

ON SCIENTIFIC IMPOSSIBILITY OF OPTIMAL TAXATION

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The idea is to discover the economic science potential to „prescribe” an optimal taxation, both in taxation system (progressive vs. flat tax) and in taxation burden. I am going to demonstrate the myths of many popular ideas from the economic theory and public opinion: on the one side, that flat tax is the best way against fiscal discrimination and welfare redistribution in society, and on the other side, that flat tax is the modern source of economic prosperity. As any other social product, taxation must be considered, first of all, from ethical point of view. In Murray Rothbard’s terms, „Our conclusions are twofold: (1) that economics cannot assume any principle of just taxation, and that no one has successfully established any such principles; and (2) that the neutral tax, which seems to many a valid ideal, turns out to be conceptually impossible to achieve. Economists must therefore abandon their futile quest for the just, or the neutral, tax”.

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Is the fiscal burden a scientifically one?

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The economic calculus argument reveals the arbitrary character of every fiscal policy. Which are the reasons on which bases the government proposed a unique tax rate of 16%? Why not 16,5%, or 20%, or 10%, so that being a whole number? Which is the calculation used, in general, when establishing the tax rate? Do we speak about that (optimal) tax rate, when the economy is prosperous and „goes” very well?

Fiscal options of those governments that choose the unique tax rate reveal the great diversity of those used. Everywhere and successively we assist to the national fiscal systems reformation, by changing the tax rate nature and the level. The grounds are often found in the elections programs through which politicians intend to take advantage of the economic circumstances they are facing. Consequently, the fiscal system cannot be subordinated to a scientific, objective, based on universal law frame of economic science reasoning. This option is a political one, as Alvin Rabushka recognizes in an interview given after adopting the unique tax rate in Romania in 1st January 2005⁶⁰.

Well, choosing a certain fiscal system is not and certainly cannot be an objective, scientific one. We do not speak either about assuring the economy „well doing” or about reducing the tax collection costs, as fiscal authorities often claim. Interests for reducing the expenses can exist only within private property frame because in such a medium prodigality is punished through losses or even bankruptcy. Unfortunately, we cannot imagine the government being bankrupted because of... „great expenses for tax collection” !!

Some economists consider that, as taxation rationale is that of assuring the financing instrument for public goods, than the fiscal system must be subordinated to the necessity of producing public goods. For example, Richard Epstein (1985) insists on the fact that taxation system should rather be proportionally than progressive because individuals do not have progressive access to public goods.

But, if considering the „public goods” rationale, than the solution should be, in fact, another one. It is revealed by the public goods nature: using them by a certain person does not reduce its availability for the others in the community. So, one could claim that, in the virtue of public goods non-exclusivity and non-competition attributes, no one can benefit more than others from national army, public electricity, radio waves, etc.

In this situation, could be the „unique tax” in forfeiter (tax in fix amount) amount the „most correct” financing system of public goods? Yes, indeed, as public goods usage is neither a progressive one, nor

proportionally to everybody's incomes, but *identical* for everyone. Being given these circumstances, how can someone calculate the tax everyone should pay? Very simple: dividing the public goods production costs to the number of persons in a certain community.

So, forfeiter tax could reduce significantly the redistribution rationale that rules the government actions in the society and in the virtue of which the government gains the „sympathy” from that certain groups that take advantage of redistribution acts. Also, paying the same amount of money, as a tax, means that taxation is established according to the payment capacity of the poorest members in the society.

This way the government would be obliged to manage only with the taxes collected by this system and increasing the governmental budget would necessarily be derived from the improvement of the situation of those less rich members in the society, in the spirit of the so-called John Rawls „social justice”. Forfeiter tax cannot either contradict the tax redistribution principle⁶¹ or solve the problem of the optimal taxation impossibility.

Contrary to market relations, government actions towards producing goods, the so called by the later „public goods”, mean a non proportionate distribution of expenses and benefits. There is no reason to suppose that the government will „steal” its subjects' property only when and in the proportion he manages to use these properties more efficient (for whom?) than their owners.

The Economic Jerry-built of Optimal Taxation

Such an analysis, as I have already shown in the paper „*Institutions and Prosperity. From Ethics to Efficiency*”, produces amazing conclusions so far the governmental sector optimal dimension⁶². The public sector dimension does not represent the economic calculus result, as happens when speaking about a firm dimension, anytime, on the market conditions, because the impossibility of using the economic calculus criteria within an agency whose receiving (I prefer using this term compared to that of „incomes”) is obtained using (fiscal) coercion. The pure normative theory failure is represented by establishing the fiscal government needs in an exogenous way, according to a certain amount of public goods considered „optimal”. But determination of such an „optimal” cannot be subordinated to the objective criteria of economic rationality, but only to abusive judgments of supported, possibly by the majority vote, governmental decision makers.

The public choice theory reveals the fact that the rules of democratic game enforce the government to maximize the resulted advantages from the public expenses increasing, sometimes even sacrificing the economic development, as demonstrated by economic history⁶³. That is the reason why governments spend the maximum of resources received and even more than that by creating deficits and public debts. And the fiscal frame is inevitably subordinated to discretionary budget needs and public debts, within a world in which the majority of the economists continue, delusive, to speak about „optimal”.

There is nothing „optimal” as far as public sector relative dimension is concerned. The great argument, referring to the impossibility of economic calculus in socialism, given by Ludwig von Mises, represents this explanation basis, as the public sector is, in fact, a „socialism island”. Being not given the market and prices, the „socialization” properties allocation using state budgets is a political one, whose viability reported to individuals needs is impossible to be verified. The public sector dimension *cannot be* dimensioned based on „profitability calculus”, otherwise said economic, but only manipulated depending on supposed winning political interests and programs, in fact electoral.

This argumentation is also valid for unique tax. Even if the government should limit, in a miraculous way, to person and property protection and so the tax be restrained to this protection service, then how can the government determine the level of protection and what taxes to collect? More than that, as Rothbard shows, „...«protection» can refer to anything, starting with a policeman for the entire country towards a bodyguard and a tank for every citizen...Who is supposed to determine the protection level, being obvious that everybody will be better protected against theft and aggression in case having an armed guard? On the free market, each person voluntary changes are going to decide the amount and the quality of offered goods and services; but which criteria to be used when these decisions are to be taken by the government? The answer is that there are no criteria and these governmental decisions can be only abusive” (Rothbard, 1985). The level of protection and tax rate are not decided by economic calculus, but by political interests and potential success of different arrangements. Consequently, tax system is not a market economy (scientific) intrinsic aspect, but one of political system.

So, the optimal taxation jerry-built to be a complete one, it must be said that, unfortunately, subordinated to the democratic logic of election process, governments „democratic” assumes new and new „public” interests spheres. These mean new and new taxation opportunities, which do not deserve to be neglected as in four years time a new politic administrator could take advantage of them.

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