Introduction

Taxation may be one of the main topics of any discussion about economic issues. This makes sense because it plays an important role in personal decisions, as well as in professional decisions for most people. However, as we stress in the present book, quite often people are not aware of the real tax burden they have to pay, so their propensity to react against taxation is diminished. But this may not be the case in countries where the total amount of taxes is very high. Such is the case, unhappily, in my country, France, where people have the – correct – feeling that one has reached an exceptionally high level of compulsory levies and that the time for reform has probably come. By the way, I may use in the current book several examples derived from my own experience, although it aims mainly at a general economic analysis of taxation. But the French experience – the one which, obviously, I particularly know – may be very useful in evaluating the consequences of overtaxation and analyzing the experience of other countries, either with a high or a low rate of taxation.

The tax reform, which was already indispensable for decades in many countries, has now become a priority. The continuous growth of compulsory levies and their increasingly arbitrary and uncertain character is indeed the major cause of the persistent economic crisis and rising unemployment in many countries. It is obviously convenient for governments to invoke the financial and economic crisis which began in 2007–2008 to explain economic stagnation and rising unemployment. But one should not forget that this economic crisis may be grafted in many countries onto a long-term structural crisis characterized by low growth rates and high unemployment rates. Unfortunately, rather than radically changing their policies, many governments preferred to partially offset the adverse consequences of their policies by implementing compulsory transfers which prompted them constantly to increase the levies and thus to worsen the economic situation.

In such cases there is an urgent need to break this vicious circle, to curb the collectivization of economic activities – which is the cause of unemployment and low growth – and thus to restore the discipline of individual responsibility. No economic policy could succeed without adopting a totally different tax policy. The current book explains the tax reforms which ought to be considered as policy priorities in these countries in which citizens suffer from a structural economic crisis, but also in other countries because it is always desirable to have a tax system that is as fair and efficient as possible.

Unfortunately, it is frightening to see that, despite the importance and the urgency of a profound change in tax systems, debates and decisions about taxation quite often focus on details, more or less technical, without principles and an overall vision. Governments simply do minor changes: They increase by a few points the rate of a tax, they add a tax to the already impressive list of existing taxes, they change a ceiling for exemption, they delete a tax shelter, etc. The arbitrary will of the state imposes on citizens a complex and mostly not understandable system, and makes them live under the constant threat of tax increases. A citizen feels completely helpless in front of such a tax fury and the uncertain and despoiling character of the tax system rightly gives them the feeling of being subjected to a real tyranny.

Many countries became tax hells. But rather than getting their citizens out of these hells, governments prefer to tackle "tax havens". In the name of equality, one cannot accept that some people are in heaven while others are in hell, but instead of driving everyone to heaven, governments try to lock everyone in hell.

In fact, there is a striking contrast between the countries in which the tax burden has continued its inexorable increase and those which were able to initiate a more or less deep tax decrease. In the first category – such as the case of France – growth is weak, unemployment is increasing, the budget deficit is more worrisome. In other countries, tax reforms – sometimes bold – were decided during the 1980s or later. This was the case in the United States and the United Kingdom. But other cases, probably less well-known, are perhaps even more significant. Thus, in New Zealand, where a Labour government has decided from 1984 numerous liberalization measures, the highest rate of income tax decreased in a few years from 60 to 24 percent. The growth rate has increased, unemployment has fallen, the public budget has shown a surplus.

Thus, though there are a number of satisfying exceptions, it is no less true in general that the tax burden became unbearable in most Western countries, and that citizens increasingly expressed their refusal of this growing burden. This frustration is legitimate and the present book strives to explain it. But it mainly aims at proposing thorough thoughts about taxation and the state, about the real role of taxes, and about the priority reforms which can be inspired by a consistent vision of the functioning of our societies. Taxation has such an importance and so many implications that one should not content oneself with mere superficial observations, self-interested proposals, or knee-jerk reactions.

This book will probably affect thinking habits and those who will be disturbed in their intellectual routine or their interests may consider it as extreme or even extremist. But the extremists are, in fact, those who mutilate human actions by tax plunder, those who listen to them and push to the extreme their lack of intellectual courage.

Taxes are complex phenomena and they greatly influence individual choices in ways which are not easy to grasp. The understanding of tax phenomena is therefore impossible without a sufficient knowledge of the means by which the cooperation between individuals takes place, beyond formal appearances and abusively simplied quantifications. Accepting this theoretical detour in order to put taxation back in the context of the *actual* working of human societies, is the only way to avoid disappointment. As we already pointed out, tax reforms have been fashionable in recent decades in a number of countries around the world, be they developed or underdeveloped, with governments either on the right or the left. And the reforms which have been carried out have often been deep and successful.

But any reform is not necessarily good and the desire for tax reform may sink on the pitfall of intellectual tinkering. Each of the participants in political debates puts forward his list of exemptions, of changes in rates, of deletions or creations of taxes, from the partial view he has about the social system, the limited available information he may have, and the special interests he wishes to support. Therefore, any tax reform may ultimately be the result of laborious compromises between these different partial visions and different interests.

Whenever an entrepreneur, a mother and a father in a family, or a wage earner make decisions, they do not have the theoretical knowledge of the functioning of the society to which they belong, and it is not this knowledge which allows them to adjust their decisions to the *actual* functioning of their society. But they have powerful signals which allow them to respond continuously to the actions made by others. Thus, the extraordinary sum of knowledge contained implicitly in the price system is largely neglected in the case of public decisions because these are "off-market" phenomena. Moreover, policymakers have usually not been trained to understand the ultimate consequences involved in their decisions. And they are also more motivated by short-term electoral targets and the search for the satisfaction of specific interests than by a correct assessment of the effects of their acts which, although they are often invisible and non-quantifiable, are no less real.

Therefore, this book aims at overcoming appearances in order to better understand the reality and to help make the design of tax reforms consistent with this reality. By pursuing this way of thinking one realizes that a tax does not hit what one may believe, but that it has ignored and unwanted effects, so that one should say in one word that any tax is arbitrary. Any tax, indeed, represents a forced levy of resources from individuals who have created them and who give them a subjective value which is necessarily unknown by an outside observer, in order to give them to other individuals, without knowing the value that they will attribute to them. Taxation is necessarily arbitrary and unfair because it mutilates human projects through decisions based on statistical concepts independent of any human reality.

In fact, one usually evaluates taxation through insignificant a priori categories: One wonders, for example, what is the relative weight of taxes on businesses and on households, on managers and on workers, on working persons and on retirees, etc. However, such comparisons are completely devoid of any meaning, as the one who is supposed to pay a tax is not necessarily the one who bears the actual burden of this tax, as we will see in this book. What is important is knowing how the actions and choices of individuals are affected by the tax system and which are the consequences for themselves and for others.

We pay special attention in this book to capital taxation. This is justified for a practical reason, namely the fact that debates about taxation frequently focus on the comparison between the taxation of capital and that of labor and also the fact that capital taxation has a crucial role in the economic development of many countries. But there is moreover a reason of principle: Capital is the expression of time in the life of human beings. However, one should be struck by the fact that, in spite of this temporal dimension, taxation is based on static concepts: It strikes what exists, what is found – more or less well – at one point in time, but it does not care about the ways in which human acts relate to each other, from one individual to another individual, from one moment in time to another. It breaks all of these links by which human minds are building the future from the past.

If this book aims at being a way of understanding reality and an efficient instrument to design tax reform, it does not provide a detailed reform plan. It only indicates the directions that should necessarily be taken in order to avoid the coming years becoming a continuation of decades of collectivism in most countries, which is both harmful for economic prosperity and for the freedom of human beings.

Those who have to decide tax reforms will necessarily fail if they decline to undertake in-depth reflections of the type that we have tried to carry out in this book. It provides the intellectual weapons necessary for those who wish to influence public decisions and who have the possibility to do so, in order to improve the working of states for the welfare of citizens. Among other things, it aims at getting the attention of politicians, with the hope that there will be a sufficient number of them ready to help us to get out of the tax tyranny of which we are victims. It aims at preventing any state from being a place of confrontation of special interests and a dispenser of privileges. Reducing taxes means giving back to human beings their full freedom of choice, and allowing them to act in accordance with their very nature. A policy of liberalization could be conducted more quickly and better accepted than is often imagined. And it would in any case meet a moral requirement.

By the Same Author

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