

# Study Guide to *Human Action* by Robert P. Murphy

## Chapter XXVIII. Interference by Taxation

### Chapter Summary

#### 1. The Neutral Tax

If the government is to ensure the smooth operation of the market, it requires revenues and these are raised through taxation. We can imagine an evenly rotating economy and supplement it with the assumption of income equality. In such a world, head taxes and income taxes would be equivalent. In the real world, however, these methods of taxation will yield different outcomes. The goal of neutral taxation—where prices are not disturbed by the system of taxation—is unachievable. Every system of taxation will fall on different consumers to a greater or lesser extent, and thus affect market prices.

#### 2. The Total Tax

Taking the ability-to-pay principle to its extreme, one can imagine a total tax, where the government confiscates either all income or even all wealth, and then distributes it back to its subjects according to ostensibly just rules. As a form of interventionism, the total tax is clearly useless; it either delivers outright socialism, or gives the wealthy the incentive to cease working and consume their capital.

#### 3. Fiscal and Nonfiscal Objectives of Taxation

The fiscal and nonfiscal objectives of taxation may be in conflict. For example, if taxes on liquor are intended to reduce consumption, the rates may be set so high that total revenue falls. More generally, if tax burdens rise above a certain point, then the taxes cease to be necessary tools for the preservation of the market, and turn into weapons for the destruction of the market.

#### 4. The Three Classes of Tax Interventionism

The various methods of taxation can be classified into three groups:

- (1) The tax aims at totally eliminating or restricting the production of definite commodities.
- (2) The tax expropriates a part of income or wealth.
- (3) The tax expropriates income and wealth entirely.

The third class is merely a vehicle for the achievement of socialism. The other two classes will be handled in chapters XXIX and XXXII.

## Why It Matters

In this short chapter Mises establishes the categories of tax analysis. He defers much of the specifics to later chapters.

## Technical Notes

- (1) In discussing the neutral tax, Mises imagines an evenly rotating economy with income equality (pp. 730–731). It should be stressed that this is an additional assumption; in general there is no need for incomes to be equal in the ERE.
- (2) Mises anticipates the "Laffer Curve" — the insight that income tax rates could be so high that they actually reduce tax revenues — in his discussion on pages 733–734.

## Study Questions

### 1. The Neutral Tax

- What is the definition of the neutral tax? What does it have in common with neutral money?
- Why do governments generally adhere to the ability-to-pay principle in tax policy?

### 2. The Total Tax

- What is the definition of the total tax?
- What would be the incentives for the capitalists and entrepreneurs under a total tax?

### 3. Fiscal and Nonfiscal Objectives of Taxation

- What distinguishes fiscal objectives from nonfiscal objectives? Give an example.
- How can taxation destroy the market economy?
- How can excessive taxation undermine itself?

### 4. The Three Classes of Tax Interventionism

- Give a short overview of the three classes of tax interventionism.