

BOOK REVIEW

TAX TYRANNY

PASCAL SALIN

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Pascal Salin is one of the most important Continental European economists. Throughout his career, he has developed and defended the principles of a free society against the encroachments of the state. He started off as a Friedmanite in the 1960s and then turned ever more Austrian through his personal encounters with Friedrich von Hayek in the 1970s, which led him to discover and appreciate the works of Ludwig von Mises, Murray Rothbard, and Israel Kirzner. He is the author of about two dozen books. His main research fields have been competition, international monetary economics, international trade, macroeconomics, and public economics. He has also become well known as a champion of Austro-libertarianism, especially through his treatise *Libéralisme* (2000).

Even though Professor Salin is very prolific, most of his writings have been published in his native French. The book under review is therefore very welcome, being the first English edition of a text

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that has been published in several French editions starting in 1985. It was first published under the title *L'arbitraire fiscale* and then, in 2014, under the current title, *La tyrannie fiscale*. It has also been translated into Italian and other languages. The book has 206 pages, is organised into 12 chapters, and comes with a 7-page index.

Tax Tyranny is an essay on the principles of taxation. It is written in a non-technical way and accessible to a broad readership. It serves very well as an introductory text for undergraduates, most notably in macroeconomics or public economics, but it also carries a lot of original food for thought that deserve the attention of scholars and tax practitioners. The central thesis is that there are no rational grounds for taxation and taxation can therefore never be justified. By its very nature, the tax state can never be a just state. When it taxes its citizens, it is willy-nilly arbitrary and tyrannical.

Professor Salin starts off highlighting the destructive nature of taxes and then walks through the various arguments designed to present proportional taxation ("flat tax") and even more so progressive taxation of incomes and savings as a matter of distributive justice. Because these justifications do not withstand scrutiny, chapter 2 carries the title "The myth of progressive taxation." Salin argues that the principle of equality before the law is irreconcilable with proportional and progressive taxation. The core of his argument is that it is impossible to objectively assess the real income and real wealth of each citizen. Incomes and wealth have various personal dimensions which cannot be readily translated into monetary terms. As a consequence, when the state sets out to tax the citizens by relying only on their monetary income, respectively on the monetary expression of their wealth, it deals with the citizens not on equal terms, but creates privileges for some and disadvantages for others. This leads him to a radical conclusion: "The choice of income or wealth as a tax base does not correspond to any criterion of rationality or justice. It is as arbitrary as would be a modulation of the tax according to the age or the color of the skin of a taxpayer." (p. 35) Proportional and progressive taxes are arbitrary by their very nature. They *cannot* be based on an equal treatment of the citizens. The taxing state is a tyrannical state. Its deeds are not based on reason and justice. "The reality is very different: Just as a robber has interest in attacking the one who has money rather than the one who has no money, the state takes the money where it is." (ibid.)

In chapters 3 through 5, Salin then zooms in on the over-taxation of savings, which are subject to multiple and overlapping layers of taxes: “[...] the one who saves may have to pay the income tax for his current savings, the wealth tax for the accumulation of the same savings, and the income tax for future yields of these savings. [...] Thus, the extraordinarily arbitrary character of the income tax is due to the fact that certain resources are taxed once, others twice, and some not at all.” (p. 52)

Let us also quote the following passage from the brilliant chapter 4, where he deals with inheritance taxes:

“We may also eliminate immediately the statist argument that inheritance is not ‘fair’ because it has not been ‘earned’. Such an accusation is indeed funny coming from people whose resources are obtained by coercion and whose main objective is usually to increase the share of the incomes of citizens that does not depend on the services that they have provided to others. Why would it be ‘fair’ to receive a non-earned income when it comes from the state and not when it comes from one’s parents?” (p. 67)

The macroeconomic impact of the over-taxation of savings is discussed in chapter 6. Pascal Salin argues that an economy starved of savings suffers from low or negative growth rates. As a consequence, political leaders are tempted to replace savings by cheap credit out of the printing press, which in turn makes the economy prone to economic crises. In chapter 7, he presents a general conception for tax reform, very much in line with the idea of a pure consumption tax according to Irving and Herbert Fisher (1942).

Chapter 8 deals with the problem of the incidence of taxation. Salin here makes the standard point that the persons who pay a tax are not necessarily the ones who bear it, that is, it is not necessarily their revenue that diminishes as a consequence of the tax. But he adds a few important considerations. He argues that firms do not bear the incidence of taxation for the simple reason that firms are legal and administrative abstractions (see pp. 83f, 120). Firms are nothing but contracts between human beings, and any taxes that have to be paid by a firm therefore ultimately fall on the individual human beings that are contractually related to that firm, be it as employees, suppliers, directors, or customers. Moreover, it is impossible to determine *a priori* which one of these parties

will effectively bear how much of the tax. The incidence of taxes on profits and of corporate taxes depends on the subjective appreciation of all parties concerned and on other concrete circumstances prevailing in the institutional environment.

The true significance of the amount of taxes paid by firms, therefore, is that the incidence of that exact same amount is blurred. Pascal Salin stresses the implication: "This figure [the amount of taxes paid by firms] is first and foremost an indication of the arbitrariness of taxes! The usual claims about the fair and efficient aspects of taxation appear particularly questionable when one understands that *we do not know who actually pays* [bears] *such an important part of taxes.*" (p. 124) A few pages later, he elaborates on the political significance of this fact: "Precisely because one does not know, no pressure group fights against this category of levies apart from the organisation of entrepreneurs." (p. 126) But the representatives of such organizations are poorly interested in taking up the fight against the taxes paid by firms because the incidence on themselves is not clear and likely to be small. "Thus who is likely to promote and to make people accept the idea that all levies on firms should be suppressed? [...] *Levying taxes on firms, i.e. on taxpayers who do not have voting rights, is certainly ideal!* It is therefore not surprising that taxation is arbitrary, irrational, and unfair." (p. 126)

In the last four chapters, Professor Salin criticises the most important justifications of taxes. In chapter 9, he argues that the state is a bad insurer and therefore unfit to set up and run state-sponsored insurance plans, most notably public health insurance and public pension schemes. Similarly, there is no reason to entrust the state with the mission to take care of the young, the elderly, and the handicapped. In his words:

"It is [...] undeniable that the exercise of solidarity is present in every society and that it is the result of a sense of benevolence characteristic of the human mind. [...] but it is necessary to challenge the claims of statesmen [...] to use the alibi of solidarity to justify actions that should be covered by insurance and, on the other hand, to monopolize the exercise of solidarity, all the more so since they give to this term an indefinitely expandable content. They make solidarity mandatory (therefore amoral), unconditional (therefore immoral), and funded by coercion (therefore unfair)." (p. 135)

In chapter 10, Professor Salin deals with another fashionable idea, according to which taxation should be “harmonised” internationally in order to create a “level playing field” for market competition. This idea has played an important role in the political integration of the European Union and also in the context of NAFTA and other trade agreements. Salin delivers a short and elegant explanation why the whole idea is ill-founded: it ignores the economic principle of comparative advantage. “Even if the real costs of production are higher for all products in one country than in another, trade is possible and profitable, as there are differences in *relative costs*.” (p. 147) He concludes: “If ever the differences in the tax rates could explain differences in absolute prices of goods [...] they would strictly have no influence on *relative prices* between goods. Therefore, in accordance with the general principle of specialization, they would not affect the trade between both countries. For this simple reason, the harmonization of tax rates is therefore unnecessary.” (ibid.) Pascal Salin therefore recommends we forget the idea of harmonizing tax rates. The proper focus should be on tax competition.

In chapter 11, he then proceeds to dissect the most important economic justifications of the state, most notably, the theory of public goods. In the final chapter 12, he applies similar scrutiny to the idea that taxation could be based on consent rather than on coercion. He refutes the idea that democracy could be a substitute for individual consent, as well as the idea of a social contract. In fact, in his eyes, none of the typical justifications of the state holds water. And he stressed the inescapable conclusion: “Any tax is arbitrary, all taxation is based on the use of coercion.” (p. 183) When it comes to tax reform, the best that can be achieved short of abolishing the state, is apply a series of second-best remedies. “Limiting arbitrariness, getting closer to the wishes of the taxpayers, such is the minimum program which can be proposed.” (ibid.)

The preceding selection of highlights from *Tax Tyranny* should not be misinterpreted as some sort of an executive summary. The book is much richer and warrants attentive study by all students and professionals. As a token of our own attentive reading, let us single out a few shortcomings of this otherwise excellent piece of work.

The most annoying deficiencies concern two editorial matters: endnotes (rather than footnotes) and the quality of the translation.

Pascal Salin is a very elegant and clear writer in his native French. Regrettably, the English rendition is often wooden and occasionally suffers from with oddities and inaccuracies. For example, while on p. 47, the text contains the correct phrase of the “correspondence between capital and income,” at other places it features the patently wrong phrase of an “equivalence between income and capital” (pp. 46, 54 *et passim*). On page 121, the sentence “However, the existence of these burdens does not affect employees [...]” is incomprehensible and should in fact read “However, the existence of these burdens does not *only* affect employees [...]”

Tax Tyranny is an essay and not meant to be a thoroughgoing treatise with full documentation. Still it would have been appropriate at several places to quote Amilcare Puviani’s (1903) theory of fiscal illusions, and it would have been nice to find a reference to Friedrich von Wieser (1893 [1889], Bk. VI, ch. IV), who justified the progressive income tax with the help of marginal value theory, an approach that Salin criticizes very pertinently (see pp. 20–23). Moreover, Professor Salin occasionally quotes Murray Rothbard’s *Power and Market* which, while much larger in scope, covers the same ground as *Tax Tyranny*. It therefore would have been very helpful if Salin had taken the pains to discuss Rothbard’s (1977 [1970], 108ff) arguments against the very possibility of a pure consumption tax, as well as Rothbard’s related case against the very possibility and desirability of taxing consumption more than savings (*ibid.*, pp. 99f *et passim*).

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