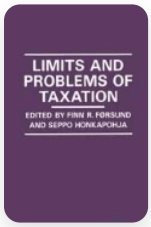
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The Ethical Limits of Taxation

Chapter

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Limits and Problems of Taxation

James M. Buchanan

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Abstract

Normative tax theory has concentrated on the distribution of tax shares to the neglect of the absolute level of taxation. The first Rawlsian principle of maximal equal liberty is introduced to derive limits on the absolute level of taxation. The critical requirement is that the freedom of persons, singly or in coalitions, to form new political associations be counted as a relevant liberty in the Rawlsian array. Simple examples illustrate the argument, and critical parameters are identified and discussed briefly.

I am indebted to Geoffrey Brennan, David Levy and Loren Lomasky for helpful comments on earlier drafts of this paper.

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Notes

1 In several earlier papers, written separately and jointly, I have analyzed limits on taxation from a constitutional perspective. See, James M. Buchanan, "Constitutional Constraints on Governmental Taxing Power," *ORDO*, Bd. 30 (Stuttgart: Fischer, 1979), pp. 334–359; "Procedural and Constitutional Constraints on Fiscal Authority," in *The Constitution and the Budget*, ed. by W. S. Moore and R. G. Penner (Washington: American Enterprise Institute, 1980), pp. 80–84; "The Limits of Taxation," in *The Constitutional Challenge*, ed. by M. James (St. Leonard's, N.S.W.: Centre for Independent Studies, 1982), pp. 113–130; and

James M. Buchanan and Geoffrey Brennan, "The Logic of Tax Limits," *National Tax Journal*, 321 (June 1979), 11–22. The justification of tax limits in this perspective was largely, if not exclusively, based on the predicted working properties of postconstitutional political processes.

2 Knut Wickseil, *Finanztheoretische Untersuchungen* (Jena: Gustav Fischer, 1896);

Erik Lindahl, *Die Gerechtigkeit der Besteuerung* (Lund, 1919). See, also, my paper, "Taxation in Fiscal Exchange," *Journal of Public Economics*, 6 (1976), 17–29.

3 For such models, see, Geoffrey Brennan and James Buchanan, *The Power to Tax* (Cambridge: Cambridge University Press, 1980).

4 For analysis, see *Explorations in the Theory of Anarchy*, ed. by Gordon Tullock (Blacksburg: Public Choice Center, 1972); also, my, *The Limits of Liberty* (Chicago: University of Chicago Press, 1975).

5 J. R. Kearl has supported the collective claim to a share of valued output along essentially the lines sketched here. Kearl, however, explicitly states that the question as to the extent of this claim "has no quantifiable answer" (p. 80). See, J. R. Kearl, "Do Entitlements Imply that Taxation is Theft?," *Philosophy and Public Affairs*, 7 (Fall 1977), 74–81.

9 I am particularly indebted to Loren Lomasky for pointing out to me the Rawlsian emphasis on maximal liberty. I had earlier, like many others, interpreted the first Rawlsian principle largely in terms of the equal liberty element. For a paper in which both these elements of the Rawlsian principle are used, see, James M. Buchanan and Loren Lomasky, "The Matrix of Contractarian Justice" (Draft paper prepared for Liberty Fund Conference on "Liberty and Equality," Key Biscayne, Florida, November 1983).

11 Cf. Charles Tiebout, "A Pure Theory of Local Expenditures," *Journal of Political Economy*, 64 (October, 1956), 416–424.

Author information

Authors and Affiliations

Center for Study of Public Choice, George Mason University, Fairfax, VA, USA

James M. Buchanan

Editor information

Editors and Affiliations

University of Oslo, Norway

Finn R. Førsund

Yrjö Jahnsson Foundation, Helsinki, Finland

Seppo Honkapohja

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