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CHAPTER 4
The Language of Taxation: Ideology Masquerading as Science

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The economics of taxation is part of the economic theory of public finance. However, economists have thought about matters pertaining to public finance along two distinct paths. The more prominent path today treats public finance as a servant of practical statecraft. Along this path, theorists seek to develop ideological articulations that facilitate the marshaling of support for particular political programs. The less prominent path treats public finance as part of the science of economics. The science of economics seeks to explain how it is that societies exhibit generally orderly patterns of economic activity even though no one is in charge of creating that order. Similarly, a science of public finance would seek to study the observed organizational patterns that emerge out of political activity once it is recognized that such patterns are far too complex to be simple products of choice by some political figure. Somewhere on the order of 40 to 50 percent of economic activity these days is organized through political and not commercial activity. No person or office can truly direct that much activity. On the contrary, that volume of activity can only be an emergent quality of some process of democratic competition. The explanatory challenge along this analytical path is to explain how generally orderly patterns of fiscal activity arise without embracing what

Mitchel Resnick (1994) calls the centralized mindset, by which he means the tendency to attribute orderly patterns to some ordering agent when there is no such agent who creates that order. Just as the orderliness of a market economy arises through a competitive process, so too do fiscal patterns emerge through complex processes of democratic competition.

These distinct orientations for public finance were contrasted cogently by the Italian economist Antonio de Viti de Marco in his preface to the 1936 English edition of his *First Principles of Public Finance*. There, de Viti (1936, 15) notes that for the more popular conception of public finance "the phenomena of Public Finance give rise to problems, not of theory, but of practical statecraft . . . [about which] each writer has recourse to his personal ideals of social justice, on the basis of which he offers gratuitous advice to the politician, often without noticing that the latter accepts the advice and follows it only in so far as the precepts . . . happen to coincide with the interests that the politician is defending." In contrast to this normative path, de Viti set forth his scientific vision: "I treat Public Finance as a theoretical science, assigning to it the task of explaining the phenomena of Public Finance as they appear in their historical setting." With respect to de Viti's contrast between normative and scientific orientations, it is worth noting that de Viti spent some 20 years as a member of the Italian Parliament in addition to serving as a professor of public finance, as Giuseppe Eusepi and Richard Wagner (2013) note in their explanation of the contemporary relevance of de Viti to the theory of public finance, as Manuela Mosca (2011) sets forth in her synopsis of de Viti's life and work, and as Michele Giuranno and Manuela Mosca (2016) amplify in their examination of de Viti's (1930) explicitly political writings.

The material of public finance thus occupies an equivocal position in the framework of economic theory. An explanatory science of public finance seeks to explain fiscal outcomes and patterns as emerging out of complex processes of political competition, as Buchanan (1967, 1968) exemplifies and which Wagner (2007) explores. For this explanatory science of public finance, fiscal phenomena are to be explained along the same lines as economists explain market phenomena as arising through competition among producers to satisfy consumer demands. An explanatory theory of public finance, however, is not useful to participants in the fiscal process. For participants, the central task is persuasive and not explanatory: it is to gain support for their favored programs in competition with others who favor different programs. Such participants need a scientific-sounding language that is able to resonate more effectively with voter sentiments than the language used by supporters of other programs.

A language that seeks to explain or characterize the outcome of a competitive process is not suitable for strategic use by participants in that process. The contemporary theory of public finance is thus an amalgamation of two distinct dialects. A scientific dialect is suitable for a posture of detached or disinterested observation, where the analytical challenge is to explain how observed patterns of taxing and spending reflect institutionally governed processes of fiscal competition. In contrast, an ideological dialect seeks to create images that resonate with the sentiments of the population and use that resonance to lead voters to support particular political programs. This admixture of scientific and ideological dialects leads the economic analysis of taxation to tuck a variety of ideological presuppositions behind a facade of science, as Louis Eisenstein ([1961] 2010) explains masterfully in his examination of the rhetoric of tax analysis. An Italian economist from a century ago, Amilcare Puviani (1903) developed an explanatory theory of public finance based on the twin presumptions that supporters of political programs seek systematically to exaggerate the benefits from those programs while understating the costs. The vehicle for doing this entailed the creation of ideological smokescreens that operated to soften the opposition to taxation. Puviani has not been translated into English, but Buchanan (1967, 126–43) provides a short introduction to Puviani's thought. Furthermore, Puviani has been translated into German (Puviani 1960). In his foreword to Puviani's book, Schmölders explained that "over the past century *Italian public finance has had an essentially political science character*. . . . This work [Puviani's book] is a *typical product of Italian public finance*, especially a typical product at the end of the nineteenth century. Above all, it is the science of *public finance combined with fiscal politics*, in many cases giving a good fit with reality" (Puviani 1960, 8; my translation and italics).

I start this chapter by describing some of the efforts of economists acting through the years as fiscal philosophers to set forth maxims for a good tax system. These writings are then contrasted with fiscal practice, finding that the practice of taxation bears but faint resemblance to the philosophical writings. Subsequently, the paper examines two specific contexts where the writings of fiscal philosophers create ideological images that obscure the activities of political realists. These two contexts are (1) so-called redistributive taxation and (2) so-called corrective taxation. As Wagner (2012) illustrates with particular regard to macroeconomics and public finance, it is possible to bring economic theory to bear on the construction of economic theories. In part, economic theories are generated in response to curiosity about how generally orderly patterns of economic activity are able to emerge in societies even though those societies are not directed by some master puppeteer. Economic theories also arise from desires some people have to shape and control societies, with those desires typically manifested through political action. A good deal of economic analysis explains why programs of political control can have at most modest success accompanied by myriad consequences that were neither desired nor intended, because those questions cannot be answered scientifically in the first place. Such programs lead to ideologies masquerading as science along the lines that Eisenstein ([1961] 2010) recognized.

IDEOLOGY, SCIENCE, AND TAXATION

Above the entrance to the headquarters of the Internal Revenue Service in Washington, DC, is chiseled a quotation from Oliver Wendell Holmes: "Taxation is the price we pay for civilization." This quotation contains a significant truth, though one whose reach is limited and is also easily corrupted. The truth resides in the quote's recognition of the wisdom reflected in the Declaration of Independence's assertion that a free people establish governments to preserve and protect their prior rights of person and property. Governments do not truly create or grant such rights, contrary to the effort by Murphy and Nagel (2002) to treat governments as the source of individual rights. Instead, the Declaration of Independence recognizes that governments are instituted to fend off predators, both foreign and domestic, though the possession of such power also enables governments to become predators themselves.

Experience through many millennia has shown that political power is easily abused, both through evil and through kindness. By "evil," I mean any intentional usurpation of political power by someone who has the ability to do so. Carl Schmitt ([1932] 1996) argued that holders of political power always have some range of autonomy in conducting their offices. While political power can be constrained to some degree through the construction of suitable constitutional arrangements, such products of construction will always be incomplete. Among other things, exceptional circumstances will always arise that are not covered by constitutional constraints or legal principles. In these circumstances, the holder of political power possesses some range of autonomous action. In such circumstances, the holders of political power can act arbitrarily in doing what he or she regards as advantageous, regardless of the abuse this might wreak on other people. This form of abusing power receives the bulk of historical attention and conforms to the arbitrariness against which the tea partiers in Boston reacted in December 1773.

While this commonly perceived form of abuse corresponds to widely held notions of the evil side of power, abuse can also arise through acts of kindness, or at least what are widely considered actions that stem from kindness (even if some might think such kindness is misguided). Charles Warren's (1932) treatment of *Congress as Santa Claus* illustrates lucidly how power can be abused through kindness, leading in turn to constitutional erosion through the years. Warren traced the changing interpretation of the general welfare class throughout the nineteenth century until early in the twentieth century, which Runst and Wagner (2011) examined in their effort to develop an explanatory rather than normative theory of constitutional process. Originally, the general welfare clause of the American Constitution was interpreted to limit Congress to restricting appropriations to projects that promoted the general welfare as distinct from promoting the welfare of particular people in the nation. As Warren explains, a suggestion that Congress make an appropriation to aid some drought-stricken residents of Ohio was overwhelmingly rejected, because doing that would violate the general welfare clause. In pointing out this unconstitutionality while also recognizing the dire straits of those farmers in Ohio, Representative David Crockett of Kentucky recommended that the members of Congress collect contributions among themselves to distribute to those stricken farmers.

Throughout the nineteenth century, similar situations arose that invariably fueled sentiments in Congress to offer aid despite recognition of the Constitution's prohibition on making such appropriations. During this period, suggestions for awarding such aid increasingly were accompanied by ideological claims that such aid actually conformed to the general welfare limit on appropriation, as against being for the welfare of a small subset of the nation's population. Support for such measures increased in Congress throughout the century, eventually passing near the end of the century with an appropriation to aid drought-stricken farmers in Texas. This measure was vetoed by President Grover Cleveland. By the 1930s, such measures no longer received presidential vetoes, and the general welfare clause had effectively been transformed to mean that the general welfare was whatever Congress declared it to be.

The general welfare clause, as it was originally understood, supported nondiscrimination in congressional budgeting. An appropriation for the construction of roads that facilitated transit among the states could be reasonably reconciled with the general welfare clause in light of the Constitution's establishment of a free-trade zone among the states. The construction of the interstate highway system that started in the 1950s would surely be congruent with that free-trade basis, though in this case President Dwight

Eisenhower supported the program based on the defense power of the federal government. In contrast, an appropriation to construct roads in a particular state or a subset of states paid for by federal appropriations would not pass a reasonable test of constitutionality, because it would represent a discriminatory taxation of citizens of some states for the advantage of citizens in other states. Eventually, however, the general welfare clause was reinterpreted to mean that any appropriation would fit the general welfare requirement should Congress declare that this was its intention. This transformation from relatively nondiscriminatory to relatively discriminatory taxation and appropriation was accompanied by ideological articulation that enabled willing listeners to believe that the discriminatory measures being supported were consistent with the generality principles asserted in the Constitution.

The writings of the fiscal philosophers provide tools to enable this transformation. With taxation recognized to be the price we pay for civilization and with Congress as a representative body that determines what constitutes the general welfare, the ideological stage is set for fiscal discrimination according to the logic of interest group politics along the lines that Warren (1932) explained. With taxation as the price we pay for civilization, whatever taxes are imposed and however they are imposed is better—according to the dominant ideological framework—than the alternative that would result if they were not imposed. The ideological sentiment that the aforementioned quotation chiseled into the IRS headquarters building elicits holds no room for the possibility that taxation beyond some point can become destructive of civilization. Nor does it hold room for recognition that people can generate significant civilization with little governmental involvement along the lines that Edward Stringham (2015) examines in showing how good social order can be generated without the use of force by governments.

In his 1776 masterpiece, *The Wealth of Nations*, Adam Smith advanced four maxims for a good system of taxation. Those maxims were that (1) a good tax should be levied in proportion to a taxpayer's ability to pay, (2) individual liabilities should be certain and not arbitrary, (3) taxes should be convenient to pay, and (4) taxes should be limited to what is necessary to cover the expenses of the state. These maxims have been carried forward to this day in public finance textbooks, even though they also contain significant ambiguity, which can be illustrated by considering Smith's first maxim.

To levy a tax in proportion to ability to pay is inherently ambiguous, in contrast to taxation based, say, on height or weight, because the notion of an ability to pay tax has no established meaning. That notion can acquire meaning only as a reader supplies that meaning. Different readers, and speakers, can easily supply different meanings, as the historical record shows. The ability to pay tax could be defined as based on income, pure and simple. In this interpretation of Smith's maxim, someone who has twice the income of another would be judged to have twice the ability to pay tax. Under this interpretation, Smith's maxim would yield a flat rate of tax on all income. Surely a good number of people would find this form of taxation intuitively or ideologically reasonable.

Just as surely, many people's intuition and ideology might hold that the ability to pay tax starts only after a taxpayer has attained some base level of income that is thought necessary to keep that person materially comfortable. This interpretation of Smith's maxim would yield a flat rate of tax coupled with some tax-exempt level of income. Just what that exempt level of income might be is not covered by Smith's maxim, and instead can only be determined by political power as abetted by ideology (de Jouvenel 1948). It would be easy to arrive at a tax-exempt level of income whereby half the voting age population is exempt from tax, which is approximately the case for the American federal income tax today. For people in this position, there is no limit to the size of government they might support when financed through income taxation, because the activities that government undertakes are free to people who have tax-exempt status. Once an exempt level of income is brought into play, the clarity of Smith's maxim vanishes, because that maxim is incapable of determining the level of tax-exempt income.

The situation becomes even murkier once the principle of a flat rate of tax is left behind and replaced by the principle of progressive taxation. A flat rate tax imposes the same rate of tax on all taxpayers, even though the presence of an exempt level of income will affect the share of the population that pays tax. In this case, tax discrimination is limited to the selection of the level of income to exempt from tax. Progressive taxation injects an indefinitely large number of points of discrimination into the tax system. Moreover, income is not some natural object that exists in a society. On the contrary, income is defined by acts of legislation in conjunction with rules issued by the Internal Revenue Service. It is easily possible to imagine a combination of progressive rate structure and a wide variety of exclusions and exemptions from income that lead to each taxpayer being assigned a unique tax liability. This situation would represent the fiscal equivalent of the perfect price discrimination that appears in textbook illustrations of monopoly. The actual extent of such tax discrimination will be a product of political power and the ideological belief that supports it, even if fiscal philosophers curtsey to Smith's maxim, which is silent on such matters.

Smith's maxims allow a speaker to feel good about his or her speech supporting one form of taxation over another. One can invoke a principle of ability to pay to support a flat tax on a comprehensive income base. One can do the same while allowing small exemptions for very low income. One can also do this while increasing the tax-exempt level of income. Similarly, one can readily support exclusions and exemptions from the comprehensive base by adducing ideological formulations about the general public welfare, along the lines that Charles Warren (1932) set forth. It is likewise easy to develop ideological arguments to explain that a progressive rate structure does not entail tax discrimination, because progressive rates are warranted by some principle of equity that everyone would support from behind some imagined or hypothesized veil of ignorance. Smith's maxims provide a grammatical framework in which a supporter of one tax measure over another can feel good about his or her proposal for reform, because that proposal can invariably be reconciled with one of those maxims. This is the virtue of ambiguity, which Smith's popular maxims have in spades: almost any tax scheme can be portrayed as consistent with Smith's maxims, for there is very little that those maxims exclude, due to the linguistic elasticity that the notion of ability to pay entails.

REASON, RATIONALIZATION, AND POLITICAL PRICING

Vilfredo Pareto ([1916] 1935) explained that rationality plays out differently in market settings than in political settings, and Patrick and Wagner (2015) illuminated the resonance between Pareto's thought and public choice theory. In market settings, consumer action follows an if-then pattern, which Pareto described as "logical action." Consumers can compare options and make choices based on their evaluations of those options. Those options, moreover, can be tested by consumers and compared against other options. In some cases, this testing and comparing is a simple matter of direct physical examination, as when flashlights might be examined to compare the strengths of their beams of light. In other cases, evaluation must follow some preceding experience with the good or service, as in buying cars. Furthermore, competition among sellers also generates a variety of error-reducing measures. Among other things, sellers realize that they must overcome consumer hesitancy to make purchases in advance of experience with such goods, especially relatively expensive ones. Sellers can mitigate such hesitancy by doing such things as offering warranties, being willing to accept returns in some specified period of time, and offering free samples. Moreover, consumers can do such things as compare television sets as a by-product of staying in hotels during their travels and also renting different makes of car during those travels. Consumer action in market settings conforms to that of a scientific experiment: a consumer forms an if-then hypothesis and then tests that hypothesis by paying for and using that product. This situation led Pareto to describe such behavior as logical action.

In contrast, Pareto described action in democratic polities as nonlogical. This description does not assert that such action is irrational or chaotic, as opposed to action that is intelligible. Instead, it recognizes that the substance of rational action depends on the environment in which action occurs, similar to Gerd Gigerenzer's (2008) treatment of rationality as entailing interaction between a person and the particular environment in which the person acts. To treat political action as nonlogical simply recognizes that such action does not conform to the if-then framework of consumer action in market transactions. With political action, no immediate and observable connection exists between action taken and the resulting consequence that the person experiences and can evaluate. Furthermore, political competitors are aware that no such connection exists, which gives political rationality a different substantive content than market rationality. Political competition revolves around candidates competing largely by creating images that resonate better with the ideological sentiments rooted deeply in voters than do the images crafted by other candidates.

While taxes have been described as the price we pay for civilization, taxes are not prices in the ordinary sense of the term. Tax revenues are not derived directly from the supply of services by governments. Rather, those revenues are derived by governments making parasitical attachments to market transactions, as Maffeo Pantaleoni (1911) explained and as Richard Wagner (1997) elaborated. Market prices serve as instruments of commercial navigation that direct producers toward some lines of activity and away from other lines. Taxes serve no similar purpose. For instance, an income tax is a parasitical attachment to transactions that yield income. Similarly, excise taxes are parasitical attachments to transactions in which particular products are bought and sold. Where market transactions offer guidance for the organization of production through the prices those transactions generate, the parasitical attachments to market transactions that taxes represent offer no such direct guidance, because the resulting revenues are not direct reflections of the demands for political activities.

In markets, businesses must sell their products in a setting where consumers can test producer claims, both by inspection and by experience, and producers must work with the selling costs that this environment holds. In politics, candidates must likewise sell their programs and also themselves, only the environment is not one where rival claims can be tested through inspection or experience. In a political environment, competition occurs through the creation of ideological images that resonate more strongly with a larger number of voters than the images offered by other candidates. Those images, moreover, must connect with voter sentiments or beliefs about themselves and the world. Pareto described these sentiments as "residues." These are the foundational beliefs and values, unobservable at that, from which particular sentiments and judgments spring. A common axiom of market theory is that consumers prefer more of what they value to less. This is not an empirical and disputable proposition; instead it is a prime quality of human nature that is necessary for speech to be meaningful. With regard to political competition, the relevant axiom is that people prefer to feel better about themselves and their actions than to feel worse. This elemental fact of human nature gives a different character to political competition than it gives to market competition.

Several ideologies regarding taxation can be observed. The claim that taxation is the price we pay to maintain good civil order, as represented by the notion that taxation is something we do to ourselves (as set forth clearly by Slemrod and Bakija 1996), is one such ideology. The claim that public debt is something that we owe to ourselves is another example. There is no way that voters can subject these claims to some if-then test grounded in experience. Taxes as the price of civilization or public debt as something we owe to ourselves is not a conclusion that people can reach from personal choice and experience. The causal arrow points in the other direction: from belief to action and not from action to evaluation of that action. Someone who is inclined to support particular political programs and candidates can always invoke reasons or rationalizations for doing so. Doing this gives a veneer of logicality to what is necessarily a nonlogical action.

Another form of ideology, articulated crisply by Vincent Ostrom (1984, 1996), treats taxation as a form of Faustian bargain. In this formulation, taxes are inherently instruments of evil in that they inject force into human affairs. It might be hoped that the bargain will bring more good than evil, but taxation is a Faustian bargain all the same. Richard Epstein (1985) advanced a similar formulation in describing taxes as "forced exchanges." Faustian bargains and forced exchanges are not wholly contrary to claims that taxation is something we do to ourselves to derive the advantages of civilization, but the two claims do point in divergent directions. The image of taxation being the price of civilization relegates to the remote background the possibility that taxation might reach destructive heights. The Faustian claim brings that possibility to the foreground, especially in light of the peculiar qualities of political competition relative to commercial competition (Wagner 2016).

The tea party in Boston that led to the founding of the United States recognized explicitly that taxation can become destructive. That founding was grounded on the recognition that individual rights of person and property took precedence over the claims of government. Government was not a source of those rights but rather was established to protect and preserve them. This simple principle provides guidance for taxation and tax policy. While the term "forced exchange" might appear a bit oxymoronic, it conveys an important truth. Government must possess some power to tax as a matter of necessity in light of the inability to fund governments wholly through voluntary contributions. Yet that power can be easily abused by using political power to confer advantage on favored groups while imposing disadvantages on others.

The central feature that enables governments to abridge rights of person and property through taxation is the ability to practice tax discrimination. To speak of "taxing ourselves" is surely to speak of a nondiscriminatory pattern of taxation, save to the extent that some people volunteer to pay taxes for other people. Yet taxation often rewards or punishes specific persons and forms of activity, as illustrated profusely in the essays collected in Shughart (1997). For instance, some people are punished for driving heavy cars, smoking cigarettes, and drinking alcoholic beverages. Other people are rewarded for having more children, home mortgages, or low incomes. Controversy surrounds these discriminatory activities, with supporters claiming they are socially beneficial, though such claims cannot be tested by voters directly through experience regarding the use to which their tax monies are put.

A tax code that reflects the principles of nondiscrimination might contain ten pages and would result in tax returns that could be filed on postcards (Hall and Rabushka 1985, 1995). The difference between that type of tax code and our present multivolume code testifies to the fecund ability of democratic competition to generate tax discrimination, as Hebert and Wagner (2013) explain. While fiscal philosophers give many arguments supporting nondiscrimination, political realists are continually promoting fiscal discrimination—and advancing scientific-sounding arguments to justify their desires to promote their favored forms of discrimination. Any instance of discrimination can be justified by claiming that it serves some greater public good. Typically, such claims cannot be tested directly by inspection or experience, which leads to a situation where ideology masquerades as science. For instance, it could be claimed that home ownership provides civic advantages that renting does not provide. Consequently, it could be argued that a city composed of homeowners would exhibit greater civic mindedness than would a city composed largely of tenants. Based on this claim, someone could reconcile support for nondiscrimination with support for giving a tax advantage to homeowners by allowing an income tax deduction for mortgage interest.

Voters have no way to determine the truth of this claim. Civic mindedness is ambiguous to its core, as is ability to pay. Civic mindedness is not subject to any kind of direct measurement that would allow voters to determine how much of it they are receiving. As a scientific matter, seeking to treat civic mindedness as something that can be elicited to a greater or lesser degree through tax policy is surely impossible, because the political process does not accommodate the if-then form of logical action. But why should or must voters judge their actions against their experiences? Doing this is possible only in settings where logical action is possible. In nonlogical settings, the desires piqued by successful ideological articulations carry the day. People either support or oppose a deduction for mortgage interest, and then they embrace those rationalizations that support their position.

INCOME REDISTRIBUTION AND IDEOLOGIES OF LEVELING

There would seem to be little room for doubting that from an individual's point of view, the best tax is always one that someone else pays. A principle of generality or nondiscrimination operates to resist fiscal discrimination (Buchanan and Congleton 1998). But it does not prevent it. After all, principles are not acting entities. Only people can act, and if they want to act in a discriminatory fashion, they will. To be sure, the human mind has a highly elastic ability to see what it chooses to see by the judicious use of names and labels. A system of income taxation where all income is taxed at the same rate would seem clearly to be nondiscriminatory as a simple matter of definition. Through relabeling, however, this form of income tax could be branded as discriminatory, because it subjects poor persons to higher real tax burdens than it subjects rich persons. The trick in achieving this relabeling is to transform income from a measure of what someone receives by multiplying that measure by some scheme of weighting by utility derived from income.

Francis Edgeworth ([1897] 1958) posed the problem of a ruler who wanted to raise a specified amount of revenue from his subjects in a manner that caused the least total sacrifice to those subjects. Paying tax reduced the income the subjects had for their personal purposes. Edgeworth posited that subjects received utility from their incomes, but with the marginal utility received from that income declining as income increased. In this setting, Edgeworth explained how a ruler could increase the total satisfaction of his subjects by transferring some income from people with high incomes who had low marginal utility to people with low incomes who had high marginal utility. By approaching income taxation in this manner, Edgeworth inspired what eventually became known as the theory of optimal taxation, an early version of which is given in Ramsey (1927). Atkinson and Stiglitz (1980) provide a wide-ranging survey, and Diamond and Saez (2011) provide strong support for progressive taxation in this analytical framework.

Edgeworth also recognized that such confiscatory taxation would reduce the incentive of people with high incomes to earn income. The receipt of transfers by people with low incomes would likewise reduce their incentives to earn income. The subsequent development of the notion of optimal income taxation formalized this recognition. Government became treated as the entity in society that would redistribute income so as to maximize aggregate societal welfare as this is defined by the income-utility construction. Government was no longer construed as having been established by citizens to preserve and protect their prior rights of person and property. It was now construed as a lord of the manor that was in charge of the happiness of its subjects, to which it tended by selecting a scheme of redistributive taxes and transfers that maximized aggregate utility. The relevant analogy for government was now of a benevolent parent who would choose how evenly or unevenly to slice the pieces of a cake when the size of that cake shrank as the pieces were sliced more evenly.

Optimal taxation is surely the predominant framework of tax analysis by economists today, but it is a peculiar framework: in its vision of the relationship between people and their governments, it treats governments as rearranging property rights to fit someone's notion of social welfare. Individual liberty evaporates in the ideology of optimal taxation, because it conceives the central task of government as optimizing some collective notion of happiness. The alternative is that people would attend to their particular notions of happiness in the framework of private property and freedom of contract.

If income below some base level is exempted from tax, then discrimination will have been introduced into the tax system. Additional discrimination will be introduced if marginal rates of tax vary with taxable income. To be sure, progressive tax rates are typically advocated based on some claim that such rates promote equitable taxation. What is equitable or fair, however, surely depends on what the speaker wants to say and listeners want to hear. We are operating in Pareto's world of derivations, where the speaker gives a logical-sounding reason to justify what has determined to be desirable on other grounds. Such a speaker can support redistributive taxation while embracing the principle of nondiscrimination, because nondiscrimination is defined as pertaining not to actual income but to some equity-weighted measure of income.

It is easy enough to understand why people whose incomes are exempt from tax would favor their tax exemption. It is equally easy to understand why people in neighboring income levels might like to see that exemption extended to them. It is furthermore easy to understand why politicians looking for votes would support tax exemptions that would favor significant numbers of potential supporters. No political figure, however, is going to announce support for discriminatory tax exemption as a strategy for securing support. The claims advanced through the use of income-utility functions are ideological constructions that employ a scientific-sounding vocabulary to support such measures. With roughly half the American population of voting age free of liability from the federal income tax, it is easy enough to see why such tax exemption commands strong political support. The ideological justification makes it possible to avoid claims of supporting tax discrimination by changing the baseline along which discrimination is measured; what was once an observable measure of income becomes an imaginary construction of a hypothesized utility from income.

CORRECTIVE TAXATION AS IDEOLOGICAL CONSTRUCTION

Tax theory has two main branches. One supports broad-based taxation; the other supports narrow-based taxation. Most fiscal philosophers treat the two branches as complementary. The narrow-based branch is often described by the term "corrective taxation." Where broad-based taxation is advocated as a means of supporting general governmental activities, narrow-based taxation is advocated as a means of overcoming what are claimed to be market failures of one form or another. Corrective tax claims mostly involve claims that market prices do not fully reflect the cost associated with the use of particular products. For instance, in choosing to drink alcoholic beverages, a consumer will pay for the ingredients used in making the product but not for the damage that sometimes is inflicted on other people by drunk driving. Alternatively, someone who drinks sugary beverages or eats fatty foods might pay for those ingredients but not for the higher medical expenses associated with a greater incidence of coronary problems associated with sugar and fat. Yet again, someone might pay for the materials required to make a computer without paying for the disposal of that computer in a nontoxic manner.

It is easy to claim that the consumption of distilled spirits entails the use of resources that are not reflected in the cost of producing those spirits. For the most part, such usage takes the form of damages done to third parties through automobile-related accidents. Such injury and property damage could be regarded as a cost associated with the consumption of distilled spirits. If one were to perform the "what if" exercise of imagining what would happen to the price of distilled spirits if producers were required somehow to buy permission to injure or even kill people and damage their property, the cost of producing distilled spirits would rise to reflect the cost of those inputs associated with the consumption of distilled spirits that are not reflected in ordinary market prices. This increase is typically described as a corrective tax to indicate that it is imposed to correct what are alleged to be market failures and not to raise revenue.

The ability to conjure up instances where a tax might be claimed to be necessary to correct incomplete market pricing is almost limitless. For instance, the use of throwaway bottles for beer and soft drinks might lead to an increase in litter strewn along highways and in parks. Such litter degrades the aesthetic value of the landscape, however this might be valued, and such a tax could always be advocated as a form of market correction. Alternatively, motorized lawn mowers disturb the peacefulness of the neighboring environment. Lawn mowers can be produced with various degrees of noisiness in their operation, with lower noisiness coming always at a higher cost of direct production. In this instance, it could be claimed that putting a tax on gas lawn mowers according to their decibel ratings would be a means of pricing the environmental degradation that these mowers unavoidably create. The result might be heavier lawn mowers that consume more gas but make less noise.

To argue that producers will produce more of something when there are inputs that they can use for free than if they had to purchase permission from the owners of those inputs is a truism. It does not follow, however, that the actual imposition of a tax will conform to the principle of corrective taxation. It is a simple blackboard exercise to show how a so-called corrective tax can overcome a postulated market failure. This exercise creates a fantasy world that bears little resemblance to reality. For instance, it assumes that the taxing authority has the knowledge necessary to replicate and correct actual market outcomes. Yet not even market participants possess such knowledge, and they know much more about their businesses and the markets in which they operate than do tax officials or politicians. The central thrust of the theory of markets is to explain how a socially coherent pattern of market activity emerges, even though no participant in that process knows how to produce that outcome. To presume that a politician has the necessary knowledge of relevant consumer preferences and firm production functions, and can compute an appropriate corrective tax, is fantasy: the relevant knowledge is never available in its totality. Rather it is distributed among producers and consumers, and only the operation of the market process itself makes it possible to summarize observed outcomes through simple blackboard exercises. There is no way to determine some "correct" market outcome independently of observing that process at work.

Corrective taxation does not describe some technique of market correction, for no such technique exists. Rather, it is an ideological construction that allows a speaker to advocate discriminatory taxation while claiming that it is a form of market correction and not a form of tax discrimination. Corrective tax claims strengthen the willingness of politicians to increase excise taxes by allowing them to make logical-sounding arguments that superficially appear to have nondiscriminatory character. This oft-repeated scene fits nicely Puviani's (1903) treatment of how the imposition of taxes conforms to some principles of fiscal perception and illusion. Rather than truly trying to offset market failures (if, indeed, such failures can be identified), perhaps the tax is supported because of a desire to increase public revenue, and some kind of rational-sounding argument is necessary to marshal support for the added tax.

Moreover, such tax measures are not reasonable approximations to the market transactions that the corrective tax claim presumes to be missing. The so-called corrective tax increases governmental revenue, but it does not compensate for the damages suffered by resource owners whose resources were used without their permission. For one thing, tax revenues accrue to the taxing governments and do not accrue to people who are damaged or who claim to be damaged by the taxed product. Furthermore, to the extent that uncompensated damage arises from consumption of a product, it arises from particular instances of consumption and not with production of the product per se. For instance, the consumption of distilled spirits at home is not a plausible source of external costs. Such costs are conceivable when people consume away from home and then drive home. But even in this case, most consumption is surely modest, so external costs would arise only in a subset of cases. In short, excise taxation cannot effectively distinguish among such attributes as the location of consumption or the drinking proclivities of consumers. The corrective tax idea, however, seems plausible, which makes such taxes easy for politicians to sell to voters. With respect to the selling of taxes to the public, no excise tax hits all products equally. Excise taxes can modify price relationships among products being subject to the tax. For instance, a tax increase of $10 per gallon on distilled spirits would lower the relative price of higher priced products, thereby reducing the ability of producers of less expensive whiskeys to compete with those making more expensive whiskeys.

DEMOCRACY AND TAXATION: A CONSTITUTIONAL QUANDARY

As tax codes grow increasingly complex, cries to reform the code sometimes become sufficiently intense to lead to significant reform, with some tax reforms occurring nearly annually in any case. For instance in 1986, the code was simplified by reducing rate brackets from fourteen to two and by reducing marginal rates from a high of 50 percent to one of 28 percent. Soon after that legislation was signed, the process of increasing discrimination through crafting particular tax provisions began anew, resulting now in seven brackets and a top marginal rate of 39.6 percent. In recent years, calls for significant tax reform have again surfaced in the political arena. This ebb and flow of calls for tax reform is a readily understandable feature of democratic political economy. If we start from a position of a generally nondiscriminatory tax system, the receipt of special tax revisions will offer high gains to recipients by imposing modest costs on those who provide those gains through paying higher taxes. As discriminatory provisions are piled onto a previous stock of discriminatory provisions, it becomes increasingly costly to continue to expand discrimination. A point can be reached where large-scale tax reform becomes possible, as happened in 1986 and might be gaining momentum again. Any such reform, however, will not be the reform that ends future reforms, but rather will herald the start of a new sequence of an increasing quantity of discriminatory provisions, followed eventually by growing calls for yet another round of reform.

A tax system is the creation of a political system, and the imperatives present in the political system will be infused in the tax system. A political system whose constitutional arrangements give wide scope for political majorities to determine what constitutes a legitimate use of political power will be open to tax discrimination. In this setting, theorists can be counted on to develop complementary ideological constructions that will help sell that discrimination in the relevant forums where most people have little incentive to peer behind ideological smokescreens, because they cannot change the situation even if they were to try. To the extent taxation takes on a greater measure of nondiscrimination, it will be because the political system gives less scope to the rent-seeking and rent extraction that are the common currency of modern political economy.

CONCLUSION

Much has been made of the high cost of political campaigns. Criticisms of that high cost are misdirected. It is not the high cost of political campaigns that expands the scope for venality in politics. Rather it is the wide scope for venality that governs the amount that people contribute to political campaigns. Our large, interfering government in its present form is able to affect people's earnings in all industries throughout the land simply through changes in taxes and regulations. It is no wonder that so many trade associations have relocated to Washington, DC. Nor is it any wonder that so many corporate executives pass through Washington regularly on business. No products are produced in Washington, but political decisions significantly impact the fortunes of particular enterprises. A large interfering government that can fine-tune specific tax provisions as it chooses will elicit larger campaign contributions than a government that is bound by principles of nondiscrimination among people, groups, and types of business.

A government that is subject to relatively strong constitutional limits on its ability to discriminate among taxpayers will have limited ability to affect the commercial value of particular enterprises. With election outcomes thus having less impact on the value of particular enterprises and activities, fewer or smaller campaign contributions will be made. The stronger the constitutional limits placed on government, the narrower will be the scope for venality. Elections are becoming more expensive because government has acquired an ever larger presence in our lives, and naturally has used that presence to confer privileges on supporters and impose liabilities on others. It is relatively unlimited government and its ability to change people's fortunes for good or bad that cause costly battles for political office. Restrict the ability of government to affect people's fortunes, and elections naturally will become less costly; maintain that ability and taxation unavoidably will be a discriminatory instrument for conferring advantages and disadvantages according to political calculation.

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