

## A PROPOSAL FOR FAIR TAXATION AND ECONOMIC STIMULUS

First, I must make the statement (whether an admission or a boast) that I am not an economist. I have read various books and articles related to economic theory. I also have lived beyond my means, which I suppose places me in the same boat as most governments of the past century.

When we are discussing matters such as taxation and “economic stimulus,” we are, by the nature of the case, speaking of *money*.

And the first thing that is important for us to understand is that money is not wealth. Money is simply a medium of exchange. If people refused to exchange wealth by way of that medium, money would be completely unrelated to wealth. Its relationship to wealth is therefore completely an imputed utilitarian relationship.

The second fundamental principle is that government is not a source of wealth. In our day, as in most times of history, government is the facilitator of the medium of exchange (money). But it is not the source of wealth. Any wealth which comes into the hands of government comes by way of taxation of the populace, whether directly or indirectly.

Direct taxation is obvious enough - I pay various forms of taxes such as income tax, sales taxes, and so on. Indirect taxation occurs in a variety of ways, such as through deficit spending (I am being taxed in the form of national liabilities) and inflation of the currency (I am being taxed by virtue of a devaluation of the money in my possession).

### **Economic Stimulus?**

We live in a time of supposed economic crisis - “recession.” The conventional wisdom presently is that recessions must be dealt with by way of spending money. Specifically, they must be dealt with by way of *governments* spending money.

But if money is a medium of exchange, and government is not a source of wealth, it follows that when the government spends money, it is simply *redistributing* wealth, not generating it. Moreover, since redistribution of wealth imposes unpredictabilities into the economy, not only is this at best a zero-sum game, it tends rather to stifle genuine economic productivity.

Now, I am not a socialist - but neither am I an anarchist. I both affirm that by the nature of the case, the existence of a government of necessity involves a redistribution of wealth, and yet that not all extents and forms of redistribution are just.

All governments rely on taxation to exist, and Paul defends this as a right given them by God (Romans 13.6). No matter how “small” and “limited” a government may be, it will require taxation of some form (if expenses are paid out of pocket by the benevolent dictator, he is paying the taxes himself, but taxes they remain). Paul writes that the governing authority is God’s servant, ordained to be a “terror” to bad conduct (Romans 13.3), an avenger to carry out God’s wrath on wrongdoers (Romans 13.4). Since both swords and swordsmen cost money, as do fair judicial processes, it follows that at least some wealth must be redistributed from the citizenry to the governing authority, and in turn redistributed to the governing authority’s employees (judges, swordsmen).

This is why I believe that many conservatives are very much in the wrong when they claim that the redistribution of wealth is inherently a wicked thing for a government to engage in. It is a manifest impossibility that there be a government at all without a redistribution of wealth.

That said, however, not all redistributions are created equal. Paul writes that God has ordained the governing authority to “attend to this very thing” - *viz*, the punishment of wrongdoers. That is a specific redistribution of wealth to which the State has been assigned. (And it is also *apropos* to note that the upholding of justice serves to redistribute wealth directly, but it also - in part - is designed to protect and promote the creation of wealth indirectly. A people unprotected from robbers will probably be “taxed” more heavily by their lack of defense than they would pay to a governing authority that would defend their property - not to say, their lives.)

This is not to say that the State may legitimately only ever attend to that one area of punishment of wrongdoing. But surely if God gave specific tasks to the State which relate to protection and justice, and no other, we can deduce that these are its fundamental tasks, and the further afield it goes from those tasks, the more likely it is that its exercise of authority is, to that extent, becoming an idolatrous quest to be god to its citizens.

This idolatrous quest is reflected in the demand that the government “do something” whenever things take a turn for the worse. But the truth is that, as we have noted above, the governing

authorities are not a source of wealth, and any interference in the economy is, by the nature of the case, a transfer of wealth. Bailouts for corporations - even if they employ thousands of workers - amount to a redistribution of wealth from other citizens. They do not constitute a salvaging of, or stimulus to the overall economy in any sense.

### What *Kind* of Redistribution?

Now, we've said that the defense of the citizenry and punishment of wrongdoers is a redistribution of wealth.

But we need to notice here that the sort of redistribution of wealth entailed in *that*, and the redistribution of wealth entailed in bailouts and analogous programs is different in kind.

In the case of the former, it is in the best interests of all law-abiding citizens to be well-defended and protected by law. And the more wealth they have amassed by legitimate means, the more vested this interest becomes.

When the government, however, takes the tax money drawn from all the citizens and deploys it to aid a specific group such as an automobile manufacturer, that means that other citizens are being coerced to support an industry which may be of no interest to them - indeed, an industry that, more likely than not, is of insufficient interest to the nation as a whole (or it would not likely need the bailout to begin with). So while the action may be motivated by concern for the employees of the automaker, it needs to be recognized that the handout does not have innocuous effects on the rest of the citizenry.

Indeed, one may argue that this form of redistribution is actually theft. In a fair and just society, two businesses are allowed to compete for customers by way of better service, better quality, and even better (or at least more heavily-invested) advertising. But if Company A has been succeeding in that competition and is thus doing well for itself, while Company B has been less able to compete through unwise business choices or whatever - what happens if the government steps in and props up Company B?

The answer, surely, is that the governing authority, whose task is primarily to punish wrongdoers and promote justice, is itself promoting injustice by tilting the playing field in the direction of Company B.

We think this is probably not what God had in mind when He ordained the governing authorities to collect taxes and punish wrongdoers.

And ironically, this sort of activity will, by the nature of the case, tend to *harm* the overall economy rather than assist it.

Why?

Because (1) now there is an element of unpredictability and unfairness in the way the government relates to its citizens, and this serves as a disincentive to honourable productivity; and (2) the precedent (or, God forbid, the habit) of providing to the less provident business, the business which has not been seen to serve the consumer as well as its competitor has done, also serves as a disincentive against wise and provident business practices. And this may well do long-term harm to the economy, because Company B may well be much better suited to another line of production altogether (which would increase overall wealth), but due to the bailout, it is encouraged - indeed, bound - to persist in a line of business to which it has already proven it is not very well-suited.

In other words, not only does “economic stimulus” not generate wealth - which is impossible - it deters genuine wealth creation.

### **A Modest Proposal for Fair Taxation**

If the above reasoning is sound, I think we can make further observations relating to taxation policy.

I noted that the primary calling of the governing authority has to do with the defense of the citizens and punishment of wrongdoing.

I further suggested that this calling is of benefit to all law-abiding citizens; indeed, Paul himself verifies this when he says that in upholding this office, the governing authority “is God’s servant

for your good.” Thus the sort of wealth redistribution we have in view is actually a universal benefit, rather than a difficulty to surmount.

What then shall we say of taxation?

There are, essentially, three forms of direct taxation possible: flat taxation, proportional taxation, and graduated taxation.

The first of these (“flat”) would impose an identical amount of tax burden on every taxpayer. It is obvious that this would scarcely weigh at all upon the wealthy, while being an onerous burden on the poor. But is that sufficient argument against it? If, after all, it is in the interest of every citizen to be well-defended and protected by law, shouldn’t every citizen be equally liable to taxation?

I say, “No” - and I quietly hinted earlier why. I wrote,

... it is in the best interests of all law-abiding citizens to be well-defended and protected by law. *And the more wealth they have amassed by legitimate means, the more vested this interest becomes.*

All other things being equal, the lawfully rich have a more vested interest in living in a well-defended and well-ordered society. Why? Quite simply: because they have more to lose. Even if a wealthy man hires civilian “protectors” of various stripes, he is more likely to be targeted by various forms of violence than a poor man, and will have more implicit dependence on the State in that one particular respect (even if in no other). In a fallen world, he will be the object of more envy and would-be theft, in proportion to his wealth.

Moreover, while the poor are subject to a different set of necessities for protection (vulnerability), the Bible’s injunctions to ensure that the poor - especially the poorest of the poor and most defenseless - have justice administered to them equitably suggests that they cannot be looked to as much as to the rich in terms of sustaining an equal share of upholding governmental defense and contributing to the costs of government.

This suggests that a flat tax would be neither just nor reasonable.

The graduated tax, on the other hand, has historically been an instrument of what we discussed above: illicit forms of wealth redistribution. With the graduated income tax, the poor are dealt with relatively reasonably in terms of a percentage of their income, but as one advances up the scale of wealth, the curve becomes steeper and steeper, so that the more income one generates, the smaller proportion one retains for oneself; the rest is appropriated by the government.

It ought to be easy to see why this becomes problematic, and the steeper the curve, the more problematic it becomes. Not only is this a general disincentive to wealth creation, it also coerces the wealthy to give more than their vested interest in sound government requires. A graduated tax thus is heavily disproportionate and can claim just cause very questionably.

We have not so much as dealt with the further complicating factor: deductions. By means of an inordinately complicated web of rules, all predictability can very much go out the window, so that the wealthiest may end up paying almost nothing - again a proportional injustice.

### A Modest Proposal

So I have a modest proposal. (Okay, it won't sound modest when considered against our current tax regimes, but I invite you to consider it anyway.)

Let's go back to the one option we haven't yet discussed: *proportional taxation*. What is this? It entails the removal of the curve, while at the same time (given what we noted above about the poorest of the poor) allowing for the most poverty-stricken to be either exempt or taxed at a nominal rate. The rest of the population would be taxed at the same proportional (percentage-based) rate.

And here's the key:

No deductions. Period. A low tax rate, but no possibility of imaginatively playing with the books. The only thing required to be verified is actual income, nothing more.

What would be the benefits of such a policy?

1. *Just proportionality*. The wealthy would not be required to pay beyond their own interest; at the same time, the poor would not be burdened.

2. *Better incentive for wealth creation.* By removing the curve, there is no built-in disincentive not to be more productive.

3. *Reduced bureaucracy.* By removing the myriad of details in taxation law, much of the bureaucracy could be set loose into the private sector, which would be of benefit to the overall economy. Meanwhile, the reduction in the size of government would also be of at least indirect benefit to the cause of liberty, on the principle that the larger the government, the more “liberty space” it occupies.

4. *Removal of disincentives to rational business practices.* The presence of myriads of loopholes and tax deductions effectively encourages businesses and individuals to engage in uneconomic business practices. Eliminating the allowable deductions would encourage businesses and individuals to plan and spend money more wisely.

I'm sure there are other benefits I haven't mentioned - and perhaps you have downsides in mind, as well. But I believe that, in the interests of both justice and the economic good of the nation, this is an attractive and just approach.

*Note: The above of course is a proposal regarding income tax, and does not address the various other forms of taxation which exist. It is not my purpose here to deal with those, but they are necessary to complete the full equation if we are to arrive at any consensus regarding what amounts to just and reasonable taxation.*

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