As the title of my paper indicates, I have set myself two goals. First, I want to explain the general economic effect of taxation. This part of the paper represents a praxeological analysis of taxation and as such should not be expected to go much beyond what has already been said by other economists.

More originality might be found in the second part, where I will try to answer the question: Why is there taxation; and why is there always more of it? Yet answering such questions is no longer the task of economic theory but of praxeologically informed and constrained sociological or historical interpretations and reconstructions; and from the very outset much more room for speculation in this field of intellectual inquiry exists.

1. The economic effects of taxation

To say there is not much new to be stated regarding the economic effects of taxation is not to say that what there is would not still be news to many. In fact, after surveying several currently popular economics textbooks it would seem that what I have to say must be news to most of today’s economists and students of economics. Insofar as these texts deal with the economic effects of taxation at all - beyond a purely descriptive presentation of various tax-schemes and their historical development\(^1\) - they are almost completely silent on the question of what the general effects of taxation are. And what these texts then say, in their discussion of the problem of tax-incidence, about the economic effects of specific forms of taxation is invariably flawed.

\(^1\)Exclusively descriptive analyses of taxation are given, for instance, by Samuelson-1988, chap. 9 or Miller-1988, chap. 6.
This state of affairs, however, merely reflects a process of intellectual degeneration. At least as early as 150 years ago almost everything that should be understood today about the economics of taxation had been correctly and convincingly stated by such a prominent figure in the history of economics as J.B. Say in his *Treatise on Political Economy*.

In contrast to today's textbook writers, who assign the discussion of taxation to essentially arbitrary places within the overall architectonic of their books, from the beginning Say correctly located the phenomenon under the general heading “Of the Consumption of Wealth”.

He then unmistakingly identifies and explains taxation as an attack on and punishment of the acquisition and production of property, which must necessarily lead to a reduction in the formation of wealth embodied in such property, and to a lowering of the general standard of living.

Notes Say: “It is a glaring absurdity to pretend that taxation contributes to national wealth, by engrossing part of the national produce, and enriches the nation by consuming part of its wealth.”\(^2\) “Taxation is the transfer of a portion of the national products from the hand of individuals to those of the government, for the purpose of meeting public consumption or expenditure. Whatever be the denomination it bears, whether tax, contribution, duty, excise, custom, aid, subsidy, grant, or free gift, it is virtually a burthen imposed upon individuals, either in a separate or corporate character, by the ruling power for the time being, for the purpose of supplying the consumption it may think proper to make at their expense; in short, an impost, in the literal sense.”\(^3\)

Since such fundamental insights seem to have been forgotten, or at least no longer appear obvious today, let me then, as my first task, present anew a praxeological account and explanation for Say's central argument and its validity, and in so doing refute some popular “counterarguments” claiming to show that taxation must not necessarily obstruct the formation of property and wealth. In light of this general explanation, I will then demonstrate the fundamental logical fallacy in the standard textbook analysis of tax-incidence.

That taxation - foremost and above all - is and must be understood as a means for the destruction of property - and wealth - formation follows from a simple logical analysis of the meaning of taxation.

Taxation is a coercive, non-contractual transfer of definite physical assets (nowadays mostly, but not exclusively money), and the value embodied in them, from a person or group of persons who first held these assets and who could have derived an income from further holding them, to another, who now possesses them and now derives an income from so doing. How did these assets come into the hands of their original owners? Ruling out that this was the outcome of another previous act of taxation, and noting that obviously only assets can be taxed that have not yet been consumed or whose value has not yet been exhausted through acts of consumption (a tax-gatherer does not take away another man's garbage, but his still valuable assets!), three and only three

\(^2\) Say-1964, p. 447.
\(^3\) Say-1964, p.446 ; on Say's economic analysis of taxation see also Rothbard-1981, esp. pp. 551-54.
possibilities exist: They come into one's possession either by one's having perceived certain nature-given goods as scarce and having actively brought them into one's possession before anyone else had seen and done so; by having produced them by means of one's labor out of such previously appropriated goods; or through voluntary, contractual acquisition from a previous appropriator or producer. Only through these types of activities is one capable of acquiring and increasing valuable - and hence taxable - assets: Acts of original appropriation turn something which no one had previously perceived as a possible source of income into an income-providing asset; acts of production are by their very nature aimed at the transformation of a less valuable asset into a more valuable one; and every contractual exchange concerns the change and redirection of specific assets from the hands of those who value their possession less to those who value them more.

From this it follows that any form of taxation implies a reduction of income a person can expect to receive from original appropriation, from production or from contracting. And since these activities require the employment of scarce means - at least time and the use of one's body - which could be used otherwise, for consumption and/or leisure, the opportunity cost of performing them has been raised. The marginal utility of appropriating, producing and contracting has been decreased, and the marginal utility of consumption and leisure increased. Accordingly, there will be a tendency to shift out of the former roles and into the latter ones.

Thus, by coercively transferring valuable, not yet consumed assets from their producers (in the wider sense of the term, as including appropriators and contractors) to people who have not produced them, taxation reduces producers' present income and their presently possible level of consumption - which is obvious enough. Moreover, it reduces the present incentive for future production of valuable assets and thereby also lowers future income and the future level of available consumption. Taxation is not just a punishment of consumption without any effect on productive efforts; it is also always an assault on production as the only means of providing for and possibly increasing future income and consumption expenditure. By lowering the present value associated with future-directed, value-productive efforts, taxation raises the effective rate of time preference, i.e., the rate of originary interest and, accordingly, leads to a shortening of the period of production and provision and so exerts an inexorable influence of pushing mankind into the direction of an existence of living from hand to mouth. Just increase taxation enough, and you have mankind reduced to the level of barbaric animal beasts.

Straightforward as such reasoning may seem, there are a number of popular objections raised against it. For instance, from the side of economists who falsely conceive of economics as an empirical science that produces nothing but hypothetical explanations which invariably must be tested against empirical evidence in order to become validated (analogous to the situation in the natural sciences), the following argument is frequently heard: Empirically, it has been

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4See on this also Rothbard-1970, chap. 12.8; and Rothbard-1977, chap. 4, 1-3.
observed repeatedly that a rise in the level of taxation was actually accompanied by a rise (not a fall) in GNP or other measures of productive output, and hence the above reasoning, however plausible, must be considered empirically invalid. In fact, some empiricists of this sort go even farther and make the stronger claim that taxation actually helps increase the standard of living as evidenced by the fact that some countries with once low standards of living and low levels of taxation now enjoy a much greater wealth with much higher taxes.

Both objections are simply confused. Experience cannot beat logic, and interpretations of observational evidence which are not in line with the laws of logical reasoning are no refutation of these but the sign of a muddled mind (or would one accept someone's observational report that he had seen a bird that was red and non-red all over at the same time as a refutation of the law of contradiction rather than the pronouncement of an idiot?).

As regards the stronger thesis, it is nothing but a beautiful illustration of the ever so attractive post hoc ergo propter hoc fallacy. From the fact that the correlated events of high taxation and wealth were to be observed later than those of low taxation and wealth it is inferred that increased taxation increases wealth. Yet to reason in this way is about as convincing as the argument - justly ridiculed by Say - that one can observe rich men consuming more than poor ones, and hence their high level of consumption must be responsible for the fact that they are rich\(^5\). Just as it follows from the meaning of consumption that this is impossible and that, on the contrary, the rich are not rich because of their high level of consumption but inspite of it, because they previously abstained from consumption and engaged in value-productive actions, so it follows from the meaning of taxation that mankind cannot have prospered because of higher levels of taxation but despite such a fact.

And regarding the weaker thesis that experience would at least disprove any claim of a relationship between taxation and productive output that was negative by necessity - it, too, is off the mark. For the praxeological reasoning presented above does not at all rule out what empiricist economists falsely interpret as a refutation. In this earlier discussion the conclusion had been reached that the effect of taxation is a relative reduction in the production of valuable assets; a reduction that is, as compared with the level of output that would have been produced had there been no taxation at all or had the level of taxation not been raised. Nothing had been said or implied with respect to the absolute level of the output of valuable assets. As a matter of fact, absolute growth of GNP, for instance, is not only compatible with our earlier praxeological analysis, but can be seen as a perfectly normal phenomenon to the extent that advances in productivity are possible and actually take place. If it has become possible through improvements in the technology of production to produce a higher output with an identical input (in terms of cost), or a physically identical output with a reduced input, then the coincidence of increased taxation and an increased output of valuable assets is anything but surprising. But, to be sure, this does not in the least affect the validity of what has been stated about relative

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impoverishment resulting from taxation. Yet with a given state of technological knowledge, however it may change over time, and taxation being what it is, i.e., a punishment of value-productive efforts, the level of productive output must be lower than the one that could have been attained with the same knowledge and no or lower taxation. Statistical studies here are entirely beside the point: they can neither help strengthen it, nor can they ever be used to weaken it.

Another objection, this time theoretical, which enjoys some popularity is that imposing or raising taxes leads to a reduction of income derived from the assets taxed; that this reduction raises the marginal utility of such assets as compared to what can be derived from other forms of activity; and thus, instead of lowering it, taxation actually helps increase the tendency to engage in production. For the usual case of taxing money assets this is to say that taxes reduce monetary income, this raises the marginal utility of money, and this in turn increases the incentive to attain monetary returns. This argument, to be sure, is perfectly true as far as it goes. However, it is a misconception to believe that it does anything to invalidate the relative impoverishment thesis that I have advanced. First of all, in order to keep the record straight it should be noted that even if it were true - as the just presented argument seems to suggest, albeit falsely as we will see - that increased taxation does not lead to a relatively lower output of valuable assets produced since it spurs a proportional increase in workaholism, it is still the case that the income of value-productive individuals has fallen. For even if they produce the same output as previously, they can only do so if they expend more labor now than before. And since any additional labor expenditure implies foregone leisure or consumption (leisure or consumption which they otherwise could have enjoyed along with the same output of valuable assets), their overall standard of living must be lower now.

Yet as soon as this is recognized it also becomes apparent why the assumption that taxation can possibly leave the productive output of valuable assets unaffected and exclusively cripple consumption is fatally flawed. For if taxation reduces one's income (which includes that derived from present consumption and leisure), and given the universal fact of time preference, that is, that human actors invariably prefer present goods over future goods (i.e., that they cannot do without continuous consumption and can engage in lengthier production processes - more roundabout methods of production - only if a provision in the form of consumption goods has been made for the corresponding waiting period), then it follows with logical necessity that a person's effective rate of time preference must have been raised through this very act (the disutility of waiting must have increased), and hence that he will have to shorten the length of the structure of production as compared to the one that he otherwise would have chosen, and his output of valuable assets available at future dates accordingly will have to be lower than would be the case otherwise. If with lower or no taxation his income had been higher and his time preference schedule being given (whatever it happens to be at any particular point in time), he would have

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\[^{6}\text{See on this point also Rothbard-1977, pp. 95 f.}\]
invested in lengthier production processes and as a consequence his output of valuable future assets would have been relatively greater.

The error in the thesis that taxation can possibly have a neutral effect on production lies in the fact that time preference is not being taken into account. The argument presently under scrutiny is quite correct in pointing out that taxation implies a twofold signal: on the one hand the substitution effect working in favor of consumption and leisure and against work; and on the other hand the income effect of raising the marginal utility of the taxed asset. However, it is false to interpret this simplistically as a mixed bag of contradictory signals - one in favor of and one against work - so that one can then state nothing of a categorical nature regarding the effects of taxation on production, and the question of whether or not taxation provides for a lower or a higher output of valuable assets must be conceived of as an entirely empirical one. For in fact, the signal of taxation is not contradictory at all once it simply has been recognized that it is being sent to persons whose actions are invariably constrained by time preference. For such actors there exists not only the alternative between work and no work at all; but also one between producing a valuable asset in more or less time-consuming ways. They also must invariably choose between obtaining an asset quickly and directly, with little waiting time involved, but at the price of having to resort to less efficient methods of production (the famous fisherman who decides to use his bare hands to catch fish in order to obtain it more quickly than by going through more roundabout methods of production), or obtaining it through more productive methods but then having to wait longer for them to bear fruit (the fisherman who, lured by higher future returns, decides to endure a

7One might object here that the tax receipts will come into someone's hands - those of government officials or of governmental transfer-payments-recipients - and that their increased income, resulting in a lower effective time preference rate for them, may offset the increase in this rate on the taxpayers' side and hence leave the overall rate and the structure of production unchanged. Such reasoning, however, is categorically flawed: For one thing, insofar as government expenditure is concerned, it cannot be regarded as investment at all. Rather, it is nothing but consumption, and consumption alone. For, as Rothbard has explained (1977, p.98), "in any sort of division-of-labor economy, capital goods are built, not for their own sake by the investor, but in order to use them to produce lower-order and eventually consumers' goods. In short, a characteristic of an investment expenditure is that the good in question is not being used to fulfill the needs of the investor, but of someone else - the consumer. Yet, when government confiscates resources from the private market economy, it is precisely defying the wishes of the consumers; when government invests in any good, it does so to serve the whims of government officials, not the desires of consumers." Thus, government expenditure, by definition, cannot be conceived of as lengthening the production structure and hence as counterbalancing the taxpayers' raised time preference rate. - On the other hand, "as for the transfer expenditures made by the government (including the salaries of bureaucrats and subsidies to privileged groups), it is true that some of this will be saved and invested. These investments, however, will not represent the voluntary desires of consumers, but rather investments in fields of production not desired by the producing consumers... Once let the tax be eliminated, and ... the new investments called forth by the demands of the specially privileged will turn out to be malinvestments." Consequently, transfer expenditures also cannot be conceived of as compensating for the fact that taxpayers shorten the length of the production structure. All such expenditures can do is to lengthen the structure of mal-production. - "At any rate" concludes Rothbard, "the amount consumed by the government insures that the effect of income taxation will be to raise time-preference ratios and to reduce saving and investment."

longer waiting period and first builds a net). But in this choice framework the message of taxation is completely unambiguous and unequivocal, and there can no longer be any question that the substitution effect must be thought of as systematically dominating any income effect: If there is not only the option of having something or not having it, but also of having less of something sooner or more of it later, the double message sent through taxation is easily integrated and translated into one: reduce the waiting time; shorten the roundabout methods of production! By doing so, valuable assets will be obtained earlier—in line with their increased marginal utility; and simultaneously, in shortening the waiting period, more room will be given for leisure—in line with its increased marginal utility. By reducing the length of roundabout methods of production the two seemingly contradictory signals stemming from taxation are simultaneously accounted for. But contrary to any claim of a systematically "neutral" effect of taxation on production, the consequence of any such shortening of roundabout methods of production is a lower output produced. The price that invariably must be paid for taxation, and for every increase in taxation, is a coercively lowered productivity which in turn reduces the standard of living in terms of valuable assets provided for future consumption. Every act of taxation necessarily exerts a push away from more highly capitalized, and hence more productive production processes, and into the direction of a hand-to-mouth-existence.

It is not difficult to illustrate the validity of these conclusions if one considers the all-too-familiar case of taxing money assets: Obviously such assets are only acquired and held because they can purchase other valuable assets at future dates. They have no own intrinsic use-value at all (as in the case of a fiat paper money), or such use-value is insignificant compared to the exchange-value (as in the case of the gold standard where money also has an—albeit small—commodity value). Rather, the value attached to them is essentially due to their future purchasing power. Yet if the value of money consists of representing other future available assets, the effects of taxing money should immediately become clear. Most importantly then, along with increasing the marginal utility of leisure or consumption such a tax increases the marginal utility of such future assets. This change in the constellation of incentives translates itself for an actor into increased attempts to obtain these assets more quickly, in less time-consuming production processes. The only production processes now that are systematically shorter than those of attaining future assets indirectly, via the earlier acquisition of money, are those of acquiring them through direct exchanges. Thus, taxation implies that

9Here once again what has already been explained in a somewhat different connection in note 7 above becomes evident: why it is a fundamental mistake to think that taxation might have a "neutral" effect on production such that any "negative" effects on taxpayers may be compensated by corresponding "positive" effects on tax-spenders? What is overlooked in this sort of reasoning is that the introduction of taxation does not only imply favoring non-producers at the expense of producers. It also simultaneously changes, for producers and non-producers alike, the cost attached to different methods of attaining an income. For it is then relatively less costly to attain an additional income through non-productive means, i.e., not through actually producing more goods but by participating in the process of non-contractual acquisitions of already produced goods. And if such a different incentive structure is applied to a given population, then the length of the production structure will necessarily be shortened and a decrease in the output of goods produced must result. See on this also Hoppe-1988, ch. 4.
barter trade will be substituted increasingly for the lengthier roundabout production method of monetary exchanges. But once again, resorting increasingly to barter is a regression to economic primitivism and barbarism. It was precisely because of the fact that production for bartering purposes yielded an extremely low output that mankind actually outgrew this developmental stage and instead increasingly resorted to and expanded a system of production-for-indirect-exchange purposes which, while requiring a longer waiting period, renders a far larger return of ever more and different assets drawn into the cash nexus. Every act of taxation means a coerced step backwards in this process. It reduces output, decreases the extent of the division of labor, and leads to a reduction in social and economic integration (which, it may be noted, could never have become worldwide, if it were not for the institution of indirect, monetary exchanges).

Furthermore, the general tendency towards increasingly adopting direct instead of indirect exchange mechanisms caused by every coercive seizure of money also has highly important consequences with regard to the methods of attaining money itself. Just as in the case of non-monetary assets, the increased marginal utility of money along with that of leisure-consumption makes it also relatively more attractive to acquire money in less time-consuming ways. Instead of acquiring it in return for value-productive efforts, i.e., within the framework of mutually beneficial exchanges, taxation raises the incentive to acquire it more quickly and directly, without having to go through such tediously roundabout methods as producing and contracting. On the one hand, this means that one will try more frequently to increase one's money assets by simply hiding them from the tax collector. On the other hand, a growing tendency will emerge to come into the possession of money through coercive seizure - either in the illegal form called stealing, or legally, by participating in the game called politics.

Having completed this general economic analysis of the effects of taxation, which today's economic textbook writers typically prefer not to deal with at all, let me now turn to what they typically do say about the effects of taxation under the heading of tax-incidence. In light of our previous analysis it will be easy to detect the fatal flaw in such accounts. And indeed, that one should fall headlong into error in dealing with specifics if one has not bothered to study the basics can hardly come as a complete surprise.

The standard account of the problem of tax-incidence, most frequently exemplified by the case of an excise or sales tax, goes like this: Suppose an excise or sales tax is imposed or raised. Who must bear the burden of this? It is recognized - and I have of course no intention of disputing the validity of this - that in one sense there can be no question that consumers must take the brunt, and invariably do. For no matter what the specific consequences of such a tax will be, it must either be the case that consumers will have to pay a higher price for the same goods and their standard of living will be impaired because of this; or it must be the case that the tax imposes higher costs on producers, and consumers will then be punished because of a lower output produced. However, and it is

with this that we will have to disagree sharply, it is then argued that whether or not the imposition of a tax harms consumers in the former or in the latter way is an open empirical question, the answer to which depends on the elasticity of demand for the taxed products. If the demand is sufficiently inelastic, then producers will shift the entire burden onto consumers in the form of higher prices. If it is highly elastic, then producers will have to absorb the tax in the form of higher costs of production; and if some section of the demand curve is inelastic and another elastic - this allegedly being empirically the most frequent case - then the burden somehow will have to be shared, with part of it being shifted onto consumers and another falling on producers.

What is wrong with this sort of argument? While it is couched in terms different from those used in my earlier analysis, one can hardly fail to notice that it merely restates, on a somewhat more specific level of discussion, what has already been demonstrated as false on a more general level: the thesis, that taxes may or may not reduce productive output; that there is no necessary connection between taxes and productive output; and that it must be considered empirically possible, then, that a tax may affect consumption exclusively while production remains untouched. To assume, as the textbook-account of tax-incidence does, that taxes can be shifted forward, either totally or partially, onto consumers, is simply to say that a tax may not negatively affect production. For if it were possible to shift any amount of a tax forward onto consumers, that amount would represent a "non-production tax", a tax exclusively on consumption.  

In order to refute the typical textbook analysis, one could simply go back to our previous discussion which resulted in the conclusion that any tax imposed on people that are constrained by time preference must necessarily negatively affect production above and beyond any negative consequences that it implies for consumption. However, I will choose a somewhat different route of argument here in order to make essentially the same point and thereby establish the more specific thesis that no amount of any tax can be shifted onto consumers. To assume otherwise is to assume something manifestly impossible.

The absurdity of the tax-forward-shifting doctrine becomes clear as soon as one tries to apply it to the case of a single actor who continuously acts in both roles - that of a producer and a consumer. For such a producer-consumer, the doctrine amounts to this proposition: If he is faced with an increase in the costs of attaining some future good - an increase, that is, that he himself perceives as a cost-increasing event - then he shifts these higher costs onto himself in such a way that he responds by attaching a correspondingly higher value to the good to be obtained, thereby restoring his old profit-margin, thus leaving his role as producer unchanged and unimpaired, and requiring restrictive adjustments exclusively in his role as a consumer. Or, formulated even more drastically, insofar as his value-productive efforts are concerned, a tax does not make any difference for an individual, because he just starts liking the to-be-produced good correspondingly more.

11 On the impossibility of a pure consumption tax see also Rothbard-1977, pp. 108 ff.
Plain reasoning reveals that what generates such absurdity is a fundamental conceptual confusion: The forward-shifting doctrine arises from not recognizing that in one's analysis one must assume that demand is given - and that this must be assumed because it in fact is given at any point in time. Any analysis that loses track of this must remain hopelessly confused. For obviously, if one were to assume that demand had changed, then everything is possible: production may increase, decrease or remain unchanged. If I am a producer of tea and tea is taxed and if it is assumed that the demand schedule for tea rises concurrently, then, naturally, it is possible that people are now willing to pay a higher price for tea than previously. Yet this is obviously not a forward shifting of the tax but the result of a change in demand. To present this possibility under the heading of tax-incidence analysis is plain nonsense: it is in fact an analysis of the entirely different question of how prices are affected by changes in demand, and has nothing whatsoever to do with the effects of taxation. The confusion here is on as grand a scale as that which one would encounter if someone were to "refute" the statement that one apple and another make two by saying "No, I have just added another apple, and look, there are not two but three apples here". It is hard to get away with such nonsense in mathematics; in economics a doctrine hardly less absurd is the orthodoxy.

Yet if one is logically committed to assuming demand to be given whenever one tries to answer the question whether or not a tax can be shifted forward, every tax must be interpreted as an event that exclusively affects the supply side: it reduces the supplies at the disposal of suppliers. Any other conclusion would amount to a denial of what had been assumed from the outset - that a tax had indeed been imposed and been perceived as such by producers. But to say that only the supply curve is shifted whenever a tax is extracted (while the demand curve remains the same as before) is to say nothing else than that the entire tax-burden must in fact be absorbed by the suppliers. To be sure, the leftward shift of the supply curve would cause prices to rise and consumers would naturally be harmed by having to pay these higher prices and only being able to afford a smaller amount of goods at such a price. Yet that consumers will invariably be hurt by taxes has of course never been doubted as one should recall. However, it is a complete misconception to think that this higher price is a shifting of the tax burden from producers to consumers. Rather, consumers are hurt here "only" by harm being done to producers who, despite higher prices charged for their supplies, must take all of the brunt. For obviously, one must ask oneself why, if an entrepreneur could indeed shift any amount of the tax-burden away from himself and onto consumers, he would not have already done so by voluntarily imposing a tax on himself instead of waiting for the actual coercive tax to come along? The answer should be clear: Because at all times he is constrained in his price-setting activity by the actual given demand. Any price set

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12Baumol and Blinder (1979, p. 636) present the demand curve as changing in response to a tax!
13To avoid any misunderstanding then: Insofar as the textbook analyses of tax-incidence point out this fact they are of course entirely correct. It is the interpretation of this phenomenon they give which is fundamentally confused.
14See on this point also Rothbard-1970, p. 809.
by any entrepreneur is set with the expectation that any price higher than the one actually chosen would yield a lower total revenue. Otherwise, if he expected a higher price to bring about a larger revenue he would raise it. As long as an entrepreneur expects the demand to be inelastic within the region of any price-range under consideration, he will take advantage of this and choose the higher price. He stops raising prices and settles for a specific one because his expectations are reversed and he anticipates the demand curve above this price to be elastic. These expectations regarding inelastic and elastic portions of the demand curve are not at all changed if the entrepreneur is faced with a tax. Then as now he expects higher prices to produce revenue losses. Thus it is obviously out of the question to argue that he could escape the burden of the tax. In fact, if as a consequence of the reduced supply the price now rises, this upward movement must be into an elastic portion of the demand curve, and the entrepreneur thus must assumedly pay the full price of it in the form of reduced revenue. Any other conclusion is logically flawed. Only if the entrepreneur expects a change in demand occurring simultaneously with taxation could he change his price without thereby incurring losses. If he expects demand to have increased, for instance, such that there will now be an inelastic rather than an elastic stretch of the demand curve above the presently going price, he will be able to raise it without punishment. But, to emphasize again, this is not a forward shifting of the tax. This is increased demand. With or without the tax the entrepreneur would have acted in precisely the same way. The tax has nothing to do with such price changes. The tax must in any case be paid exclusively and in full by the suppliers of the taxed goods.

2. The sociology of taxation

There can be no doubt, then, that taxes invariably reduce production and with this one's standard of living as a consumer. Whichever way things are put, there is no escaping the conclusion that taxation is nothing but a means of obstructing the formation of wealth and thereby creating relative impoverishment.

This brings me to my second subject: the sociology of taxation. If taxation is an instrument for the destruction of wealth-formation, then the question immediately becomes pressing of how it can be explained that there is taxation; that there is ever more of it; that we have experienced, in particular during the last hundred years, a steady increase not just in the absolute but also in the relative level of taxation; and that the institutions which lead the way in this process, the tax-states of the Western World, have simultaneously assumed ever more powerful positions in the arena of international politics and increasingly dominate the rest of the world.

15Should a tax - as can happen in the short run - not immediately affect supply at all, then it follows from the above analysis that the price charged will not change at all. For to raise it as a response to the tax would once again imply pushing it into an elastic region of the demand curve. - In the long run the supply will have to be relatively reduced and prices must move into this region. In any case, no forward shifting takes place. See on this also Rothbard-1970, pp. 807 ff., and Rothbard-1977, pp. 88 ff.
With these questions one leaves the realm of economic theory. Economics answers the question “What is the consequence if taxation is introduced?” and it deduces its answer from an understanding of the meaning of action and the meaning of taxation as a particular type of action. Why there is taxation is the subject matter of psychology, history or sociology. Economics, or rather praxeology, recognizes that all actions are determined by ideas, correct or incorrect, good or bad. But it does not attempt to explain what these ideas are and how people come to hold or change them. Rather, it assumes them to be given and aims at explaining the logical consequences that flow from acting upon them, whatever they are. History and sociology ask what these ideas are, how people come to entertain them, and why, then, they act the way they do.

On a highly abstract level the answer to the question why there is steadily increasing taxation is the following: The root cause for this is a slow but dramatic change in the idea of justice that has taken place in public opinion.

Let me explain: One can acquire property either through homesteading, production and contracting, or else through the expropriation and exploitation of homesteaders, producers or contractors. There are no other ways. Both methods are natural to mankind. Alongside production and contracting there has always been a process of non-productive and non-contractual property acquisitions. And just as productive enterprises can develop into firms and corporations, so can the business of expropriating and exploiting occur on a larger scale and develop into governments and states. That taxation as such exists, and that there is the drive towards increased taxation should hardly come as a surprise. For the idea of non-productive or non-contractual appropriations is almost as old as the idea of productive ones; and naturally, everyone - the exploiter certainly no less than the producer - prefers a higher income to a lower one.

The decisive question is this: “What controls and constrains the size and growth of such a business?”

It should be clear from the outset that the constraints on the size of firms in the business of expropriating producers and contractors are of a categorically different nature than those limiting the size of firms engaged in productive exchanges. Contrary to the claim of the public choice school, government and

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16To make this distinction between economics and history or sociology is not to say, of course, that economics would be of no importance for these latter disciplines. In fact, economics is indispensable for all other social sciences (While the reverse is not the case: economics can be developed and advanced without historical or sociological knowledge; the only consequence of doing so is that such economics is probably not very interesting, as it would be written without consideration for real examples or instances of application - such as if one were to write on the economics of taxation even if there had never been an actual example of it in all of history!). For it formulates what cannot possibly happen in the social world, or what must happen no matter what, provided that certain conditions are in fact fulfilled. Thus, any historical or sociological explanation is logically constrained by the laws as espoused by economic theory; and any account by a historian or sociologist in violation of these laws would have to be treated as ultimately confused. - On the relationship between economic theory and history, see also Mises-1985, Hoppe-1988.

17See on this also Oppenheimer-1914, esp. pp. 24-27; Rothbard-1977, Chap. 2, Hoppe-1988, Chap. 2.

private firms are not doing essentially the same sort of business, but instead are engaged in categorically different types of operations.\footnote{This central idea of the public choice school has been expressed by its foremost representatives as follows: “Both the economic relation and the political relation represent co-operation on the part of two or more individuals. The market and the state are both devices through which co-operation is organized and made possible. Men co-operate through exchange of goods and services in organized markets, and such co-operation implies mutual gain. The individual enters into an exchange relationship in which he furthers his own interest by providing some product or service that is of direct benefit to the individual on the other side of the transaction. At base, political or collective action under the individualistic view of the State is much the same. Two or more individuals find it mutually advantageous to join forces to accomplish certain common purposes. In a very real sense, they exchange and devote resources to the construction of the common good.” Buchanan/Tullock-1965, p. 19. Surely, the most amazing thing about such a “new theory of politics” is that anyone takes it seriously. Remarks J.A. Schumpeter on such view (1942, p. 198) : “The theory which construes taxes on the analogy of club dues or the purchase of the service of, say, a doctor only proves how far removed this part of the social sciences is from scientific habits of mind.” And H.L. Mencken has this to say regarding a thesis such as Buchanan’s and Tullock’s (1949, pp. 146-147) : “The average man, whatever his errors otherwise, at least sees clearly that government is something lying outside him and outside the generality of his fellow men - that it is a separate, independent, and hostile power, only partly under his control, and capable of doing him great harm... Is it a fact of no significance that robbing the government is everywhere regarded as a crime of less magnitude than robbing an individual, or even a corporation ?... When a private citizen is robbed, a worthy man is deprived of the fruits of his industry and thrift ; when the government is robbed, the worst that happens is that certain rogues and loafers have less money to play with than they had before. The notion that they have earned that money is never entertained ; to most sensible men it would seem ludicrous. They are simply rascals who, by accidents of law, have a somewhat dubious right to a share in the earnings of their fellow men. When that share is diminished by private enterprise the business is, on the whole, far more laudable than not.”}

The size of a productive enterprise is constrained on the one hand by consumer demand (which imposes a definite limit on the total revenue attainable), and on the other hand by the competition of other producers, which continuously forces each firm to operate with the lowest possible costs if it wishes to stay in business. For such enterprise to grow in size the most urgent consumer wants must be served in the most efficient ways; nothing but voluntary consumer purchases support its size.

The constraints on the other type of firm, of government or the state, are altogether different. For one thing, it is obviously absurd to say that its size is determined by demand in the same sense as the size of a private firm is determined by demand. One cannot say, by any stretch of the imagination, that the homesteaders, the producers and the contractors who must surrender part of their assets to a government have demanded such a service. Instead, they must be coerced into accepting it, and this is conclusive proof of the fact that the service is not actually in demand at all. Demand, hence, cannot be considered as a limit on the size of government. Insofar as it grows, the state grows by acting in open contradiction to demand.

The state is also not in the same way constrained by competition as is a productive firm. Unlike such a firm, the state must not keep its cost of operation at a minimum but can operate at above-minimum costs, because it is able to shift its higher costs onto competitors through taxing or regulating their behavior. And thus, the size of the state also cannot be considered as constrained by cost competition. Insofar as it grows, it does so in spite of the fact that it is not cost-efficient.
This, however, is not to say that the size of government is not constrained at all, and that the historical fluctuations in the size of states are mere random walks. It only states that the constraints on the firm “government” must be fundamentally different.

Instead of being constrained by cost and demand conditions, the growth of an exploitative firm is constrained by public opinion\textsuperscript{20} : It is not voluntarily supported, but by its very nature requires coercion. Yet as the other side of the same coin, coercion implies creating victims; and victims are not supporters but active or passive resisters of a firm’s size. It is conceivable that this resistance can be lastingly broken by force in the case of one man, or one group of men, exploiting one or may be two or three others, or another group of roughly the same size. It is inconceivable, however, to imagine that force alone can account for the breaking down of resistance in the actually familiar case of small minorities operating their business of expropriating and exploiting populations tens, or hundreds, or thousands of times their size\textsuperscript{21}. For this to happen, such a firm must have public support in addition to its coercive force. A majority of the population must accept its operations as legitimate. This acceptance can range from active enthusiasm to passive resignation. But acceptance it must be in the sense that a majority must have given up the idea of actively or passively resisting any attempt of enforcing non-productive and non-contractual property acquisitions. Instead of displaying outrage over such actions, of showing contempt for everyone who engages in them, and of doing nothing to help make them successful (not to mention actively trying to obstruct them), a majority must actively or passively support them. Only in the light of this can it be explained how the few can govern the many. A state-supportive public opinion must counterbalance the resistance of victimized property owners to an extent that active resistance appears futile.

The state of public opinion also imposes a constraint on the size of the state in another respect: Every firm in the large-scale business of property expropriation must naturally aim at becoming a monopolist in a definitive territory. For one can only prosper in such a business so long as there is something that can be expropriated; yet if competition were allowed in the business of expropriating, there would obviously be nothing left to take anymore. Hence, in order to stay in business, one must be a monopolist.

But even if there can be no internal competition, competition between governments operating in different territories still exists. And it is this competition which imposes severe limits on the size of government. On the one hand, it opens up the possibility that people vote with their feet against a government and leave its territory if they perceive other territories as offering less exploitative living conditions. Naturally, each state must see this as a crucial problem. For it literally

\textsuperscript{20}See on this also Rothbard-1974, esp. pp. 37-42.
\textsuperscript{21}It might be thought that the government could accomplish such a feat by merely improving its weaponry: by threatening with atomic bombs instead of with guns and rifles, so to speak. However, since realistically one must assume that the technological know-how of such improved weaponry can hardly be kept secret, especially if it is in fact applied, then with the state’s improved instruments for instilling fear the victims’ ways and means of resisting improve as well, and hence, such advances must be ruled out as explaining what must be explained.
lives off a population, and any population loss is thus a loss of potential state-income.\footnote{Witness the all-too-numerous states that go so far as to shoot everyone down without mercy who has committed no other sin than that of trying to leave a territory and move elsewhere!} Again, the state of public opinion is of utmost importance for maintaining one’s exploitative rule. Only if the state succeeds in generating the impression in the general public that its own territory compared favorably, or at least tolerably well, with others, will it be able to secure and expand its position.

And public opinion also plays a decisive role in the case of interstate aggressions. While not a logical necessity, the nature of a state as an exploitative enterprise still makes it highly likely (not the least because of the just addressed problem of population movements) that it will become engaged in aggressions against a “foreign” territory, or that it must defend itself against such aggressions from other states.\footnote{On the intimate relationship between state and war see the important study by Krippendorff-1985; also Tilly-1985.} And obviously, in order to come out successful from such interstate wars or warlike actions, a state must be in command of sufficient (in relative terms) economic resources which alone make its actions sustainable. However, these resources can only be provided by a productive population. And thus, to secure the means necessary to win wars and avoid being confronted with slackening productive outputs while at war, public opinion again turns out to be the decisive variable controlling the size of government. Only if popular support for the state’s war exists can it be sustained and possibly won.

And finally, the state of public opinion limits the size of government in yet a third way. While the state maintains its position vis-à-vis the exploited population through coercion and a successful management of public opinion, for maintaining its own internal order, which regulates the relationships between the various branches of government and its employees, there is nothing else at its disposal than public opinion. For clearly, there exists no one outside the state who could enforce its internal rules upon it. Rather, the enforcement must be accomplished exclusively by means of supportive public opinion among state-employees themselves in the various branches of government.\footnote{This insight (which refutes all talk about the impossibility of anarchism in showing that intra-governmental relations are, in fact, a case of political - anarchy) has been explained in a highly important article by Cuzan (1979). “Wherever earthly governments are established or exist, anarchy is officially prohibited for all members of society, usually referred to as subjects or citizens. They can no longer relate to each other on their own terms... Rather, all members of society must accept an external third party - a government - into their relationships, a third party with the coercive powers to enforce its judgements and punish detractors... - However, such a third party arrangement for society is non-existent among those who exercise the power of government themselves. In other words, there is no third party to make and enforce judgements among the individual members who make up the third party itself. The rulers still remain in a state of anarchy vis-à-vis each other. They settle disputes among themselves, without regard for a Government (an entity outside themselves). Anarchy still exists. Only whereas without government it was market or natural anarchy, it is now a political anarchy, an anarchy inside power.” (Cuzan-1979, pp. 152-153).} The president cannot coerce the general to go to war - in fact, the greater physical strength would probably be on the general’s side; and the general in turn cannot coerce his soldiers to do the fighting and killing - in fact, they could smash him anytime. President and general can only succeed because of a favorable intra-state public opinion; only insofar as the overwhelming majority of the state-employees...
actively, or at least passively, supports their actions as legitimate. If a large majority of them, in the various branches of government, were strictly opposed to the enforcement of presidential policy, it could not be successfully put into action. The general who thinks most of his troops consider the war illegitimate, or who thinks that the Congress, the IRS, the large majority of public educators and the so-called social services regard such actions as outrageous and to be openly opposed, would face an impossible task even if he himself supported the presidential command.  

With public opinion instead of demand- and cost-conditions thus identified as the constraining force on the size of government, I am back at my original explanation of the phenomenon of ever-increasing taxation as "simply" a change in prevailing ideas.

If it is public opinion that ultimately limits the size of an exploitative firm, then an explanation of its growth in purely ideological terms is justified. Indeed, any other explanation, i.e., not in terms of ideological changes but of changes in "objective" conditions, must be considered ultimately wrong. The size of government does not increase because of any objective causes over which ideas have no control, and certainly not because there is a demand for it. It grows because the ideas that prevail in public opinion of what is just and what is wrong have changed. What once was regarded by public opinion as an outrage, to be treated and dealt with as such, has become increasingly accepted as legitimate.

What has happened regarding the general public's conception of justice?

In the aftermath of the fall of the Roman empire Western Europe had gradually fallen into a highly anarchic system of territories ruled by small-scale feudal governments. Facilitated by this international anarchy - which tended to reduce each individual government's internal power and ease population movements - and nourished by the ideology of natural law and natural rights,

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25 One of the classic expositors of this idea is D. Hume. In his essay on "The first principles of government" he writes: "Nothing appears more surprising to those who consider human affairs with a philosophical eye, than the easiness with which the many are governed by the few, and the implicit submission, with which men resign their own sentiments and passions to those of their rulers. When we inquire by what means this wonder is effected we shall find, that as Force is always on the side of the governed, the governors have nothing to support them but opinion. It is, therefore, on opinion only that government is founded, and this maxim extends to the most despotic and most military governments, as well as to the most free and most popular. The soldan of Egypt, or the emperor of Rome, might drive his harmless subjects, like brute beasts, against their sentiments and inclinations. But he must, at least, have led his mamalukes or praetorian bands, like men, by their opinions." Hume-1971, p. 19.

26 See on the following in particular also Rothbard, "Left and Right: The Prospects for Liberty", in Rothbard-1974.

27 The importance of international anarchy for the erosion of feudalism and the rise of capitalism has been justly emphasized by Baechler (1976, esp. Ch. 7). He writes (p. 73); "The constant expansion of the market, both in extensiveness and in intensity, was the result of an absence of a political order extending over the whole of Western Europe. "The expansion of capitalism owes its origin and raison d'être to political anarchy... Collectivism and state management have only succeeded in school textbooks."(ibid. p. 77). "All power tends toward the absolute. If it is not abolute, this is because some kind of limitations have come into play... those in the positions of power at the centre ceaselessly tried to erode these limitations. They never succeeded, and for the reason that also seems to me to be tied to the international system: a limitation of power to act externally and the constant threat of foreign assault (the two characteristics of a multi-polar system) imply that power is also limited internally and must rely on autonomous centres of decision-making and so may use them only sparingly." (ibid. p.78).
which emerged as an increasingly powerful theory within the intellectual elite of the Catholic Church (the only “multinationally” effective institution of learning and ideological instruction) and which reasoned, drawing on the older Western intellectual traditions of Greek and Stoic philosophy, Roman law and Judaic-Christian religion, in support of the ideas of universal human rights, equal freedom, private property and contractualism - man’s unmistakable instinct that only private property is compatible with one’s nature as a rational being took effect28. Small centers developed - the cities of northern Italy, most notably Venice, those of the Hanseatic League, such as Luebeck and Hamburg, and those of Flanders and the Low Countries, in particular Antwerp and Amsterdam - where governmental power had been whittled away to a degree heretofore unknown. There, the feudal ideas of bondage, of servitude, and of a hierarchically stratified society of rigidly separated classes had been supplanted by a public opinion that instead supported freedom, equality, property rights, and contractual relations. And this public opinion steadily gained momentum with a continuous influx of new population, inspired by similar ideas and attracted by the unrivaled prosperity that freedom was proving itself capable of producing29.

The ideas of human rationality, freedom and private property, however, were not yet widespread enough. Rooted only in a few dispersed areas, the more or less distant feudal powers that naturally recognized such developments as a

28 The central characteristic of the modern natural law tradition (as represented by St Thomas Aquinas, Luis de Molina, Francisco Suarez and the late 16th century Spanish Scholastics, and the Protestant Hugo Grotius) was its thorough rationalism : its idea of universally valid, absolute, and immutable principles of human conduct that are - ultimately independent of any theological beliefs - to be discovered by and founded in reason and reason alone. Man, writes Copleston (1955, pp. 213-214), “cannot read, as it were, the mind of God... (but) he can discern the fundamental tendencies and needs of his nature, and by reflecting on them he can come to a knowledge of the natural moral law... Every man possesses... the light of reason whereby he can reflect...and promulgate to himself the natural law, which is the totality of the universal precepts of dictates of right reason concerning the good which is to be pursued and the evil which is to be shunned...”. On the origin and development of the natural rights doctrine and its idea of justice and property (including all the statist failings and slips of its aforementioned heroes) see Tuck-1979 ; on the revolutionary character of the idea of natural law see Lord Acton-1948 ; as an eminent contemporary natural rights philosopher see Veatch-1985.

29 On the rise of the cities see Cipolla-1980, Ch. 4. Europe around 1000, writes Cipolla, “was poor and primitive...made up of numberless rural microcosms - the manors... Society was dominated by a spirit of resignation, suspicion, and fear toward the outside world... The arts, education, trade, production, and the division of labor were reduced to a minimal level. The use of money almost completely disappeared. The population was small, production meager, and poverty extreme... The prevailing ideas reflected a brutal and superstitious society - fighting and praying were the only respectable activities ... Those who labored were regarded as despicable serfs ... In this depressed and depressing world, the rise of cities between the tenth and thirteenth centuries represented a new element which changed the course of history.”(ibid. p. 144) "At the root of urban growth was a massive migratory movement." (ibid. p. 145) “The town was to the people of Europe from the eleventh to the thirteenth centuries what America was to Europeans in the nineteenth century. The town was the “frontier”, a new and dynamic world where people felt they could break their ties with an unpleasant past, where people hoped they could find opportunities for economic and social success, where sclerotic traditional institutions and discriminations no longer counted, and where there would be ample reward for initiative, daring, and industriousness.” (ibid. p. 146) "In the feudal world, a vertical arrangement typically prevailed, where relations between men were dictated by the concepts of fief and service ; investiture and homage ; lord, vassal, and serf. In the cities, a horizontal arrangement emerged, characterized by cooperation among equals." (ibid. p. 148). See also Pirenne-1952, Ch. 5 ; Tigar/Levy-1977.
threat to their own stability could once again reassemble strength. By consolidating their territories in a long process of interfeudal struggles and warfare into large-scale states and thereby concentrating and centralizing their forces, they could still succeed in crushing the competition of the idea of freedom blossoming in just a few places and reimpose their exploitative rule over such areas with increased strength. The age of absolutism had set in; the age of a feudal superpower, the monarchy, which successfully centralized the system of feudal exploitation over territories that for the first time reached the size of familiar modern nation states. With absolutism taking hold the competitive territories of free cities were again forced into economic decline and stagnation, in some cases lasting for centuries.

But this victory did not defeat the ideas of freedom and private property. On the contrary, these ideas found ever more powerful expression and increasingly inspired public opinion. Influenced by the continuously advanced natural rights tradition, another, so to speak secularized, intellectual tradition emerged and captivated minds: The tradition of what later became known as classical liberalism, even more decisively centered around the notion of individual freedom and property, and devoted to its intellectual justification. In addition, stimulated by the recent experiences of unrivaled prosperity achieved under conditions of freedom and contractualism, the development of economic thinking took great strides. The then orthodox statist doctrines of mercantilism, cameralism, and Polizeiwissenschaft became intellectually demolished by a swelling number of new political economists who systematically explained, with great thoroughness and comprehensiveness, the indispensable role of private property and contractualism for the process of production and wealth formation and who accordingly hailed a policy of radical laissez-faire.

From about 1700 onward, public opinion had been taken captive by these ideas to such an extent that revolutionary conditions emerged within the absolutist monarchies in Western Europe. England had already gone through a number of revolutions during the 17th century that had severely shattered the powers of the absolutist state. The 18th century ended with the cataclysmic events of the American and French revolutions. And until about the mid-19th century a constant series of upheavals had gradually stripped away governmental exploitation to an all-time low all over Western Europe.

31As the outstanding champion of this tradition see Locke-1960. "...[E]very man has a property in his own person. This nobody has any right to but himself. The labour of his body and the work of his hands, we may say, are properly his. Whatsoever then he removes out of the state that nature hath provided, and left in it, he hath mixed his labour with, and joined to it something that is his own, and thereby makes it his property. It being by him removed from the common state nature placed it in, it hath by his labour something annexed to it that excludes the common right of other men. For this labour being the unquestionable property of the labourer, no man but he can have a right to what that is once joined to..." (ibid. p. 305). See also Bramsted/Melhuish-1978.
32See on these developments of economic theory Hutchinson-1952; de Roover-1974; Rothbard-1976; on the outstanding contributions in particular of Cantillon and Turgot, see The Journal of Libertarian Studies (Vol. VII, No.2, 1985) which is devoted to Cantillon's work, and Rothbard-1986, see also Schumpeter-1954.
The idea that had conquered public opinion and that had made this reduction of governmental power possible was that individual freedom and private property are just, self-evident, natural, inviolable and holy, and that any invader of such rights, governmental agents no less (or even more so) than private offenders, should be regarded and treated as a contemptuous outcast.

With each successful step towards liberation the movement grew stronger. In addition, the so-called Industrial Revolution that had been ushered in by these ideological changes and that had brought about unheard of economic growth rates, sustaining for the first time a steadily increasing population and gradually but continuously raising the general standard of living, created an almost unbounded optimism. To be sure, in Western Europe there was still plenty of feudal and absolutist despotism left even during the first half of the 19th century when the ideology of freedom and private property and of anti-statist vigilance reached its highest level of popularity, but progress towards an ever farther-reaching erosion of the exploitative powers of government and towards freedom and economic prosperity seemed almost unstoppable. In addition, there now existed an independent America, free of a feudal past, with hardly any government at all, that assumed a role similar to that of the free cities of the middle ages; of serving as a source of ideological inspiration and a center of attraction - yet on a much larger scale now.

34 In fact, though the decline of liberalism began around the mid-19th century, the optimism that it had created survived until the early 20th century. Thus, J.M. Keynes could write (1919, pp. 6-7) : "What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, convenience, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages…. But, most important of all, he (man) regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice." For a similar account see also Taylor-1965, p.1.
35 Characterizing 19th century America R. Higgs writes (1987, p. ix) : "There was a time, long ago, when the average American could go about his daily business hardly aware of the government - especially the federal government. As a farmer, merchant, or manufacturer, he could decide what, how, when, and where to produce and sell his goods, constrained by little more than market forces. Just think : no farm subsidies, price supports, or acreage controls; no Federal Trade Commission; no antitrust laws; no Interstate Commerce Commission. As an employer, employee, consumer, investor, lender, borrower, student, or teacher, he could proceed largely according to his own lights. Just think : no National Labor Relations Board; no federal consumer “protection” laws; no Securities and Exchange Commission; no Equal Employment Opportunity Commission; no Department of Health and Human Services. Lacking a central bank to issue national paper currency, people commonly used gold coins to make purchases. There were no general sales taxes, no Social Security taxes, no income taxes. Though governmental officials were as corrupt then as now - maybe more so - they had vastly less to be corrupt with. Private citizens spent about fifteen times more than all governments combined."
Today, little is left of this ethic of private property and its anti-government vigilance. Although they now take place on a much grander scale, governmental appropriations of private property are overwhelmingly regarded as legitimate. There is no longer a general public opinion that regards government as an anti-social institution based on coercion and unjustful property-acquisitions, to be opposed and ridiculed everywhere and at all times on principled grounds. No longer is it generally regarded as morally despicable to propagate or, even worse, to actively participate in the enforcement of acts of expropriation; and no longer is it the general opinion that one would not want to have any private dealings whatsoever with people who engage in such activities.

On the contrary, instead of being laughed off the stage or being met with open hostility or passive indignation, such people are respected as decent and honest men. The politician who actively supports a continuation of the ongoing system of non-contractual property taxation and regulation, or who even demands its expansion, is treated everywhere with respect, rather than contempt; the intellectual, who justifies taxation and regulation receives recognition as a deep and profound thinker in the public eye, instead of being exposed as an intellectual fraud; and the IRS agent is regarded as a man doing a job just as legitimate as yours and mine, and not as an outcast that no one wishes to have as a relative, friend or neighbor.

How could government accomplish such a feat and bring about a change in public opinion that lifted the former constraint on its size and instead allowed (and still allows) it to grow in absolute as well as relative terms?\footnote{36}

There can be no doubt that the key element in this turn-around of public opinion that started to take hold in Western Europe around the mid-19th century, around the turn of this century in the U.S., and then at a steadily accelerating pace everywhere after World War I\footnote{37} has been the emergence of new attractive - implicitly or explicitly - statist ideologies.

In fact, states have always been aware of the decisive importance of state-supportive ideologies for stabilizing and increasing their exploitative grip on a population, and in recognizing this, have always made attempts to extend their control, above all, over the institutions of education. At the lowest level of their power, then, it should appear only natural to see them give even more attention to the problem of "correct" ideological instruction, and concentrate whatever is left of their power on the destruction of all independent institutions of learning and their take-over into its own monopolistic hands. Accordingly, throughout the entire period, in order to regain the upper hand in the permanent struggle of ideas a steady process of nationalizing or socializing schools and universities (with one of the most recent examples being the unsuccessful attempt by the Mitterand government to crush France's Catholic schools) and lengthening the period of compulsory schooling has taken place\footnote{38}. 

\footnote{36}{On the following see in particular Dicey-1981; Halevy-1961; Greenleaf-1983-87; Ekirch-1976; Higgs-1987.}
\footnote{37}{On the world-wide excesses of statism since World War I see Johnson-1983.}
\footnote{38}{On the relation between state and education see Rothbard-1972.}
Yet to point out this fact, and the related ones of an increasingly close alliance between state and intellectuals and the latter's rewriting history in line with statist ideologies, is less answering the problem than merely putting it into focus. Indeed, when one hears about the state's take-over of the system of education, must one not immediately ask how it could succeed in doing so if public opinion was really committed to a private property ethic?! Such a take-over presupposes a change in public opinion.

How, then, was this accomplished, especially in view of the fact that such a change implies the acceptance of manifestly wrong ideas, and thus can hardly be explained as an endogenously motivated process of intellectual advancement?

It would seem that such a change towards falsehood requires the systematic introduction of exogenous forces: A true ideology is capable of supporting itself merely by virtue of being true. A false one needs reinforcement by outside influences with a clear-cut, tangible impact on people in order to be capable of generating and supporting a climate of intellectual corruption.

It is to these tangible, ideology-supporting and reinforcing factors that one must turn if one wants to understand the decline of the private property ethic and the corresponding rise of statism during the last 100 to 150 years.

I will discuss four such factors and explain their corruptive function for public opinion. All are changes in the organizational structure of the state. The first one is the state's structural adjustment from a military or police state toward a redistributive one. (The prototype of such an organizational change is the often copied Bismarsk Prussia.) Instead of a governmental structure that is characterized by a small ruling-class which uses its exploitatively appropriated resources almost exclusively for pure governmental consumption or for the maintenance of its military and police forces, states now increasingly engage in a policy of actively buying support among the people outside of the governmental apparatus itself. Through a system of transfer payments, grants of privilege to special clients, and governmental production and provision of certain "civilian" goods and services (as for instance education), the population is made increasingly dependent on the continuation of state rule. People outside the governmental apparatus increasingly have a tangible financial stake in its existence and would be harmed, at least in the short run and in parts of one's existence, if the government were to lose its power. Quite naturally, this dependency tends to reduce resistance and increase support: exploitation may still seem reprehensible, but it is less so if one also happens to be someone who at least on some fronts is a legal benefactor of such actions.

In recognition of this corruptive influence on public opinion, then, states increasingly become engaged in redistributive policies. The share of government expenditure for civilian spending compared to military spending and pure government consumption increases. The latter expenditures can still increase steadily in absolute terms - and they have indeed done so practically everywhere to this day - but everywhere they lose importance relative to expenditures allocated to redistributionist measures.

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39 On the relation between state and intellectuals see Benda-1969.
40 On the following see in particular Hoppe-1985, Chs. 1, 5; and Hoppe-1988, Ch. 8.
41 On this trend see Webber/Wildavsky-1986, pp. 558 ff.; on redistribution in general see also de Jasay-1985, Ch. 4.
Depending on the particular conditions of public opinion, such redistributionist policies typically assume one of two forms and frequently, as in the case of Prussia, both simultaneously: On the one hand the form of “Sozialpolitik”, of so-called welfare reforms, generally involving an income redistribution from the “haves” among producers to the “have-nots”. And on the other hand that of business cartelizations and regulations, generally implying a redistribution from productive “have-nots” or “not-yet-haves” to the established “already-haves”. With the introduction of a Sozialpolitik an appeal is being made to egalitarian sentiments and a substantial part of it can be corrupted into accepting state exploitation in exchange for the state’s enforcement of “social justice”. And with the introduction of a policy of business cartelization and regulation one appeals to conservative feelings, particularly among the bourgeois establishment, and it can be brought to accept the state’s non-contractual appropriations in exchange for its commitment to the preservation of a status quo. Egalitarian socialism and conservatism are thus transformed into statist ideologies. They compete with each other in the sense that they advocate somewhat different patterns of redistribution; but their competitive efforts converge and integrate in a joint support for statism and statist redistribution.

The second structural adjustment aiding in the roll-back of the private property ethic is a change in states’ constitutions. In response to the challenge of the private property ethic, states change their constitutions from a monarchic autocracy or an aristocratic oligarchy to the now familiar type of a so-called liberal democracy\textsuperscript{42}. Instead of being an institution which restricts entry into itself and/or into particular governmental positions through a system of caste or class legislation, a state constitution is now increasingly adopted which, in principle, opens every government position to everyone and grants equal and universal rights of participation and competition in the making of state-policy.

Everyone - not just the “nobility” - now receives a legal stake in the state, and the resistance to its rule tends to reduce accordingly. While exploitation and expropriation may have seemed plainly bad, they seem much less so, mankind being what it is, once one is given a chance of participating in its process; and while the ambitions of potential power-wielders within the general public previously must have been dangerously frustrated, now there is an institutionalized outlet for them.

In paying the price of democratizing its constitution the state corrupts substantial parts of public opinion into gradually losing sight of the fundamental fact that an act of exploitation and expropriation is in all appearances and consequences the same no matter how and by whom it is decided and enforced, and lures them instead into accepting the view that such acts are legitimate as long as one is guaranteed a say over them somewhere along the line and could have somehow somewhere participated in the selection of the state-personnel\textsuperscript{43}.

\textsuperscript{42}On this trend see Bendix-1978.

\textsuperscript{43}On the social psychology of democracy see Mosca-1939; Mencken-1926; on the tendency of democratic rule to “degenerate” to oligarchic rule see Michels-1957.
This corruptive function of democratization as a stimulus for the resurgence of state power has been described with great perceptiveness by de Jouvenel:

*From the twelfth to the eighteenth century governmental authority grew continuously. The process was understood by all who saw it happening; it stirred them into incessant protest and to violent reaction. In later times its growth has continued at an accelerated pace, and its extension has brought a corresponding extension of war. And now we no longer understand the process, we no longer protest, we no longer react. The quiescence of ours is a new thing, for which Power has to thank the smoke-screen in which it has wrapped itself. Formerly it could be seen, manifest in the person of the king, who did not disclaim being the master he was, and in whom human passions were discernible. Now, masked in anonymity, it claims to have no existence of its own, and to be but the impersonal and passionless instrument of the general will. But that is clearly a fiction. Today as always Power is in the hands of a group of men who control the power house.... All that has changed is that it has now been made easy for the ruled to change the personnel of the leading wielders of Power. Viewed from one angle, this weakens Power, because the wills which control a society's life can, at the society's pleasure, be replaced by other wills, in which it feels more confidence. But by opening the prospect of Power to all the ambitious talents, this arrangement makes the extension of Power much easier. Under the "ancien regime", society's moving spirits, who had, as they knew, no chance of a share in Power, were quick to denounce its smallest encroachment. Now, on the other hand, when everyone is potentially a minister, no one is concerned to cut down an office to which he aspires one day himself, or to put sand in a machine which he means to use himself when his turn comes. Hence it is that there is in the political circles of a modern society a wide complicity in the extension of power.*

The other two adjustments made by the state in order to overcome its lowest point of popularity and rise to its present size have to do with interstate relations. For one thing, as explained earlier and just mentioned again by de Jouvenel, states qua monopolistic exploiters tend to get involved in interstate warfare. With their internal exploitative power weak, the desire to compensate for these losses by external expansion rises. Yet this desire is frustrated by a lack of internal support. The support is created through a policy of redistribution, industrial regulation, and democratization. (In fact, states that do not adopt these measures are bound to lose in any long-lasting warfare !) And it is this support, then, that is used as a springboard for a realization of the state's expansionist desires.

\[44\] Jouvenel-1949, pp. 9-10.
Taking advantage of the fact that redistribution, regulation and democratization already imply a greater tangible identification of the population with a specific state and thus almost automatically lead to an increase in protectionist if not open antagonistic attitudes towards "outsiders", and that in particular state-privileged producers are by nature hostile to "foreign" competition, the new-found support is transformed by the state and its intellectual bodyguards into a frenzy of nationalism, providing the intellectual framework for the integration of socialist-egalitarian, conservative and democratic sentiments.45

Backed by such nationalism, then, states begin on their expansionist course. For more than a century an almost uninterrupted series of wars and imperialist expeditions sets in, each one more brutal and destructive than the previous one, with an always larger involvement of the non-combative population, culminating in World War I and II (but, of course, not ending with this). In the name of the socialist, conservative or democratic nation, states, by means of warfare, have expanded their territories to sizes compared to which even the Roman Empire appears insignificant, and actually wipe out or bring under foreign rule a steadily increasing number of culturally distinct nations.46

Yet not only external expansion of state power is brought about by the ideology of nationalism. War as the natural outgrowth of nationalism is also the means of strengthening the state’s internal powers of exploitation and expropriation. Each war is also an internal emergency situation. And an emergency requires and seems to justify the acceptance of the state's increasing its control also over its own population. Such increased control gained through the creation of emergencies is reduced again during peace-time. But it never sinks back to its pre-war levels. Rather, each successfully ended war (and only successful governments can survive, of course) is used by the government and its intellectuals to endlessly propagate the idea that it was only because of nationalistic vigilance and expanded governmental powers that the “foreign aggressors” could be crushed and one's own country saved, and that this successful recipe in principle must then be retained in order to be prepared for the next emergency. And so, led by a just proven “dominant” nationalism, each successful war ends with the attainment of a new peace-time high of governmental controls and thereby further strengthens a government's appetite for implementing the next win-able international emergency.47

Each new period of peace means a higher level of governmental interference as compared with the previous one: internally in the form of increased restrictions on the range of choices that private property owners are allowed to take regarding their own property; and externally, as regards foreign relations, in the form of higher trade barriers and in particular of increasingly severe restrictions on population movements (most notoriously: on emigration and immigration). And any such peace then, not the least because it is based on increased discrimination against foreigners and foreign trade, contains an

47 This process is the central topic of Higgs-1987.
increased risk of the next international conflict, or pressures the affected governments into negotiating bi- or multi-lateral interstate-agreements aimed at cartelizing their respective power structures and thereby jointly exploiting and expropriating each other's populations.48

Finally, the fourth adjustment is made necessary by the other three, and in particular again because of the ongoing process of interstate competition, crises and warfare. It is less of the state's own making than are redistribution, democratization and war-making - just as it is not of its own making that there is interstate-competition at all - ; rather, it is, in fashionable Hayekian terminology, the unintended consequence of the fact that, short of one state's domination of the entire world, the continued existence of other states keeps exerting a significant constraint on each state's size and structure.

Yet whether intended or unintended, this structural adjustment must also be pointed out if one wishes to fully understand the development that has led to the present world of statism. And it is also incidentally only by mentioning this adjustment that the question why it is specifically the tax-state that has risen to world dominance is finally answered.

It is easy enough to explain how through a series of nationalistic wars during the 19th and 20th century the states of Western Europe and North America could come to dominate the rest of the world and leave their imprint upon it. Notwithstanding the presently booming cultural relativism, the reason for this is the simple fact that these states were the outgrowth of societies with a superior intellectual tradition, i.e., that of Western rationalism, with its central ideas of individual freedom and private property, and that this tradition had laid the foundation for the creation of economic wealth far exceeding that existing anywhere else. Parasitically drawing on such superior economic wealth, it is not at all surprising that these states were then able to victoriously battle all others.

And it is also obvious why - with the remarkable exceptions, however, of a number of Pacific countries - most of these defeated and reconstituted non-Western states have up to this day utterly failed to significantly improve their international stature or even match that of the Western nation states, and have in particular failed to do so after having reached political independence from Western imperialism: Having no endogeneous tradition of rationalism and liberalism, such states naturally felt inclined to imitate or adopt the “victorious” ideological imports of socialism, conservatism, democratism and nationalism, the very ideologies to which these countries' intellectual elite had been exposed almost exclusively during their studies at the universities of Oxford and Cambridge, London, Paris, Berlin, Harvard and Columbia. And as a matter of course, a brew of such each-and-all statist ideologies, unconstrained by a significant tradition of a private property ethic, spells economic disaster, and such a fact more or less rules out any prominent role in international politics.49

48 The most vicious of such agreements is very likely that of restricting entry for non-criminal persons wanting to immigrate into a given territory - and the chance for those living in this territory to offer employment to them - and of extraditing them back to their home-countries.

49 On the problem of the so-called Third World see Bauer/Yamey-1957; Bauer-1972; Bauer-1981; Andreski-1969; Andreski-1966.
Yet what - and it is the answer to this which is somewhat less obvious - if the Western states fight each other? What determines the success in these conflicts, and what is bound to cause defeat?

Naturally, redistribution, democratization and nationalism cannot be cited again here. For, assumedly, these states have already adopted such policies in order to regain internal strength and prepare for interstate warfare in the first place. Rather, just as it is the relatively stronger tradition of a private property ethic that is responsible for these states' dominance over the non-Western world, so, ceteris paribus, a relatively more liberal policy is responsible for their long run success in the struggle for survival among the Western states themselves: Among them, those states which have adjusted their internal redistributionist policies such as to decrease the importance of a conservatively minded policy of economic regulations relative to that of a socialistically inclined policy of taxation tend to outstrip their competitors in the area of international politics.

Regulations through which states either compel or prohibit certain exchanges between two or more private persons as well as acts of taxation are both invasions of private property rights; and in pursuing both types of redistributionist policies the state's representatives increase their own income at the expense of a corresponding income-reduction for someone else. However, while in general by no means less destructive of productive output than taxation, regulations have the peculiar characteristic of requiring the state's control over economic resources in order to become enforceable without simultaneously increasing the resources at its disposal. In practice, this is to say that they require the state's command over and expenditure of taxes, yet they produce no monetary income for the state, but (apart from the support that it may receive from those directly benefiting through its regulatory measures) income exclusively in the form of the satisfaction of pure power lust (as when A, for no material gains of his own, outlaws that B and C engage in mutually beneficial trade with each other). Taxation, on the other hand, and a redistribution of tax revenue according to the principle "from Peter to Paul", increase the economic means at a government's disposal at least by its own "handling-charge" for the act of redistribution, but may produce no other satisfaction (apart from the increased appreciation by the Pauls) than that of actually possessing certain economic resources and being able to expend them according to one's own whims.

Now, clearly, interstate conflicts and war require economic means, and require more such resources the more frequent and longer-lasting such events are. In fact, those states which control more ample economic resources expendable on a war-effort will ceteris paribus tend to be victorious. And hence, since a policy of taxation, and taxation without regulation, yields a higher monetary return to the state than a policy of regulation, and of taxation cum regulation, states must willy-nilly move into the direction of a comparatively deregulated economy and a comparatively pure tax-state in order to avoid international defeat.

50On regulation and taxation as different forms of aggression against private property and their economics and sociology see Rothbard-1977; Hoppe-1988a.
It is this relative advantage in international politics of the tax-state over the regulatory state that explains the rise of the U.S. to the rank of the world's foremost imperial power\(^ {51}\), the defeat of such highly regulatory states as Nazi-Germany and Fascist-Italy, the relative weakness of the Soviet Union and its allies as compared to the Nato-alliance, and the recent moves toward economic deregulation and simultaneously increased levels of aggressions of the Reagan and, to a lesser extent, the Thatcher government.

This concludes a praxeologically informed sociological account of the evolution of the present statist world and the rise, in particular, of the modern tax-state. Based on such an understanding let me end with just a few brief remarks of what it is, then, that makes it possible to overcome the tax-state.

It cannot be fought by simply boycotting it, as a private business could, because an institution devoted to the business of expropriating and exploiting does not respect the negative verdict revealed by boycotts. And it also cannot simply be fought by countering its aggressions with defensive violence, because the state's aggression is supported by public opinion. Thus, everything depends on a change in public opinion. The private property ethic: the idea that private property is a just institution and the only means of creating economic prosperity, and of the state as an outcast institution that is destructive of wealth-formation, must be revived, and again inspire people's minds and hearts. With the statist ideologies of nationalism, democratism, and redistributionism (of either the socialist or the conservative kind) rampant this may sometimes appear hopeless. But ideas have changed in the past and can change again in the future. In fact, ideas can change instantaneously\(^ {52}\). And the idea of private property has certainly one attraction: it, and only it, is a true reflection of man's nature as a rational being\(^ {53}\).

\(^{51}\) On the imperialistic foreign policy of, in particular, the U.S. see Krippendorff-1985, Ch. III, 1, Rothbard-1978, Ch. 14.

\(^{52}\) See on this also Boetie-1975. "Resolve to serve no more, and you are at once freed. I do not ask that you place hands upon the byrant to topple him over, but simply that you support him no longer; then you will behold him, like a great colossus whose pedestals have been pulled away, fall of his own weight and break into pieces," (pp. 52-53).

\(^{53}\) On the - aprioristic - rational justification of the private property ethic see Hoppe, "From the Economics of Laissez Faire to the Ethics of Libertarianism" in Rockwell-1988; and Hoppe-1988.c.
References


