NOTE

Comment on McCready and Maloney on wealth taxation

The line between normative and positive economic analysis is, supposedly, a sharp one. The former allows for value judgments, the latter does not. This distinction is mentioned in all basic texts in our profession, and in all introductory courses. Then, all too often, such as in the present cases, it is promptly forgotten. The profession of economics, in the main, pays lip service to this bifurcation, but when push comes to shove, and the heat of ideological battle warms up, it is jettisoned.

In this comment, I shall take issue with both Professor McCready ("The Case against Wealth Taxation") and Dean Maloney ("The Case Against Wealth Taxation: A Reply"), which is, in effect, an attempt to make the case for wealth taxation. My point is not to claim that value-free economics can be adduced in support of either of these positions, the view taken by both McCready and Maloney, respectively, on opposite sides of this issue; rather, I shall attempt to show that as far as positive science is concerned, neither perspective can be successfully defended.

Such a stance might seem somewhat paradoxical at the outset. In this view, it might be maintained that unless one just plain doesn’t care at all, one way or another, one either must favour or oppose wealth taxation. After all, there is no other alternative: the two options are mutually exclusive and exhaustive. A person such as the present author who purports to criticize both sides of the debate, when there is no third side, merely expresses his irrationality, it might be claimed. This would indeed be true had I joined Professors Maloney and McCready in their normative evaluations, pro and con respectively, regarding wealth taxation. But I resist this temptation. Instead, I content myself with the more pedestrian positive analysis of their lofty value-laden claims.

Let us begin with Professor McCready. He proposes to measure or evaluate the benefits of wealth taxation by recourse to six criteria: administrative ease, tax compliance, revenue productivity, certainty, equity, and morality. Before we discuss each in turn, let us consider his view of them as a group. He states "the relative weight (of each) may be different, depending on the disciplinary perspective one has."

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Now this is more than passing curious. It indicates that what is afoot here is not a scientific endeavour, but rather plain old value judgment mongering, wrapped in a veneer of seemingly value-free camouflage. What is usually meant by "disciplinary perspective" in such contexts are the various fields of social science: economics, political science, law, philosophy, sociology, etc. But how can these impact on the weighting of the six criteria? Clearly, they cannot. For value judgments are not homogeneous within each of these categories. True, patterns may emerge. For example, economists, on average, are likely to be more "right wing" than, say, sociologists. If so, then the former may accentuate one of the six, and the latter may weight more heavily another. But if they do so, it will not be on the basis of the positive elements of their respective disciplines. These are set up to help understand and explain (different aspects of) reality; they do not imply different rankings which go into determining value judgments concerning alternative tax arrangements, or anything else for that matter.

With these preparatory remarks, let us now consider each of the six McCready categories in turn. Let us see if, when we espouse values opposite to those implicitly adopted by McCready, we can reach contrary conclusions, without violating either the laws of logic or the truths discovered by the profession of economics.

1. Administrative ease

Our author defines administrative ease in terms of a tax payment that is self-determined. He states, "In other words, there are advantages to a tax which the taxpayer can voluntarily comply with ..." But this use of language, no matter how widespread in the public finance literature, is pernicious. It implies that taxes, as in the case of voluntary payments for goods and services on the market, are voluntary interactions. Nothing, however, could be further from the truth. This can be seen by contemplating what occurs when a person refuses to engage in these supposedly identical or at least similar acts.

When a person declines to yield funds claimed by Revenue Canada, his bank accounts are attached, his property seized, and he can be incarcerated. In sharp contrast, when a person fails to make a purchase from Eatons, for example, he is free to go about his business. It may be objected that if an individual makes a purchase at Eatons, and refuses to settle his bill, sanctions will be imposed upon him similar to those visited upon the tax refuser. This is of course true. But the analogy between the two events breaks down. In the latter case, there is a contract between the trading parties, the vendor and the customer - the bill of sale. When payment is not made for goods and services rendered, this is equivalent to theft of these values. In the former case, however, there is simply no analogous prior agreement to be bound to pay the taxes or to be bound by the dictates of the government.1

1 This is to say, the constitution, which purports to be this “agreement,” has not been passed unanimously. It has not been signed by all “contracting” parties, as in the case of commercial...
Professor McCready also launches a gratuitous attack on the profession of accountancy. True, based on his own value judgments, it is highly inefficient to enact tax legislation which requires more scarce and precious accounting talent than an alternative, ceterus paribus. But there are other ethical bases, no less compatible with scientific rigour, on the basis of which we can see this matter in an entirely different light. For example, let us assume that the tax is illegitimate or immoral for some reason. Perhaps it is a Nazi tax, to be used to build concentration camps. Then, the very obstructiveness embodied by the accountant, and opposed by McCready, becomes a benefit. Given this perspective, we can actually prefer wealth taxation to its competitors on the ground of lesser administrative case.

2. Compliance

According to McCready, "compliance refers to the taxpayer being able and willing to expose what he owns and pay tax on these holdings." One way to accomplish this, of course, is for the tax collector to aim at wealth which is hard to hide, such as real estate, bonds, and securities. But there is another technique, equally able to attain this goal in the positive sense, with very different ethical presuppositions: a credible government threat of torture and death to avoiders of wealth taxation, particularly its hidden (e.g., jewelry) form. This would also tend to raise the compliance rate. Would it be acceptable to McCready? Hopefully not. (A value judgment of the present writer.)

"The issue of compliance involves being able to pay without a great deal of pain," states our author. No better manifestation of this exists than the withholding system. It is very painful to pay taxes once a year; it hurts. But if a small amount is withheld each week, the pain receptors are dulled. April 30 can even be a joyful experience, if more is withheld over the year than need be paid. Then, a "refund" is granted by government, oh glory of glories.

According to the implicit value judgments of McCready, this is all to the good. But again there are alternative perspectives. There are those, benighted souls, who oppose turning the citizenry into a nation of sheep, by rendering taxation "painless." When tax protest is thereby rendered all but impotent, this leads to the aggrandizement of the state. The government takes a greater and greater share of GNP, and less remains under the discretionary control of the citizenry. As far as positive economics are concerned, there is no basis upon which to choose between our author's ethical views and this alternative perspective. Could this be why Professor McCready cites, without disapproval,
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the fact that "in tax law, unlike criminal law, the taxpayer is assumed to be
guilty (owe the tax) until he or she proves otherwise"?

3. Revenue productivity
A tax that is revenue-productive will raise more in revenues for the state than
its costs in terms of collection, both for the government and on the part of the
people. McCready unreservedly supports taxes with high revenue productivity. He does so on the ground that a low revenue-productive tax could create
all sorts of jobs which do not create goods and services (e.g., tax lawyers and
accountants). But these people will receive monetary pay, decreasing the value
of the dollar, an inflationary policy. All too true.

There are, however, alternative value systems according to which this
outcome would be welcomed, at least on grounds of "second best." For
example, suppose my fear is that an all-powerful state is a threat to the freedom
of the average person. A highly revenue-productive tax is the last thing I would
want, because a richer government is usually a stronger one, other things
equal. I might be willing to accept a modicum of inflation if with it I could
purchase enhanced liberty for the masses of people.

Think of this in terms of Nazi German fiscal policy. Is it obvious, pace
Professor McCready, that the wealth tax is a poor one, given that it will reduce
the ability of this evil regime to finance war?

4. Certainty
In like manner, our author takes it as an article of faith that the more certain
is a tax, the more desirable it is. But suppose we borrowed a leaf from the
political theorists who construe taxes as "theft," and ask what would be our
desires in this context. That is, given that we are to be stolen from, is it better
that the looting take place on a certain basis, or, other things equal, do we
prefer uncertainty? If the bottom line of certainty means that fewer revenues
will be seized from the hapless victim-taxpayers, then we can deduce from
these premises that uncertainty is preferable. What about the case where we
by assumption hold tax-grab levels constant? About all that can be said in reply
is that there is no correct answer: risk preferers will favour the latter, while risk
avoiders will desire the former. If we do not operate under ceterus paribus
conditions, there are those who will opt for uncertainty, on the grounds that
they thereby escape from at least part of the piracy, while others will settle for
certainly, out of fear that otherwise they will be relieved of even more of their
hard-earned possessions.

5. Equity
There are no principles of microeconomic theory on the basis of which it is
possible to render the judgment that a total tax take of $8.4 billion in 1987 is
"pitiful." This is solely a value judgment on the part of the author. This $8.4

billion could, with no offence to any axiom or empirical discovery of economics, be characterized as "huge," "greedy," "grotesquely large."

Properly resisting the belief that "equitable" necessarily involves more egalitarianism, McCready nonetheless falls victim to the notion that this concept implies that people in like situations should be taxed the same. Why should this be so? There is nothing in the entire world of positive economics out of which such a claim can be logically generated. Nor are plausible alternatives lacking, ones based on a different ethical world-view than the one assumed, with not even an attempt at justification, by McCready. For example, why not define equitable taxation as being proportionate to the strength with which taxation was supported? That is to say, why is it not equitable to level the greatest taxes on those who have voted for it, spoken out in favour of it, or contributed to such efforts, and the least on those who have opposed it? Again, the dismal science – positive economics – cannot be adduced on behalf of either side in this "debate." And the same goes for the amount of contempt with which government is currently held. There are those who say it is presently over optimal (McCready), and those who demur (Maloney). Value-free economic theory can make no determination in this regard.3

6. Neutrality

"A tax which does not change behaviour towards production or consumption is a neutral tax." If a neutral tax is the desiderata (and this is the first occasion on which the value preferences of McCready and of the present author happen to converge) then this is a recipe for no taxes at all. For the only neutral tax is one with a tax rate of zero – or no tax at all. All other taxes most certainly do "change behaviour toward production or consumption" from what it would have been in the absence of the tax.

This holds true even for the poll tax mentioned by Professor McCready. If every Canadian were taxed by $1,000 as he posits, some people would work harder to make up for the shortfall, but by varying amounts, and others would curtail their efforts, again to deferential degrees. It depends upon the relative strength of income and substitution effects. Then there is the complication that the curtailment of private expenditure necessitated by the tax would affect in complicated and hard to predict ways complementary and substitute goods and services.

3 The author commits the simplistic Keynesian fallacy of supposing that saving, investment, and productivity are positively correlated with unequal income distributions. ("If ... progressive taxes ... make the income distribution too equal ... consumption will rise; saving and investment will fall ... with negative implications for future productivity.") But if we have learned anything from the critics of Keynes, it is that full employment can be attained, and economic growth accomplished, irrespective of the income distribution. See in this regard Friedrich A. Hayek, Prices and Production (London: Routledge, 1931); Friedrich A. Hayek, Profits, Interest and Investment (Clifton: Kelley, 1975); Friedrich A. Hayek, Monetary Theory and the Trade Cycle (New York; Kelley, 1966); Ludwig von Mises, Human Action (Chicago: Regnery, 1963). Murray N. Rothbard, America's Great Depression (New York: Van Nostrand, 1963).
Yes, we can agree with Professor McCready that the wealth tax is inherently non-neutral. But so is every other tax.

Let us now turn to Dean Maloney. For her benefit, it must be reiterated that the distinction between normative and positive economics is absolutely crucial for public policy analysis. Indeed, it is no exaggeration to claim that this distinction is the most important in that entire sphere. Normative economics is based on value judgments. In this domain, one merely asserts a value without defending it (e.g., income equality is good, or, alternatively, income inequality is good) and then deduces a public policy prescription on that basis (e.g., heavy wealth taxation and large-scale redistribution from rich to poor, or, alternatively, the absence of such policies, or even their very opposite.) Positive economics, in sharp contrast, is an attempt to understand and explain economic reality. Its relation to public policy analysis can only be a negative one. On the basis of the dismal science, one can argue, for example, that minimum wage laws will not cure but will rather exacerbate unemployment amongst unskilled persons. However, one can neither advocate the enactment or repeal of such legislation, at least not without resort to value judgments, and this is contrary to pure positive economic analysis. This is because it is not irrational to prefer joblessness and misery for lesser skilled workers.

My main quarrel with the Maloney comment is that it is no more than a weaving out of the logical implications of her unsubstantiated value judgments. It is long on normative economics, and short on the positive variety. She starts out with the statement “I favour equity as the highest goal in a taxation system,” and deduces her conclusions from that. One problem with this procedure is that the assertion is made to stand on its own. It is the source of policy recommendations, but it is not itself defended.

Another difficulty is that Maloney labours under the misapprehension that “equity” and “equality” or “egalitarianism” are synonymous. They are not. The latter two concepts imply sharp reductions in income or wealth deviations from the average. The former need not. For example, suppose society consists of rich productive persons, and poor lazy ones, where the former are in no way responsible for the plight of the latter. In such a case, equity by no means implies that it would be justified to transfer money from rich to poor. It may be perfectly equitable to defend the non-redistributive status quo, or even, possibly, to redistribute from poor to rich.

Consider Professor Maloney’s “thought that even the most ardent devotees of supply-side economics and ‘trickle down’ theories must be experiencing some misgivings at the increasing gap between the rich and the poor.” But why should they? “Misgivings” are an evaluative judgment, while supply-side economics is a positive theory about the effects of taxation on incentives, and “trickle down” (to the extent that this appellation has any meaning at all) is a positive theory which explains the well-being of the poor in terms of allowing (rich) entrepreneurs the freedom to create more commercial opportunities for all. As such, this theory is completely irrelevant to the relative income...
shares of rich and poor, in that it attempts to explain absolute, not relative, affluence of those at the bottom of the income or wealth distribution.

Similarly, it seems impossible, on positive grounds, to resolve the debate between McCready and Maloney as to whether wealth concentration in Canada is "severe." This, of course, is a problem only for those who yearn for egalitarian values, such as the latter scholar, not the former, whose desires for equality seem more muted. Nor will resort to international comparisons settle this issue. For the controversy concerns whether the Canadian income and wealth distribution is equal "enough." It is not over the issue of how this nation stacks up against others in this regard. And this, ultimately, can only be settled by agreement concerning value judgments.

It is of no little interest, however, that the debate has been couched solely in terms of monetary values. But money, as economists know, is only part of what makes up true or total utility, e.g., psychic income. What about the other desiderata? What about love, musical talent, beauty, athletic prowess, intelligence, and other factors which contribute, in many cases, even more importantly to the good life? Suppose that it were somehow possible for the state to redistribute these characteristics to the people Maloney deems deficient in them, seizing them from those she determines to have more than their fair share. That is, we would take a homely person, and a beautiful person, force them both to enter a machine, kicking and screaming if need be, and then flip a switch, allowing both to emerge with equalized beauty. Would she still advocate her forced distributionist philosophy, even under these more elemental circumstances, where it is harder to disguise just what is going on? Or does her lust for coercion - for "good" purposes, of course - know no bounds?

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