unanswerable one. My point here is anyway not to argue the case for international transfers to the world's poorest (though I support them on the same grounds as I do such transfers in our own societies), but to stress that the logic of marginal transfers is rarely applied consistently.

⁶⁵ As we have seen, the various exceptions that have everywhere tempered high marginal tax rates might have the perverse consequence of *reducing* the real taxes owed by some high earners. If we take the assumption that high marginal taxes tend to drive up pre-tax compensation levels for services and their providers in high demand, and we combine it with the fact that some of these providers may be able to avail themselves of particularly steep "tax discounts," then high marginal rates might well widen the range of inequality rather than narrow it!

⁶⁶ The fact that progressive taxation, to be effective, must severely distort the relations of net remunerations of different kinds of work and thereby "necessarily offends against what is probably the only universally recognized principle of economic justice, that of 'equal pay for equal work'" is one of Hayek's strongest criticisms of such taxation, but it is only one among many disturbing implications of redistribution — and one of the more easily anticipated consequences at that (Hayek, CL 316-17).

⁶⁷ Friedman speaks of "an erratic and contradictory mélange of subsidies to special interest groups" (Introduction to Hayek, RS, p. xiii), Hayek of "that hodge-podge of ill-assembled and often inconsistent ideals ... under the name of the Welfare State." (RS xxxiv)

⁶⁸ The argument that the imposition of a coherent ethical pattern of distribution is a much more difficult exercise than welfare-idealists realize or admit is a central feature of Hayek's work. Even if we could draw on any uniform ethical code at all in aiming to "correct" the outcomes yielded by a system of free exchanges, it would turn out, upon closer examination, to be full of gaps at best. Free societies simply do not produce the kind of coherent moral scheme that would be necessary to justify systematic redistribution, and the ideal of justice governing it cannot therefore be that of a society as a whole, but only that of *someone* within it. (Hayek, RS 85-86, 109, 120-22; CL 99-100) What is more, it would

and that it is highly questionable how much support justified with an eye to the poor will actually reach them,⁶⁹ we should expect further, yet more unappealing consequences that have been compellingly analyzed by de Jouvenel and Hayek, in particular. Where high incomes are severely curtailed, those functions that have historically fallen to the rich must either be neglected, to everyone's detriment, or else give rise to an expanding, increasingly bureaucratized state with ever greater functions, greater responsibilities, and greater power.⁷⁰ We may well ask with Epstein whether the resulting dispersal of the functions of the state is not likely, at the same time, to dissipate its legal and moral authority.⁷¹

As Jouvenel, Hayek, and Friedman have all stressed, "there is generally no market for new ideas," which have to be elaborated and set forth by innovators and their backers in a process that cannot be the business of those who administer the common chest. For as Hayek rightly insists, it is an illusion that the state could arbitrate between new ideas fighting for recognition, because action by collective agreement must be limited, by its very nature, to instances where previous efforts have already established a consensus. In a world without wealthy patrons acting as independent foci of support for experimental ventures, neither the writings of Marx, nor those of many other bold but impecunious innovators of all ages, would have come to fruition as they did under the care of Engels' benefactions out of untaxed profits, for example. No doubt there will be many useless cranks and eccentrics among such innovators, and some whose more fecund creations will prove a bane, not a blessing for mankind; and yet, among these many, there will also be a select few purveyors of marginal causes who will set just the example, or hit upon just the cause, on which the progress of a civilization depends at a given moment — and whom no bureaucrat could ever identify reliably. In a free society, it will often suffice to convince a single wealthy backer, whether engaging his sincere enthusiasm or merely his sense of profit; in an unfree society that did not find ways to replicate the dynamics of a

hardly suffice, in seeking to give concrete meaning to one's conception of social justice, to impose it selectively; instead, a society would need to be wholly reorganized around it, continuously forced to conform to its precepts. Since free exchanges will quickly upset any favored distributional pattern, as Robert Nozick's "Wilt Chamberlain problem" illustrates, such a pattern cannot be realized without a persistent, pervasive interference with people's lives. (Nozick 160-64) Even those who favor the pattern in theory might thus come to balk at the methods that would be necessary in practice, finding themselves "obstructed at every move by the rule of law." (Hayek, RS 38; CL 232)

⁶⁹ Compare Jouvenel 23: "The impact upon incomes of this enormous diversion and redistribution is a very complicated subject with which we are not ready to deal. It is far from being a simple redistribution from the richer to the poorer. And yet it is to a large degree sustained by a belief in the rightness of redistribution from the richer to the poorer and by the belief that this is what the whole process comes to."

⁷⁰ Jouvenel 43. Compare also Ibid. 76-77: "Insofar as the State amputates higher incomes, it must assume their saving and investment functions... Insofar as the amputated higher incomes fail to sustain certain social activities, the State must step in, subsidizing these activities, and preside over them. Insofar as income becomes inadequate for the formation and expenses of those people who fulfill the more intricate or specialized social functions, the State must see to the formation and upkeep of this personnel... This results in a transfer of power from individuals to officials, who tend to constitute a new ruling class as against that which is being destroyed."

⁷¹ Epstein, *Skepticism* 57, 260.

free society in this regard, if that could ever be done, we will never know what could have been.⁷²

Finally, however much the champions of redistribution may chafe at it, there is every reason to believe that continued progress, and the economic advancement of the broad masses especially, depends on a subtle balance of equality *and inequality*. Protected privileges or other excessive and unduly entrenched forms of inequality will surely tend to retard progress, but so, perhaps paradoxically, will the determination “to put first things first, as reformers urge” (Jouvenel): for history suggests just as urgently that “each successive enlargement of the opportunities to consume was linked with an unequal distribution of the means to consume.”⁷³ In one of his most thought-provoking and incisive chapters, Hayek offers some clues on the curious dynamics of the observable course of progress. In a free society, Hayek proposes, the wealthy, who are able to spend freely on whatever catches their fancy, get to experiment first with new goods and lifestyles that are as yet too expensive to be made more widely available.⁷⁴ To be sure, different kinds of societies could find other bases on which to make such new possibilities available on an experimental basis,⁷⁵ most likely through deliberately privileging some by political fiat in the very way that liberal societies must seek to avoid; whatever the alternative mechanism, however, it is hard to see how even socialist societies could avoid glaring inequalities between their own privileged classes and the masses.⁷⁶ What is distinctive about free capitalist societies, then, is not that some goods will initially come within reach of only a few, but rather the pace at which new possibilities are soon made much more widely available.⁷⁷ In fact, it is precisely the expenditures of the rich that help, unawares, to defray the costs of development incurred before the introduction of any consumer good on a large scale. One might even say that the rich make an inadvertent gift of the knowledge acquired by the very spending that seems so frivolous and capricious to its eventual beneficiaries.⁷⁸ Ultimately, then, “new things will often become available to the greater part of the people only *because* for some time they have been the luxuries of the few” and the assumption that they would have

⁷² Jouvenel 71; Hayek, CL 125-29; Friedman 17-18.

⁷³ Jouvenel 40.

⁷⁴ Compare Hayek, CL 42-49, 51-52, 130 and Friedman 168, 170.

⁷⁵ Compare Hayek, CL 125-26: “If we knew of no better way of providing such a group, there would exist a strong case for selecting at random one in a hundred, or one in a thousand, from the population at large and endowing them with fortunes sufficient for the pursuit of whatever they choose.”

⁷⁶ In the “real-existing socialisms” of yore, members of the apparatchik class were placed in just such a privileged position, and the relative degree of effective inequality prevailing there in access to scarce or imported goods, opportunities for travel and foreign contacts, or even such basic amenities as apartments, phone service, or standard-issue cars was surely at least as pronounced, in its own way, as in the West — in addition to being more intractable, insidious, and hypocritical. What could be crueler than a world where the equality of men is constantly trumpeted, yet some are so much more equal than others?

⁷⁷ As Joseph Schumpeter observed: “The capitalist achievement does not typically consist in providing more silk stockings for queens, but in bringing them within the reach of factory girls in return for a steadily decreasing amounts of effort.” (*Capitalism, Socialism and Democracy* [New York: Harper, 1975], p. 67)

⁷⁸ How many of those who now take the use of cell phones for granted made fun of the show-offs who flaunted the first (inordinately expensive and unwieldy) prototypes twenty or even ten years ago!

been developed under more egalitarian conditions just as well is as mistaken as it is commonplace.⁷⁹

Let us consider, in conclusion, that the case for proportionate (or, with qualifications, mildly graduated) as opposed to steeply progressive taxation may be as straightforward and compelling as a basic arithmetical operation. Perhaps even that would not guarantee the argument's success: "What a lot of trouble to prove in political economy that two and two make four; and if you succeed in doing so, people cry, 'It is so clear that it is boring.' Then they vote as if you had never proved anything at all."⁸⁰ After all, the consensus behind proportionate taxation was once so powerful that progressive rates could appear as "a mild form of robbery" to a committed social reformer such as John Stuart Mill.⁸¹ Perhaps things will one day appear in the same light again. In the meantime, one might take heart from Milton Friedman, who has had as much experience as anyone with seeing the consensus turn his way after enduring decades of derision:

There is enormous inertia — a tyranny of the status quo — in private and especially governmental arrangements. Only a crisis — actual or perceived — produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable.⁸²



⁷⁹ One ought to remember that the stock items of even the most modest households today, like flushable toilets or refrigerators or cars, were not so long ago coveted luxuries simply unattainable by the masses. One might marvel, too, at the pace at which once-exclusive electronic gadgets like the laptop computer have been transformed from playthings of the very rich and ostentatious to everyday consumer items. The dismal performance of the East bloc economies in this regard — even then almost entirely parasitic on what had been developed in the West — offers a cautionary tale that progress of this kind cannot be taken for granted. The socialist elites found ways to procure their consumer goods elsewhere, of course, but not the mass of the people.

⁸⁰ Frédéric Bastiat, "What Is Seen and What Is Not Seen," in his *Selected Essays on Political Economy*, edited by George B. de Huszar (Irvington-on-Hudson: Foundation for Economic Education, 1995), p. 11.

⁸¹ In book V, chapter ii of his *Principles of Political Economy* (1st edition, London: John W. Parker, 1848), Mill wrote: "Equality of taxation, therefore, as a maxim of politics, means equality of sacrifice. It means apportioning the contribution of each person towards the expenses of government so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his." (Par. 7) In paragraph 14 of the same chapter, Mill denounced progressive taxation as "a penalty on people for having worked harder and saved more than their neighbours" and indeed as "a mild form of robbery." In the revisions for the third edition, Mill left the substance of his paragraph intact, but softened his language, excising the reference to robbery.

⁸² Friedman ix.