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# Tolls on the Road to Serfdom

BY D.W. MACKENZIE

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Many people think their taxes are too high and that the tax system is unfair. While those who favor individual liberty might find this encouraging, the specific reasons for discontent are not entirely positive. Many Americans think the current system is unfair because of *how* it affects income distribution and intervenes in markets. That is, most Americans think that the tax system should redistribute and intervene—just in a different way.

There are many arguments against using taxes to redistribute income and reallocate resources. Economists like Gordon Tullock and Mancur Olson have explained why we should expect much special-interest bias and waste (rent-seeking) in large activist government. Public-opinion polls indicate that people oppose special-interest bias and waste in the tax system. However, lots of Americans see the system as a means of partial economic planning for the achievement of “social goals” like poverty reduction or pollution abatement. In his classic book *The Road to Serfdom* F.A. Hayek explained why comprehensive economic planning would ultimately destroy individual liberty. Tax policy in the United States does not aim at comprehensive planning, but it does serve as a vehicle of partial planning. A close examination of public discontent over taxes and the tax system itself reveals that the use of income taxes as a means of partial economic planning has already resulted in a loss of individual liberty.

An Ipsos poll last year noted that 58 percent of Americans believe the middle class pays too much in taxes. Fifty-four percent believe the poor pay too much. Sixty percent believe the rich do not pay enough. Others complain that the top 5 percent of income earners pay too much. Still others say the top 5 percent get too

many tax breaks. Small businesses and the self-employed pay too much, while large businesses pay too little, according to this poll.

Complaints also target the tax code’s complexity and lobbyist influence. These are valid complaints. The Standard Federal Tax Reporter has 66,498 pages of federal tax rules. These rules are incomprehensible. A slight majority of Americans hired a professional to work on their tax returns this year. This work was done by 1.2 million professionals and generated revenue of \$2.4 billion for H&R Block alone. Some people think that a flat tax rate of 17 percent would solve this problem. Other people favor consumption taxes or value-added taxes. Still others favor heavy tariffs to protect American industries.

Thus most of the discontent with federal taxes and spending is with the current form of fiscal redistribution and fiscal activism, not with redistribution and fiscal activism itself. Most Americans disapprove of the current fiscal structure of government, but not because they oppose any form of high and complex taxes, which large activist governments require. To put it simply, most Americans want a tax system tailored to their own political or ideological beliefs, one that would tax different people according to what they each see as fair.

One might say that this is simply democracy in action. In a democratic society different people assert different points of view and enlightened public debate resolves these differences. There are sound reasons to doubt this is the case. In *The Road to Serfdom* Hayek argued that democracy functions best when it is limited

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to enforcing a few general rules of conduct that do not favor any particular group or individual. Rules concerning which side of the street we should drive on are uncontroversial. Rules against violent crimes are essential to the functioning of any society. Constitutional rules guaranteeing free speech and free association are necessary for promoting freedom. A democracy that enforces a few simple and common-sense rules can function without threatening individual liberty.

Problems arise when we attempt to use democracy toward specific ends. The difference here is between enforcing general rules of conduct without aiming at any particular outcomes and activist government that tries to bring about particular outcomes. A limited government would need to raise revenue for only its limited purposes. An activist government uses taxes to achieve broader purposes: to redistribute income from less to more “deserving” people, to protect the environment, to protect American jobs, or to achieve some notion of “social justice.” We do not, and can never, agree on which of these priorities is the most important. As Hayek wrote, any attempt at such social planning will derive from an incomplete set of values. Different people will have different views on such matters. The attempt to form a single plan necessarily favors some views at the expense of others. Only a few can see their views put into action through tax policy.

Consequently, the attempt to plan even part of society through tax incentives or redistribution will be based on a “partial scale of values” that will leave most people discontent. People who think that the tax system would be fair if *their* views were adopted should realize that each of their views is only one among many and that most differences over policy can *never* be resolved in a society of independent thinkers. The form of discontent revealed in recent polls is simply a product of the forces Hayek described.

Worse still, activist government is vastly complex. In a complicated and changing world elected officials must delegate substantial powers to bureaucrats. As Hayek noted, parliaments that assume an activist role in planning society will become “ineffective talking shops.” So elected officials must delegate discretionary powers to bureaucrats who can judge particular cases on their individual merits. This is in fact what has happened with the

IRS. The tax code is not only complex but vague. Ambiguity allows IRS auditors discretion in how they enforce the code. In the 1990s congressional hearings on the IRS revealed many instances of officials’ abusing their authority.

### “The Worst Get on Top”

Of course, one could dismiss these cases as anecdotal evidence from one particular period. However, Hayek demonstrated that “the worst get on top” of any government that seeks to plan economic activity, and this rule doesn’t apply only to heads of state. He noted that “To be a useful assistant in a totalitarian state, it is not enough that a man should be prepared to accept specious justification of vile deeds; he must be prepared to break every moral rule he has ever known if this seems necessary to achieve the ends set for him.” When it comes to competing over governmental power, those with good intentions and high ideals are always at a disadvantage with those who will stop at nothing to acquire more power. Of course, the IRS is not a part of a totalitarian government. Yet it is a part of an activist government that attempts to do far more than enforce a few simple rules.

We have not traveled the full length of Hayek’s road to serfdom, but we have gone far enough to see where it leads. The IRS hearings revealed more than the abuse of taxpayers. Whistleblowers at the agency had their careers ruined. Thus fair-minded persons there could not advance to positions of authority. Only those willing to stop at nothing to achieve IRS goals could reach such positions. This strongly supports Hayek’s contention that those who acquire discretionary powers in government are not trustworthy.

Many of the more common concerns with the tax code are legitimate. Tax compliance is costly, and the laws favor special interests. Yet the discontent that most Americans have with the tax code is no cause for optimism. Since most of them want to change the tax system to reflect their conception of social justice, we must conclude that they are intent on taking at least a few more steps toward serfdom. This is cause for concern but not for hopelessness. Our primary task is to convince the public that they have come to expect too much of democracy.

