Optimal Taxation for Democracies with Less than Perfect Voters: A Public Choice Perspective

Roger D. Congleton
West Virginia University
7–22–23

Abstract: This paper analyzes optimal tax policy from the perspective of voters who want public policies to systematically advance their interests. Self-acknowledged ignorance implies that voters have a practical interest in transparent and stable tax systems that allow personal tax burdens to be calculated accurately and easily. Such properties reduce voter mistakes. However, a voter's normative interests may conflict with these practical interests, because ideas about a good life or good society often support tax system complexity. Tradeoffs between these two aims of democratic tax systems imply that the optimal tax system for a democracy neither minimizes voter errors nor maximizes a social welfare function.

I. Introduction: Toward a Tax Constitution for Democracies

The theory of optimal taxation, like most normative ideas in public economics, belongs to the field of political philosophy. It concerns ideas about the good society and/or understandings of the proper methods through which a given society can be improved. If democratic rule is taken to be the best of the available systems of governance, an optimal tax system should be "optimal" from the vantage point of pivotal voters, rather than a hypothetical philosopher-king or benevolent central planner.[1] Only tax systems that are consistent with voter interests are likely to be sustained by democratic governments elected by ordinary human beings.[2]

[1] This will simply be assumed in this paper. As Churchill (1947) once said "Many forms of Government have been tried and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of Government except for all those other forms that have been tried from time to time." Churchill's comment suggests that constitutional democracy, perhaps augmented with various constraints such as a bill of rights and provisions for equal protection of the law, should serve as a constraint on the types of government for which an optimal tax theory should be designed.

[2] I use the words "ideal" and "optimal" almost interchangeably in this paper. The word "optimal" is presumably used by optimal tax theorists because it sounds more scientific than "ideal" or "utilitarian." Optimal tax theory—in my mind at least—should include all normative approaches to taxation, not simply utilitarian ones, as developed below.

Given the utilitarian foundations of contemporary welfare economics, it is not surprising that contemporary optimal tax theory assumes that an optimal tax system should maximize a generalized social welfare or aggregate utility function, holding other things (often tax revenues) constant. The conclusions reached about optimal tax systems from this perspective vary with the assumed functional forms of aggregate utility functions, the characterizations of individual utility functions, and the economic and political context assumed.[3] However, it is rarely the case that the assumed political context is democratic.[4]

The usual utilitarian approach to optimal taxation lacks political foundations beyond those associated with Plato's imaginary republic ruled by a wise philosopher-king in which laws are perfectly implemented by a specially trained guardian class. It imagines that tax authority is delegated to an independent taxing agency that has the power to select any pattern of taxes that it desires and never abuses that authority. There is no harm in this, insofar as characterizations of "optimal" tax systems are intended to be nothing more than a utilitarian scholar's conclusions about his or her hypothetical ideal tax system. However, if the aim is to improve existing tax systems, attention needs to be focused on both democratic politics and the interests of individuals in their roles as voters.

The analysis of this paper focuses on a subset of practical and normative tax policy interests that all voters in a polity are likely to share. It also explores how internalized norms may affect a voter's evaluation of alternative tax systems. Voters may share normative interests without agreeing about a particular theory of a good society.

---

[3] Relatively few optimal tax theories even mention voting or governance. Most rely upon the homo - economicus model of humanity, although there are a few extensions of the homo-economicus model. For example, a few analysts assume that voters are altruistic, rather than pragmatic. See, for example, Oswald (1983), Johansson (1997), or Farhi and Werning (2013).

[4] For example, Samuelson's (1954) classic paper on the optimal supply of pure public goods demonstrates that it is possible to reach general conclusions about the optimal levels of pure public goods using a generalized utilitarian social welfare function of the $W=w(U_1, U_2, \ldots U_N)$ variety, with positive partial derivatives of W with respect to each individual's utility level.

However, the optimal method of tax finance for such services is only very roughly characterized by the same analysis because the taxes paid are pure private goods, and the ideal vector of lump-sum tax assessments varies with the partial derivatives of the social welfare function (the weights), the individual utility functions assumed, and the resources and technology employed in the production of goods and services. See Alm (1996) for a brief overview of twentieth century conclusions about optimal taxes and weaknesses in the mainstream approach. It bears noting this this overview and critique does not include the words: voter, majority, nor elections in it.

The paper relies upon prose rather than mathematical models. The models that motivate the prose are the usual ones taught in public economics classes; thus, mathematized versions of most of the arguments developed below could easily have been developed, but they would occupy more space and be less accessible for the intended readers. Many subtle issues in mainstream optimal tax theory are neglected herein because most such issues are beyond the knowledge of "ordinary" voters (and most public finance scholars) and so are largely irrelevant for the purposes of this paper. The analysis finishes with a discussion of settings in which errors and the instabilities may reduce voter interest in normatively optimal tax systems and increase their interest in transparency.

Three main points emerge from the analysis. First, the more trustworthy elected officials and the bureaucracy are believed to be, the more authority a typical voter is willing to delegate to government officials. Contrariwise, the less trustworthy government officials are regarded to be, the less discretion (ideally) is delegated to government officials over fiscal matters. Intermediate levels of trust imply intermediate delegations of authority to government officials with respect to tax policies, as observed in today's liberal democracies. Second, voters who are aware of their own ignorance share pragmatic interests in transparent and stable tax systems, other things being equal. Transparency and stability minimize the probability of systematic majoritarian errors when selecting candidates and public policies. Transparency and stability also reduce errors and information costs associated with private planning. These private considerations are likely to be at least as important to most voters as the effects of mistaken votes on public policies.

Third, in addition to shared practical interests in tax systems that reduce voter errors, voters may also share normative interests. In many cases, a voter's normative interests conflict with his or her practical interests in transparency and stability, although there are cases in which normative interests may indirectly increase the stability and transparency of tax systems. Whether this occurs or not depends on the degree to which normative interests generate a consensus with respect to tax systems that satisfy the Plott (1967) conditions for the existence of a median or pivotal voter.

It bears noting that voters would have to be utilitarian zealots to support the tax systems proposed by most optimal tax theorists. In the absence of strong normative support, day-to-day politics would tend to dismantle utilitarian tax systems, even in the absence of political agency problems.

II. Natural Ignorance, Trustworthiness, and Delegation

Before starting the analysis, it should be mentioned that taxation is inherently an area in which practical interests conflict. "I" would rather that "you" pay more for government services so that "I" can pay less, and "you" would rather that "I" pay more for government services so that "you" can pay less. Thus, the politics of tax law tends to be highly conflictual, at least when practical interests determine voter interests. This logic holds regardless of the extent of excess burden or the type of tax system under consideration. There are, however, a few areas in which practical interests tend to be shared among voters. One is on the extent to which tax authority should be delegated to unelected tax "experts." Another is with respect to informational efficiency.

Natural Ignorance and Delegation

The advantages of delegation are largely associated with natural ignorance and the cost (impossibility) of being well informed on all policy issues. The disadvantages of delegation are generated by informational asymmetries associated with expertise, together with the understanding that the interests of tax experts may differ from one's own.

Individuals are born into the world knowing nothing of the world in which they will live. Through time, as a consequence of lessons taught by others and their own direct experience and creativity, they develop understandings of what the world is, how it can be changed, and how to evaluate possible changes that they might induce through their choices. Although much is learned as one grows up, we all remain naturally ignorant of many things. Some things are beyond the domain of contemporary human knowledge, and there are many subsets of accumulated knowledge to which one has either not been exposed or not taken the time to master. At the edge of one's own knowledge are cases in which the ignorance that remains was chosen—that is, rational ignorance—but much remains unknown to us without conscious decision making being involved. In either case, complete ignorance about relevant factors tends to produce biased expectations and mistakes (Congleton 2001, 2007). For most people, such ignorance includes general equilibrium models of tax incidence.

Ignorance implies that some mistakes are inevitable. Failure to understand all of one's possible actions or all of the consequences associated with the actions that one does understand can induce choices that one will later regret. Voter mistakes about tax and other public policies can be

induced by computational errors associated with complexity itself, natural ignorance, rational ignorance, or mistaken theories.[5]

Fortunately, the likelihood of mistakes can be reduced through a number of strategies. For example, (1) one may reduce ignorance about taxation by focusing significant time and attention on tax codes and tax theory. (2) One may delegate one's decisions to various tax experts, if they can be identified. The latter strategy is often used in other areas of knowledge where ignorance is commonplace, such as auto mechanics and medicine where individuals often delegate most decisions to the experts they have chosen or been assigned. Many of those decisions are life or death matters, so delegation is not limited to unimportant areas of ignorance. (3) An intermediate strategy is to use expert advice to inform one's own choices about purchases of public policies, automobiles, healthcare, computers, cell phones and the like. In the first case there is a complete absence of delegation; in the second, complete delegation; and in the third, partial delegation. In the third case, the final decision remains with the nonexpert, but the final decision is influenced by the advice of the experts consulted.

Some of the factors that influence decisions about the extent of delegation are themselves consequences of decisions made in the past by oneself and others. Individuals may have invested more or less in understanding taxation, human physiology, automobile mechanics, cell phone software, political science, or economics. Investments in particular types of human capital can reduce the cost of being more informed, although they do not reduce those costs to zero.

The cost of becoming informed in such areas is also influenced by the decisions of well-organized groups of expert specialists who may be able to increase the price of their services by seeking and obtaining gate-keeping authority or other forms of monopoly power over information

[5] The literature on fiscal illusion—biased expectations about tax burdens—begins with Puviani (1903) and continues through to the present. Examples include Pommerehne and Schneider (1978), Eichenberger and Serna (1996), Congleton (2001), and Congleton (2007) among many others. Puviani discusses why inducing fiscal illusion may be in the interest of government officials. Pommerehne and Schneider provide statistical evidence that systematic underestimation of tax burdens is greater under more complex tax systems than less complex ones. Eichenberger and Serna demonstrate that propaganda (dirty information) tends to increase voter error rates even when it does not induce fiscal illusion. Congleton (2001) demonstrates that voters who are completely ignorant of fiscally relevant factors will have biased expectations about their tax burdens. Congleton (2007) uses simulations to show why the electoral effects of such biases (as might occur from oversimplification) may be diminished by Condorcet Jury Theorem effects but are not eliminated by them.

that is relevant for their area of expertise. The existence of informational barriers allows experts to induce exaggerated assessments of the risks associated with nonexpert mistakes in their area of expertise, and thereby increase the demand for their services beyond what fully informed consumers or taxpayers would desire. The latter provides one of several good reasons not to fully delegate decisions to a single expert, nor to entirely trust any single expert's advice.

Trust and Delegation

In the case of tax authority, the details of tax codes and the tasks associated with calculating tax incidence are often known only to tax experts. So, most voters recognize that benefits from delegating authority over tax systems to public-finance experts exist. However, all but the most naïve voters are aware that delegation has costs as well as benefits. A typical tax code can include many departures from the system that best advance a voter's interests. The latter implies that the net effect of complete delegation may be losses rather than benefits, even when voters realize that they do not fully understand tax law, general equilibrium theory, or econometrics. As a consequence, most voters evidently prefer to retain some veto power over tax decisions, rather than to delegate full taxing authority to independent agencies staffed by public finance experts with lifetime appointments.

Elections tend to align the interests of those elected with those casting votes, which is less true of the interests of unelected government employees. Periodic elections also allow voters to correct past errors in their conclusions about the character of the persons or parties running for high office. Thus, voters are willing to delegate the details of tax and spending systems to elected officials but not to an unknown and perhaps less than fully trustworthy independent agency. The greater the perceived agency costs associated with delegating tax decisions to experts, the less delegation is ideal and the more authority over budgets will tend to be vested in elected representatives or decided via referenda. The more trustworthy elected representatives appear to be, the more tax authority voters will be willing to delegate to them.

The existing decision-making procedures of democratic governments imply that voters have intermediate levels of trust in their government's tax experts. Although tax experts are included within every democratic government's bureaucracy, final decisions about taxes are nearly always made by elected officials or subject to their veto.

It is this intermediate level of trust that motivates the rest of this paper. Other assumptions about the trustworthiness of government agents would change the argument to some extent, but

voter interests in informational and normative goals would remain for all the intermediate cases. If voters had complete trust in elected officials, they might also trust them to properly delegate and monitor the choices of independent tax experts. In that case, the main issue for voters would be working out the ideal philosophic and economic school from which a tax czar or benevolent and brilliant tax planners should be selected. If they believed that government officials were entirely untrustworthy, they would minimize the transfer of authority from the ballot box to the government by, for example, subjecting every change in tax law to referenda. In that case, their preferred tax code would resemble Brennan and Buchanan's (1977) proposal for a tax constitution for leviathan.[6]

In practice, it is elected officials to whom taxing authority is delegated, rather than an independent tax agency staffed by persons that are largely insulated from politics, which implies that (at least) a majority of voter share interests in intermediate levels of delegation. Voters evidently prefer to retain some control over tax and other policy matters, rather than delegating full authority to unelected experts.[7]

III. Shared Interests in Informationally Efficient Tax Systems

A second area in which voters share practical interests is informational efficiency. Voters share interests in avoiding mistaken votes on public policies and mistakes in personal planning in areas where tax law and tax incidence should be considered. Such mistakes can be reduced by making the tax system as transparent as possible. Tax systems are transparent when they allow taxpayers to accurately assess their own costs for public services, and when deviations from tax transparency are easy to detect. Unfortunately, the economics of burden shifting implies that only a

[6] There is by now a very large literature on trust and tax compliance that generally finds that trust in tax authorities increases compliance with tax law. Within the public choice literature, this line of research begins with Frey and Pommerehne (1992), accelerates with Frey and Feld (2002), and continues to the present. Kirchler et al. (2008) provide an interesting model of tradeoffs between authority and trust, under which tax authority may increase or decrease with trust. In this section, it has been assumed that trust in democratically elected officials tends, on average, to support significant delegated authority to such officials for the reasons outlined. Eichenberger and Oberholzer-Gee (1998) provide evidence that internalized norms affect preferences over redistributive policies.

[7] This is, of course, consistent with European transitions to democracy in the 19th century. During the 19th and early 20th centuries, taxing authority was gradually shifted to the elected parts of government from hereditary monarchs and their advisor-agents. This is not to say that expert advice was not solicited and paid attention to, but that final decisions were increasingly in the hands of elected officials rather than unelected ones.

small subset of possible tax systems are transparent in this sense, because even tax systems that are easy to understand often distribute tax burdens in ways that are very difficult to estimate.[8]

It bears noting that most theoretically "optimal" tax systems lack such transparency. For example, Ramsay's (1927) optimal system of excise taxes requires different rates of taxation on virtually every good sold, which implies that calculating personal tax burdens requires a full understanding of general equilibrium models and system-based econometrics to even approximate. Contemporary extensions of Ramsay's approach also tend to be complex, as with those developed by Mirrlees (1976) and Slemrod (1990). Their recommended tax systems are far too complex for most voters—or most tax experts—to understand. Individual tax burdens associated with such tax systems are difficult to calculate because of tax shifting among consumers, producers, and input providers. Thus, even if an "optimal" system could at some point be perfectly implemented, it would lack sufficient clarity to elicit broad voter support. As a consequence, such a tax system would tend to be disassembled by day-to-day majoritarian politics. The absence of transparency also tends to undermine trust in government officials. [9]

---

[8] There is a good deal of evidence that even tax experts disagree about the effects of taxes on economic activities, even given the usual simplifying assumption that labor and capital are homogenous goods. See, for example, the meta studies undertaken by Feld and Heckemeyer (2011) and Melguizo and González-Páramo (2013).

[9] A subset of relatively well-informed pragmatic voters may find transparent tax systems to be less than ideal, because those tax systems reduce opportunities for fraudulent claims to be made about the tax burdens associated with policies that are personally beneficial. Many tax preferences, for example, yield net benefits to small subsets of voters (special interest groups) while increasing tax burdens or reducing service levels for most others. And those benefiting from such programs would naturally prefer tax systems that induce systematic errors by most voters that tend to make their favored tax preferences and programs more likely to be adopted.

Nonetheless, most members of special interest groups may favor transparent tax systems when the efforts of other interest groups and the costs of discouraging such rent-seeking contests are considered. A few members of such groups may benefit enough from fiscal illusions that create more fiscal advantages for them than they lose from biases induced by policies that favor other interest groups. The interest group and rent-seeking literatures suggest that the persons that ultimately profit from all the tax preferences favoring interest group are likely to be a very small subset of the members of society (Olson, 1965, Congleton and Hillman 2015).

The beneficiaries of fiscal delusions are thus for the most part ignored in this paper, in order to focus on the "ideal" tax system(s) of ordinary voters. The losses generated by rent seekers would be greatly reduced or eliminated through transparent tax systems when policies are electorally driven, because the existence of and the losses associated with such policies become more obvious to voters, which allows them to reject both the policies and the candidates advocating such policies.

It also bears noting that even relatively easy-to-understand tax systems, such as a proportional tax on income, typically have economic tax burdens that are difficult to calculate because the demand and supply elasticities of labor markets vary. Although many of the models used by public finance economists assume that labor and capital markets are homogenous, differences in starting salaries, profits on goods sold, and returns from the use of sophisticated capital goods clearly demonstrate that both the demand for and supply of various types of human and physical capital have different elasticities. (How many public finance scholars, for example, know the relevant demand elasticities of the market for their own specialty or the marginal rates of substitution between that labor market and its various substitutes?)

Only a few tax systems have personal tax burdens that are easy to estimate. The taxes that are most transparent share the property that all or most of the tax burden is shifted either to consumers or firm owners in a manner that aligns the accounting concepts of tax burden (direct payments) with the economic incidence of the tax. This property makes tax burdens relatively easy to calculate and so facilitates individual decision making with respect to both public policy and private planning. Such systems also tend to have more or less uniform tax rates.

Examples of transparent tax systems with easily computable tax burdens include: (i) head tax systems under which each member of the polity pays the same fee for the package of services provided in their community (as true of many private clubs and condo associations), (ii) an age-dependent system of head or lump-sum taxes with a fixed-cost share attributed to each individual in the relevant age group, (iii) uniform tariffs on internationally traded goods, (iv) uniform land taxes and to a lesser extent property taxes and (v) uniform sales taxes on goods sold in competitive national or international markets.[10]

Although economic tax burdens are not necessarily minimized by such taxes, tax burdens are not the only burdens generated by tax systems. Losses from mistakes induced by complex tax systems can easily more than offset small reductions in tax burdens associated with greater complexity. In non-transparent tax systems, assessments of personal tax burdens are likely to be

[10] There are theoretical reasons to expect the financial burden of such sales taxes to fall on consumers when markets are competitive (Besley and Rosen 1999). The tax incidence of sales taxes is more complex in monopolistic and monopolistically competitive markets (Carbonnier 2007).

systematically error prone, and electorally driven public policy choices will be similarly error prone from the perspective of pivotal voters.

To ignore the information problems faced by voter-taxpayers who are not tax experts is to ignore an important shared interest of voters, as well as to ignore the significance of errors in governmental policies induced by the failure of voters to understand their tax price for government services. When policy mistakes are likely to be costly, what might be termed the Occam's Razor principle of taxation holds: the simpler and more uniform a tax system is, and the greater the association of tax burdens with direct-payment responsibilities, the more informationally efficient is a tax system, other things being equal.

IV. Informational Efficiency Requires Stable Tax Systems

Another property of informationally efficient tax systems is stability. Voter-taxpayers should not have to learn a new tax system every year to have an unbiased estimate of their short-run costs for government services. Moreover, instability makes estimating long-term tax costs difficult, if not impossible. Instability thereby tends to increase the overall economic burden of taxation by increasing information costs, the frequency of policy mistakes, and private planning errors. Again, avoiding mistakes is in most voters' interests, except the few who benefit from fraudulent policy claims and voting errors generated by fiscal illusion.

Instability can arise without agency problems simply because of the pecuniary interests of voters. Voters naturally disagree about how the burden of taxation should be distributed. Within any tax system that is intended to generate a particular level of revenue, the distribution of tax burdens is essentially a zero-sum game. Tax shares necessarily add up to one or one minus the sustainable rate of debt finance. As far as practical interests are concerned, each voter prefers that others pay for all government services. The same conflict holds across tax systems, except for shifts that reduce excess burdens in an obvious way and to a significant degree without affecting the distribution of tax shares.

The zero-sum nature of tax-finance tends to make most tax systems inherently unstable according to public choice theory. Consider, for example, a town meeting at which a series of apportionments are considered for the cost of a new bridge in their community, which is divided by a river. Suppose that there are three equally sized groups: the young, who pay lump sum taxes that account for fraction S^Y of the cost of the bridge, the middle aged who pay fraction S^M, and the old

whose lump sum taxes provide fraction S^0 of the total cost of the bridge. The distributions of tax burdens can be represented as (S^y, S^m, S^0). Suppose also that the sum of the cost shares adds up to a constant. Here, this is assumed to be 1, although external subsidies from higher levels of government or the ability to continuously roll over government debt may reduce that sum to a number less than one according to the system of intergovernmental grants in place and the long-term demand for their government's debt.

Suppose that the first proposal is an egalitarian one under which each group pays 1/3 of the cost (.33, .33, .33). Note that a change, *d*, to the ratios (with $0< d <0.166$), such as (.33-*d*, .33+2*d*, .33-*d*) will be majority preferred to the initial proposal because two of the three groups get a tax reduction from such proposals. Both the young and the old benefit from the reapportionment of cost shares. A third proposal might shift cost shares to older voters in a manner that the majority dominates the second proposal as with (.33-2*d*, .33+*d*, .33+*d*), which makes both the young and middle-aged better off. However, note that the initial proposal is preferred to the second, because both the middle-aged and older taxpayers had lower-cost shares under the original egalitarian proposal. Age-based, lump-sum taxes are not necessarily stable systems of taxation, although they are transparent and have burdens that are easily calculated.[11]

This series of proposals is just one of an infinite number of cycles that are possible. The ease of altering the distribution of tax burdens under this and most other similar systems implies (1) that tax policies tend to be unstable, (2) deliberations about how to finance the bridge may never come to a final decision, and (3) majoritarian preference orderings on tax systems are not necessarily rational in the sense of transitive preference orderings. Both (1) and (2) are clearly problems for the typical voter in the community that favors the construction of the new bridge.[12] Indecisiveness

[11] This illustration of what is sometimes called majoritarian cycling, or the Condorcet paradox, is not intended to simply remind readers of the possibility of majoritarian instability. Rather it is to demonstrate that this problem is inherent in all tax systems—not simply a property of rather odd and unlikely preferences as it is often presented.

[12] It should be acknowledged that the instability illustrated is partly a consequence of the assumed equal size of the three groups. If one of the groups includes 51% of the population of voters, pragmatic interests would imply that the tax burden would be entirely shifted to the other two groups. Majority support may, for example, account for the relative stability of the United States' federal income tax. Persons with below median incomes pay little or no federal income tax, although they do make income-based contributions to the social security system.

However, as the number of groups with differing interests increases, the likelihood that any single group or stable coalition of groups will constitute a majority falls and the problem of instability

implies that residents of the community may have to drive longer distances (to another bridge) or use slower less convenient ferries to conduct their businesses or visit friends in the other half of the community. (Intransitivity, per se, is unlikely to be an issue to voter-taxpayers, except insofar as it contributes to instability and indecisiveness; although it attracts the attention of political theorists.)

Instability implies that tax burdens will be unpredictable into the future and, therefore, accurate calculations of individual expected net benefits from the bridge project are impossible. Some reapportionments of tax burdens cause the net benefits associated with the bridge to be negative for one or more groups because they bear a disproportionately high share of the tax burden—at least temporarily. Others generate large positive net benefits.

The above example demonstrates that any tax system in which the distribution of tax burdens can be varied easily through routine policy choices tends to be unstable when voters are pragmatists and decisions are made via majority rule. The usual solution to this problem in the rational choice politics literature is to postulate institutional rules that limit the scope for tax reforms (Shepsle and Weingast 1981, Buchanan and Congleton 1998). Recent extended versions of voter preferences demonstrate that some internalized norms can also reduce propensities for cycling (Congleton, 2020, 2022). This possibility is taken up in section VI of the paper. Before doing so, a third possibility is explored.

Namely, are there tax systems for which reassigning burdens among taxpayers is inherently difficult (costly) and so unlikely to take place? For example, uniform systems of user fees or tolls can be used to fund excludable services such as bridges and parks. History suggests that uniform user fees have often exhibited continuous voter support and tend to be stable because discriminating among users based on income, age, or other less than measurable differences would impose significant costs on all those waiting in line to pay their use or entry fees. The relatively high cost of discrimination does not completely eliminate the temptation to discriminate among users, but it does constrain the fee schedules to relatively simple and transparent ones. Oldsters, for example, might receive a discount for bridge use and large trucks might be charged more for the use of a bridge than passenger cars. Fine-grained discrimination among users has historically been too expensive to be politically viable—at least until recent innovations in automated toll collecting.

---

returns to prominence. In the case of the U.S. system, such differences in interests provide the most plausible account for its annual changes in various deductions and marginal tax rates.

Similarly, the cost of discriminating among customers by income, region, or age when assessing sales taxes in retail stores makes such discrimination too costly for firms, cashiers, and customers waiting in line (which would also tend to decrease sales) to be tolerated by consumer-voters or firms. Thus, for a subset of revenue sources, the administrative costs of discrimination and other reassignments of burdens can induce considerable uniformity and stability.

When such revenue sources are also easily understood, as tolls, user fees, and some sales taxes tend to be, the stability of such tax systems further reduces information problems and advances the interests of essentially all pragmatic voters.

V. Shared Practical Interests in Tax Systems that Reduce Agency Problems

Another informational problem that transparent tax systems can help overcome, or at least not worsen, is the problem of agency costs with respect to tax policies. Less than fully informed voters cannot easily monitor less than completely trustworthy elected officials. Such officials may, for example, ignore their campaign promises for transparent taxation by including special provisions in tax laws that are not widely known outside the groups benefiting from them. Such policies reduce the transparency of a tax system and alter the distribution of tax burdens in a manner in which few will be aware. Transparency can also be reduced by the manner in which tax systems are implemented. For example, audits may be targeted at subgroups that are no more likely to cheat on their taxes than others. Alternatively, income and asset value assessments may be calculated in ways that favor a subset of regional or economic interests over others, or simply those of an assessor's friends and families. Voters are unlikely to discover such derelictions of duty, because in the ordinary course of life, they calculate only their own tax liabilities.

The issue for optimal tax theory is whether some easily understood stable tax systems are more difficult for government officials to undermine than others. Agency costs tend to be reduced when such transgressions are easily detected by taxpayers. They are also reduced when such transgressions are difficult to engage in because discriminating among taxpayers is difficult under the tax system in place.

Tax systems that have the first property are relatively easy to monitor. Monitoring tax systems is easiest when the information necessary is routinely gathered in one's ordinary course of life. Indirect monitoring is also possible when information about tax collections and agency problems are routinely published in widely read news sources. Again, uniform sales taxes on goods

sold in competitive markets can be used to illustrate such tax systems. At every point of sale, taxpayers receive a report of the taxes collected. If one has been over- or under-taxed for some items, this will be apparent in the charges assessed and the receipts associated with those transactions. This process is not foolproof in that less data is collected regarding purchases at places that a typical voter-taxpayer rarely or never visits, but a good deal of information is routinely available and easily processed. Yachts, for example, might be exempted from sales taxes and the typical voter-taxpayer would tend to be unaware of the under taxation of such final goods, unless such tax preferences are reported in widely read newspapers or social networks. Nonetheless, the information routinely provided by sales tax systems is sufficient to allow voters to discern major agency problems associated with tax legislation that affects their private and public decisions.[13]

This type of transparency is less true of value-added and income tax systems because both value-added at particular stages of production and the income associated with occupations and businesses other than one's own are not readily observable. Indeed, determining value-added and income tax liabilities often requires specialists and/or specialized software to compute. Thus, tax preferences can easily be incorporated into particular stages of production or for particular types of income in a manner that few taxpayers know about. Moreover, the tax shifting associated with such tax preferences implies that even the taxpayers benefiting from most such preferences will be unaware of their true costs for public services.

Less systematic types of agency problems associated with transparent tax systems are likely to remain unknown even to specialists. For example, knowledge of the precise manner in which audits are undertaken and penalties imposed is beyond the scope of most taxpayers and most public finance specialists. Insofar as general systematic routines are applied and many taxpayers experience audits, useful information may be obtained from a voter-taxpayer's direct experience of that of their friends and families. Technological advance may also reduce opportunities to exercise audit discretion. For example, the automated review of tax returns and the reporting of interest and capital gains income directly to the Internal Revenue Service in the United States tend to induce greater

[13] The anonymity of purchases is being diminished by technological innovation. However, sufficient anonymity remains that sales tax systems that discriminate among individuals based on characteristics unrelated to their purchasing behavior remain infeasible.

uniformity in taxes paid by reducing both errors and cheating, as well as the discretion of tax reviewers.[14]

Technology can also increase uniformity in the implementation of tax laws. With respect to sales taxes, it is clear that, in the period before mechanical and digital cash registers were used, sales taxes would have been difficult to collect and might well have been unevenly assessed and reported. Cash transactions were the norm and many retail stores were small enough that proprietors knew their customers well and so collected taxes from some and not from others. In those days, tax fraud at the firm level would have been nearly impossible to police. As mechanical and digital cash registers emerged, tax payments became both easier to track by merchants, and potentially easier to police by tax authorities. As a consequence, sales taxes were more uniformly collected because cashiers and salesmen were less likely to provide personalized tax preferences for a subset of their customers.

Advances in technology that make uniform assessment easier than discriminatory assessment and honest reporting easier than dishonest reporting have made it more likely that taxes are uniformly imposed, and that tax obligations are honestly reported to the tax authorities. In this manner, some forms of automation tend to increase the informational efficiency of tax systems by reducing agency and agent discretion.[15]

VI. Internalized Norms and Tradeoffs Among "Optimal" Tax Systems

To this point in the paper, it has been argued that avoiding mistakes and minimizing a voters' own tax burdens tend to be of greater importance to voters than the recommendations of public finance experts about hypothetical decreases in the deadweight losses that might be generated by less transparent, less inherently stable, and more discriminatory tax systems. From a pragmatic voter's point of view, an optimal tax system is one that minimizes his or her own burden while making his or her own personal tax burden(s) easy to calculate. Because all voters cannot

[14] Of course, these routine methodologies do not guarantee that enforcement is efficient, effective, uniform, or free from corruption. They simply make such problems less likely. To know whether the potential uniformity is actually realized or not would require detailed knowledge of the software used for tax reviews and the scope of agent discretion which few outside tax enforcement agencies would have access to.

[15] Tax assessments of real property may also be similarly enhanced through technological advance, as when self-assessed asset values imply willingness to sell (Tideman and Plassmann 2005) and those values are routinely posted on real estate and other Internet buying platforms.

simultaneously reduce their tax payments to zero, informational efficiency is the main practical shared interest among voters.

The reason that many public finance specialists and voters would disagree with the conclusions drawn in the first half of the paper is that not all voters and public finance theorists are pragmatists. Informationally efficient systems of taxation often conflict with normative principles internalized by voters and public finance scholars.

The second half of the paper shifts the focus of attention to the normative interests and the effects of such interests on voters that are "ordinary idealists," rather than pragmatists or moral zealots. The effects of internalized norms vary with the normative theories that taxpayers have internalized, the strength of that internalization, and whether particular theories have been broadly internalized and thus become part of a society's ethos.

The Fiscal Interests of Ordinary Idealists

The internalized norms of an "ordinary idealist" alters their perceived self-interest but does not fully determine it. Ordinary idealists attempt to simultaneously advance both practical and normative interests. They are willing to pay a price (reduce expected financial net benefits or increase their risks) to advance their views of a good life and good society, but only within reason. For example, an ordinary idealist may be more honest and courteous than that which is most profitable in a given choice setting, without being disinterested in profits or always honest and courteous regardless of the circumstances.

When taxpayers have both normative and practical aims that they want to advance through their tax systems, they are willing to trade off errors associated with increases in fiscal illusion, agency costs, and tax system instability in order to realize expected subjective benefits associated with normatively more attractive tax systems and societies. It does not, however, imply that they will entirely ignore their practical interests in informational efficiency or in minimizing their own tax burdens, as implicitly assumed by most of the optimal tax literature.

With respect to the normative evaluation of tax systems, a voter needs to answer at least three separate questions: What is ideal for me? What is feasible given the practical and idealistic interests of other voters in my community? And will a tax system's effects on demands for public services advance my interest in a good society or undermine them? In principle, answers to all three questions have to be answered simultaneously, because tax systems are a means rather than an end

for most voters. However, to do so requires more sophisticated calculations than most ordinary voters or public finance professionals are capable of doing. Feasibility alone, for example, requires the effects of tax systems on economic output, growth, and political equilibria to be accurately estimated, rather than just characterized mathematically.

For the purposes of this paper, most of the attention will be focused on the first question, what is ideal for me? Economists tend to use variations of utilitarian normative theory to determine the answer to that question and tend to focus narrowly on economic consequences, ignoring the political and social effects of alternative tax systems. Although the utilitarian perspective is a respected and important one, not all voters are utilitarians, nor are those who profess utilitarianism all utilitarian zealots. Nonutilitarians and ordinary utilitarians are likely to reach different conclusions than utilitarian zealots about ideal tax systems.

A wide variety of normative systems can be used to characterize "optimal" tax systems. Examples include Catholic and Islamic normative theories, natural rights–based normative theories, contractarian theories, doctrinaire liberalism, social-democratic norms of fairness, the Rawlsian theory of justice, egalitarian theories, and so on. A taxpayer-voter who has internalized one or more of these theories will be willing to sacrifice some practical interests in order to achieve a tax system that advances his or her ideas about a "good" or "fair" or "just" society, where the meanings of "good," "fair,", and "just" vary with the normative theories internalized. However, he or she will not entirely ignore his or her practical interests. Only moral zealots would do so, such as the central planners routinely assumed in mainstream optimal tax theory.

This section again assumes that a supermajority of the relevant idealists has accepted the use of democratic as opposed to authoritarian governance, even if that reduces prospects for realizing their notions of the "good" society. Without that assumption, the analysis would become another sterile "philosopher-king" analysis, as each idealist imagines himself or herself to be a benevolent dictator with unlimited power to reshape society as he or she pleases.

The first step in the normative analysis of tax systems from a voter's perspective is to illustrate how normative theories affect a voter's conclusions about the nature of an ideal tax system. Three families of normative theories are sufficient to illustrate that an ordinary voter's "optimal" tax system is affected by the normative theory internalized and that conclusions tend to differ from those reached by mainstream optimal tax theory. Such differences matter for the optimal tax theory

suitable for democracies because accounting for a variety of individual beliefs has long been recognized as a necessary characteristic of democratic systems of governance.

Lockean Natural Rights–Based Tax Systems

A voter that has internalized the Lockean perspective regards the norm that "no one ought to harm another in his life, health, liberty, or possessions" to be uncontroversial. In addition, such voters also believe "good" governments are created by the consent of the governed to encourage behavior consistent with maintaining those rights. Such rights are from the Lockean perspective logically prior to the formation of a government and any policy decisions that a legitimate government may take, because in Locke's view, those rights have divine origins. (Contemporary Lockeans may regard them to be products of social evolution or moral reasoning.) Those pre-existing rights therefore constrain the types of choices that both individuals and governments should undertake.

The constitutional agreements upon which political commonwealths are grounded determine the extent to which a governing organization is delegated authority and the manner in which its subsequent policy decisions are to be made within the domain of authority delegated. The scope and type of tax authority delegated from this perspective is thus (ideally) based on agreement (consensus) within the community of interest.[16] From this and similar contractarian perspectives, tax systems should be voluntarily accepted by members of the community as part of a communitywide agreement about the services that their government is to provide.

This normative theory has more to say about the proper scope and authority of government than its system of taxation. In principle, any tax system might be acceptable, but ones that systematically advance shared interests (both practical and normative) are more consistent with the contractarian perspective than ones that do not. Thus, Lindahl (1958) and near-Lindahl tax systems are likely to be preferred to most other systems, because they generate unanimity with respect to service levels. Unfortunately, informational feasibility tends to undermine prospects for Lindahl tax systems, although land, wealth, or income taxes with the degree of progressivity that generates the broadest support for particular government service levels might serve as second-best tax systems. Public services would typically be provided to everyone in the community and social insurance

[16] In Locke's words, "for if anyone shall claim a power to lay and levy taxes on the people, by his own authority, and without such consent of the people, he thereby invades the fundamental law of property, and subverts the end of government" (Locke 1794/2013, p. 150).

programs might be funded. However, the Lockean perspective does not support transfers directly from one person to another via taxation. Involuntary transfers are a form of theft for most Lockeans.[17]

Note that both Lindahl and progressive tax systems violate the "Occam's Razor principle" associated with transparency because tax rates would vary among citizens for every public service provided or level of income. As previously noted, excise and income tax burdens are difficult to calculate because they are shifted among labor suppliers, firms, and other input providers. Moreover, such systems of taxation are stable only if the norms favoring a particular division of tax burdens and degrees of progressivity are strongly held and shared by a sufficient number of voters. Each voter's practical interest in minimizing his or her own tax share would otherwise tend to cause majoritarian cycles.

However, stability and a type of uniformity (horizontal equity) would emerge from Lockean norms if they are widely held and strongly internalized by a super majority of voters in the community of interest.

Utilitarian Tax Systems

In contrast, utilitarian tax systems have no grounding constraints of the civil or property rights variety. However, under the assumptions used in this paper, utilitarian tax systems must be consistent with majority rule and acknowledge that each voter has limited time and attention to devote to public finance theory and estimation. Utilitarian voters are thus assumed to regard democratic procedures to be logically prior to utilitarian proposals for an ideal tax system. This was a

---

[17] If the services desired have the property of "normal" goods, charging higher tax prices for services to wealthy taxpayers tends to reduce their demands to levels closer to those of persons with median income, and charging still lower prices for poor persons tends to increase their demand for services to ones that are more similar to those of persons with median income.

Tideman and Tullock (1976) suggest that some of the informational problems associated with Lindahl tax systems can be overcome through the use of Clarke tax systems—a variation of Lindahl tax pricing that provides incentives for taxpayers to reveal their true reservation prices for government services. Unfortunately, the larger the number of services provided, the more costly such systems are to implement, and the more difficult those reservation prices are to compute for voters. Thus, the Tideman-Tullock solution to the Lindahl preference revelation problem works best for governments that provide relatively few services. It is not impossible that Lockean voters would prefer such limited governments, but that is not being assumed here.

See Nozick (1974) for an analysis of how relatively large governments might emerge and be funded when voters have internalized Lockean norms.

common belief among 19th century utilitarians, but it is rarely if ever included in contemporary optimal tax theory. The democratic constraint requires every proposal for a revised tax system to garner majority or supermajority support to be feasible, which is, of course, a necessary prerequisite for all tax reforms in a polity grounded on honest and competitive mass elections.

However, this constraint is not all that makes utilitarian tax policies for democracies different from those worked out in mainstream optimal tax theory. "Ordinary utilitarians" differ from the utilitarian zealots assumed in most mainstream optimal tax theories in that they maximize a quasi-Benthamite social welfare function in which the voter's own utility receives a higher weight than all others but in which no other person receives a zero or negative weight. They have internalized a version of the utility principle, but they are neither driven by it, nor do they necessarily treat all persons in the same manner. Family members and friends, for example, are likely to be given higher weights than strangers and enemies.

Ideal or "optimal" tax systems vary among utilitarian voters because of differences in weights placed on the utilities included in their aggregate utility calculations—even if other assumptions about the nature of utility and anticipated economic consequences are identical. This implies that utilitarian voters are not likely to agree about the details of their ideal tax systems, although they agree on the principles that should ground them.

The tax preferences of ordinary utilitarians resemble that of pragmatists, in that each would prefer a tax system under which they themselves pay less than the Benthamite ideal levels of tax, although not usually the zero-tax preferred by pragmatists. The more doctrinaire utilitarians are, the smaller is this deviation, but even among utilitarian zealots, variation in the understandings of utility functions and the manner in which utilities should be aggregated (additive, multiplicative, etc.) tend to generate disagreements. Further disagreement is generated by differences in expectations about the economic consequences of alternative tax systems and the confidence that they have in those expectations.

Another type of disagreement is introduced by utilitarians that acknowledge both their own imperfect information and the difficulty of calculating aggregate utility. Such utilitarians tend to be rule utilitarians. They attempt to determine rules that when followed tend to increase aggregate utility. For such "modest" utilitarians, efforts to avoid mistakes and promote stability would be part of their calculations because reducing mistakes tends to increase expected average utility. Among

both rule and ordinary utilitarians, pragmatic interests would tend to reinforce their normative support for transparent tax systems.

In contrast, the most confident utilitarians believe that it is not too difficult to accurately calculate aggregate utility and thus they would be less interested in devising operational rules or principles for decision making other than the utility principle itself. Such utilitarians would tend to favor highly variated tax systems that address all sorts of social ills, including externality problems, inequality, disabilities, and aging. However, such systems would tend to be unstable unless a stable majority has internalized a specific instance of "confident" utilitarianism and also share expectations about the consequences of alternative tax systems. Without such a consensus, variation in utilitarian interests would tend to induce shifts in tax incidence favoring different majorities of ordinary utilitarians and an endless series of cycles for reasons similar to those of the pragmatists in the first half of the paper.

Insofar as such possibilities are recognized, rule utilitarians might be inclined to constitutionalize a particular tax system to increase tax stability and predictability. Although the amendability of such systems would tend to generate instability in the long run, changes in the tax system would be less frequent and less destabilizing than those associated with day-to-day policies. The more varied are utilitarians, the more electoral and informational considerations would affect their preferred tax system.[18]

Egalitarian Optimal Tax Systems

Just as there are many varieties of utilitarianism, there are also at least three varieties of egalitarianism. There are what might be called equal-liberty egalitarians, equal-result egalitarians, and Rawlsian-egalitarians; the latter being between the other two varieties because Rawlsians try to combine equal liberty principles with economic equality (Rawls, 1999). Equal-liberty egalitarians favor absolute equality before the law and public policies that uniformly benefit all residents.[19]

[18] In some cases, rule utilitarians may favor tax systems similar to those favored by Lockeans, although their ideal tax systems would not have a rights-based foundation. For example, Herbert Spencer (1851/2021), a rule utilitarian, proposed an equal liberty principle which, he believed, supported very limited government, universal adult suffrage, and very limited economic regulation. His perspective thus overlaps with both Lockean theories, and the equal-liberty egalitarians discussed below.

[19] Indeed, Congleton (1997) suggests that equality before the law is a prerequisite for reasonable democratic stability across all laws, not just tax laws.

Advocates of equal liberty tend to favor policies such as tax-financed education that provide each person with the opportunities to develop their own talents and pursue the life that seems best to them. Equal-result egalitarians, in contrast, prefer public policies that assure approximately equal economic and social results for every individual, which implies relatively large investments in the least talented and relatively small investments in the most talented individuals. It also implies tax systems that shift income from those with abilities and dispositions that markets reward to those that lack them. Rawlsians have to make tradeoffs between these two systems of beliefs—with legal systems that assure equal opportunities but tax and transfer systems that tend to make the poorest better off, subject to the constraint that economic opportunities are open to all.

The optimal tax systems for different perspectives on egalitarianism naturally tend to differ, and again there are tradeoffs between each voter's normative interests and their practical interests in reducing mistakes. Under the equal liberty system, the principle aim of an ideal tax system is (relative) neutrality, so that it does not directly curtail opportunities for particular subsets of the citizenry, while being sufficient to finance the public services that promote equal liberty and other services regarded to be necessary or otherwise important. Buchanan and Congleton (1998/2006) suggest that an equal tax claim on hours worked tend to have this effect, which resembles a proportional income tax if most people work similar work weeks. Such systems tend to be less than perfectly transparent, but a generality rule tends to reduce opportunities for shuffling tax burdens among individuals or groups and therefore tends to promote stability and reduce agency costs.

Under the economic-equality norm, the principle aim of an ideal tax system is to equalize income, wealth, and other sources of power. If one ignores the effects of excess burden, a confiscatory tax used to finance pure public goods together with an equal demogrant redistributive system for the residual would advance that ideal, if all persons are innately equally talented. When excess burden is taken into account, taxation and demogrants would be more limited, but favor those with the least marketable abilities over those with more such abilities.

Communities with a supermajority of voters that have internalized either of the two extreme types of egalitarianism are likely to exhibit a good deal of consensus about ideal tax systems. The aims of both systems are sufficiently objective that the differences within those groups are likely to be smaller than in the utilitarian cases or in the Rawlsian case. The objective character of the "ideal result" aimed for reduces opportunities for tax systems that discriminate among individuals in ways other than those that promote one of the egalitarian extremes. Thus, if either of these two sorts of

egalitarian beliefs were held by a majority of the electorate, the tax system would be relatively stable and transparent, although their effects on the economy would differ significantly. In contrast, the full spectrum of intermediate systems would be possible under the Rawlsian compromise between the two extreme notions of civil equality, which would tend to undermine stability.

Informational Efficiency in a Community with an Ethos

When a normative consensus exists among a supermajority of voters, a community can be said to have an ethos. The existence of an ethos implies that the domain of tax systems given attention by voters and politicians tends to be smaller than when no such consensus exists. Many possible tax systems become morally unacceptable and so not worthy of attention. This reduction in the feasible domain of tax systems tends to reduce information costs and cycling problems, which makes both present and future tax burdens more predictable.

Broad normative support for particular tax systems also tends to make agency problems easier to detect and sanction because most government employees will have internalized similar normative theories and deviations from accepted norms would be discouraged with informal intragovernmental chiding and formal organizational rewards and punishments. As a consequence, a community with a dominant ethos may achieve significant informational efficiency in taxation without explicitly considering informational issues.

To see how decisiveness is increased by a normative consensus, let us return to the instability illustration developed in the first section of the paper. Consider the same series of proposals, but now with normative support for one of them of amount V, which in effect reduces the subjective burden of their ideal tax system relative to others. Recall that the first proposal was an egalitarian (a variation of the equal liberty principle) one under which each group pays 1/3 of the cost (C) for the bridge. That payment rate can be used to approximate the typical average tax rate for a member of each group. At the level of individual members of each group, the equal division rule yields typical tax burdens of ($.33C/N-V$, $.33C/N-V$, $.33C/N-V$). The second distribution of tax burden was ($[.33-d]C/N$, $[.33+2d]C/N$, $[.33-d]C/N$). The second apportionment advances the practical interests of the first and third groups but does so in a normatively unattractive manner and so lacks normative support. Thus, V is absent from the second set of individual calculations.

Note that the virtue payoff does not have to be very large to anchor the system at the first division, it merely must be larger than the difference between the smallest feasible tax cost and the one favored by one's personal optimal tax theory. (In the illustrative example, $V > dC/N$ is

sufficient to avoid the cycle of the original illustration.) The fact that a particular tax system is "just," "proper," "blessed," "fair," "economically efficient," etc. makes it more attractive for ordinary idealists even when they retain practical interests in minimizing their own tax burden. The stronger this norm is internalized, the greater is V, and the stronger the normative anchor tends to be.

A normative consensus for any feasible tax system is likely to cause it to majority dominate the others. Such normative consensuses are especially helpful in cases in which a unique equilibrium is not associated with pragmatic interests.

Such a consensus can increase the stability of a tax system even when there is disagreement about specific distributions of tax burdens. As long as the most commonplace internalized fiscal norms reduce the domain of acceptable divisions, they reduce tax uncertainty by reducing the domain of feasible tax systems. For example, "moderately" progressive income tax systems may be considered morally attractive by a group of utilitarians, equal liberty proponents, and Lockeans without necessarily generating a consensus for a particular degree of progressivity because of disagreements about the effects of taxation on work effort, individual utility levels, personal liberty, or financing the services to be financed.[20] Nonetheless, by excluding regressive, proportional, and highly progressive tax systems, taxes are more predictable than they would have been without such normative principles, even if tax schedules change a bit every year.

Commonplace norms with clear implications about "optimal" taxation also reduce agency problems for reasons mentioned earlier. A community's ethos predisposes both elected representatives and government employees to adopt and implement tax systems that are compatible with the supermajority's normative interests.

Such normatively optimal tax systems do not necessarily resemble those devised by economists making use of social welfare functions and sophisticated economic analysis, because ordinary voters may rely upon other normative principles, are likely to employ simpler economic analyses, and take greater account of informational considerations. However, they are no less "optimal" given the normative and positive theories grounding them. In fact, the more voters are

[20] Coercive aspects of taxation, as well as its effects on after-tax income or after-tax prices, may also affect utility levels and thereby the burden of a particular tax system. See Martinez-Vazquez and Winer (2014) for several analyses of this effect.

driven by normative theories, the more normatively "optimal" a democratically chosen tax systems tend to be when judged from the perspective of the electorate's ethos.[21]

Taxation with Norms but without a Normative Consensus

Unfortunately, the stabilizing effects of normative dispositions disappear when there is little or no agreement in conclusions about optimal taxes. Consider, for example, the case in which there are three equally sized moral communities of voters. Assume that group 1 prefers income taxes to property taxes to sales taxes, group 2 prefers sales taxes to income taxes to property taxes, and group 3 prefers property taxes to sales taxes to income taxes. In a vote between sales and income taxes, group 1 votes for income taxes and groups 2 and 3 vote for sales taxes. In a vote between sales taxes and property taxes, groups 1 and 3 votes for property taxes and group 2 votes for sales taxes. And in a vote between income and property taxes, groups 1 and 2 votes for income taxes while group 3 votes for property taxes. The result is instability among major tax systems, within which there may be additional instability among tax rate schedules or cost shares.

Although every instance of the tax system may be regarded as optimal by a significant subset of the electorate, there would always be a majority that does not, and no one would regard the entire sequence of tax regimes to be ideal. The overall result would a chaotic fiscal series with more or less random oscillations among the major tax systems. Some groups would strongly favor each shift and others would strongly oppose each shift. Political and other forms of conflict would tend to intensify in such cases.

A lack of consensus also tends to increase agency problems relative to cases in which a normative consensus exists. When tax-legislating and -enforcing agents have internalized normative theories different from those of pivotal voters, each will be tempted to create and enforce tax laws in a manner that tends to advance their own normative ends, rather than that of the electorate's pivotal voters. This is especially true of policies that are not likely to be obvious to most voters.[22]

---

[21] If voters cast their votes based on their expressive interests in signaling virtue, the tax system adopted tends to be more stable and more normatively optimal than implied by differences in voter pragmatic interests.

[22] Government officials also may have different practical interests than voters. They may, for example, benefit from a lack of transparency that makes it easier for them to exchange tax preferences for campaign support or other benefits.

Instability in the absence of a moral consensus may increase a typical voter's inclination to defer to custom. The risks associated with major reforms of a well-understood tax systems may induce most voters to favor the continuation of customary forms of taxation, rather than opening up the tax system to wide-ranging reforms and associated instabilities. Other stabilizing influences include the nontrivial cost of revising and disseminating new tax laws, and retraining accountants and tax enforcers to fully understand the new laws. Institutional procedures may be adopted to create tax stability where otherwise there would be none (Shepsle 2018, Congleton and Tollison 1999).

It is also possible that past experience with instabilities and conflict associated with intense normative disputes cause shared practical interests to transcend normative disagreements. In such cases, shared practical interests in informational efficiency and stability may largely determine tax policy.[23]

VII. Some Conclusions Regarding Optimal Tax Systems for Democracies

There are two approaches to optimal tax theory. The first is a utopian exercise where analysts assume that any tax or fiscal system that can be imagined can and will be flawlessly implemented by government. Such analysts normally assume a government of the philosopher-king variety imagined long ago by Plato (360 BCE/1888), although even Plato recognized that agency problems exist within governments. The tax systems inspired by Ramsay's (1927) pioneering work on optimal taxation all tend to be policies for imaginary idealized governments, or, interpreted more sympathetically, propose ideas that they hope will influence the policy choices of essentially independent government officials who draft tax policies (ignoring issues associated with second best, and national elections). The second approach is a less utopian exercise in the spirit of Wicksell (1927/1958) and Lindahl (1958) that attempts to characterize tax systems that might be adopted and sustained by less than perfect democratic voters. This is, perhaps surprisingly, a much smaller literature.

[23] With a bit of luck, the distribution of normative and practical conclusions about ideal tax systems may lie along an essentially linear spectrum. In such a case, electoral competition, as noted by Downs (1948) and Plott (1967), may anchor a community's tax system at approximately the median voter's ideal. As Sowell (2002) notes, collections of ideas are often connected with each other, which tends to reduce the underlying dimensionality of political views.

This paper has extended the Wicksellian project by focusing on how various combinations of practical and normative interests affect voter assessments of tax systems. Although all tax systems have zero-sum characteristics, voters also have shared interests with respect to choices among tax systems. Two of the three shared interests examined above emerge from voter ignorance.

The first shared interest is with respect to delegation. Voters are aware of their own ignorance of tax systems, the economic effects of tax systems, and the machinations of bargaining over tax laws. However, they also realize that their own ignorance creates a good deal of space for representative malfeasance. Thus, voters do not delegate complete taxing authority to a permanent king, president, central planner, or taxation agency, but rather periodically vote for representatives who promise to adopt (or at least advocate for) particular tax and expenditure systems.

Second, voters share a practical interest in informationally efficient tax systems, which is to say, in tax systems that are easy to understand, have easy to calculate personal tax burdens, and are reasonably stable through time. Without such properties, voters tend to make mistakes when casting votes and also when making decisions in areas of life affected by future tax burdens. This source of excess burden is normally ignored in mainstream optimal tax theory, but losses from mistakes can easily exceed those associated with excess burdens. Every voter has an interest in avoiding costly mistakes in public policy and in their own lives.[24]

Third, voters may share a variety of normative interests. Each voter's own "optimal" tax system is jointly determined by the norms they have internalized and their practical interests. If normative conclusions about ideal tax systems are similar, tax norms can be a stabilizing influence that also reduce political agency problems. In cases in which a normative consensus does not exist, conflict among normative interests may reinforce the instabilities associated with pecuniary interests and also increase agency problems. Paradoxically, such normative interests may induce voters to focus mainly on tax systems that advance their shared practical interests in transparency and stability.

In the usual rational-choice-based election models, voters favor candidates and parties that advocate the fiscal system closest to their ideal. Consequently, the tax systems adopted in well-functioning democracies tend to reflect both the practical and normative interests of pivotal voters.

[24] Estimates of the deadweight loss of the present tax system run in the 5%–10% range; see, for example, Jorgenson and Yun (1990). It bears noting that the hypothetical uniform sales tax favored in the first part of the paper would have a lower excess burden than more complex systems (Besley and Rosen 1999).

The normative interests of voters implies that the resulting tax systems are likely to be less transparent than required for informational efficiency, although they may be widely regarded to be more "just," "fair," or otherwise "ideal" than more transparent tax systems. Such tax systems do not necessarily resemble the ones advocated by optimal tax theorists, because nonutilitarian normative principles do not always support utilitarian conclusions.[25]

All this is not to say that excess burden considerations are never important but simply to suggest that other factors may be equally or more important to voters and their elected representatives.[26]

References

Alm, J. (1996). What is an "optimal" tax system? *National Tax Journal, 49*(1), 117–133.

Besley, T. J., & Rosen, H. S. (1999). Sales taxes and prices: An empirical analysis. *National Tax Journal, 52*(2), 157–178.

Brennan, G., & Buchanan, J. M. (1977). Towards a tax constitution for Leviathan. *Journal of Public Economics, 8*(3), 255–273.

Brennan, G., & Buchanan, J. M. (1980). *The power to tax: Analytic foundations of a fiscal constitution*. Cambridge, UK: Cambridge University Press.

Buchanan, J. M., & Congleton, R. D. (1998/2006). *Politics by principle, not interest*. New York: Cambridge Books.

[25] Some evidence of the existence of the transparency-normative tradeoff is suggested by the relatively simpler tax systems that most democracies have for "ordinary" voters, which are far simpler than the complex ones implied by the Hettich and Winer (1999) analysis of electorally driven tax systems using stochastic voter models.

[26] It interesting to note that Adam Smith supported both tax transparency and efforts to reduce excess burden: "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person….Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state. A tax may either take out or keep out of the pockets of the people a great deal more than it brings into the public treasury" (Smith 1776, Part II (p. 342)).

Carbonnier, C. (2007). Who pays sales taxes? Evidence from French VAT reforms, 1987–1999. *Journal of Public Economics, 91*(5–6), 1219–1229.

Congleton, R. D. (1997). Political efficiency and equal protection of the law. *Kyklos*, *50*(4), 485–505.

Congleton, R. D. (2001). Rational ignorance, rational voter expectations, and public policy: A discrete informational foundation for fiscal illusion. *Public Choice, 107*(1), 35–64.

Congleton, R. D. (2007). Informational limits to democratic public policy: The jury theorem, yardstick competition, and ignorance. *Public Choice*, *132*, 333–352.

Congleton, R. D. (2020). Ethics and good governance. *Public Choice, 184*(3–4), 379–398.

Congleton, R. D. (2022). *Solving social dilemmas: Ethics, politics, and prosperity*. Oxford UK: Oxford University Press.

Congleton, R. D., and Hillman, A. L. (Eds.) (2015). *Companion to the political economy of rent seeking*. Cheltenham UK: Edward Elgar.

Congleton, R. D., & Tollison, R. D. (1999). The stability inducing propensities of very unstable coalitions: Avoiding the downward spiral of majoritarian rent-seeking. *European Journal of Political Economy*, *15*(2), 193–205.

Da Empoli, D. (2002). The theory of fiscal illusion in a constitutional perspective. *Public Finance Review, 30*(5), 377–384.

Dome, T. (1999). Bentham and J. S. Mill on tax reform. *Utilitas, 11*(3), 320–339.

Downs, A. (1957). *An economic theory of democracy*. New York: Harper and Row.

Eichenberger, R., & Oberholzer-Gee, F. (1998). Rational moralists: The role of fairness in democratic economic politics. *Public Choice*, *94*(1–2), 191–210.

Eichenberger, R., & Serna, A. (1996). Random errors, dirty information, and politics. *Public Choice*, 86(1–2), 137-156.

Farhi, E., & Werning, I. (2013). Estate taxation with altruism heterogeneity. *American Economic Review, 103*(3), 489–495.

Feld, L. P., & Frey, B. S. (2002). Trust breeds trust: How taxpayers are treated. *Economics of governance*, *3*(2), 87–99.

Feld, L. P., & Heckemeyer, J. H. (2011). FDI and taxation: A meta-study. *Journal of Economic Surveys, 25*(2), 233–272.

Hettich, W., & Winer, S. L. (1999). Democratic choice and taxation. New York: *Cambridge Books*.

Johansson, O. (1997). Optimal Pigovian taxes under altruism. *Land Economics*, 73, 297–308.

Jorgenson, D. W., & Yun, K. Y. (1990). Tax reform and U.S. economic growth. *Journal of Political Economy, 98*(5), 151–193.

Kirchler, E., Hoelzl, E., & Wahl, I. (2008). Enforced versus voluntary tax compliance: The "slippery slope" framework. *Journal of Economic psychology*, *29*(2), 210–225.

Lindahl, E. (1958). Just taxation—A positive solution. In *Classics in the theory of public finance* (pp. 168–176). London: Palgrave Macmillan.

Lipsey, R. G., & Lancaster, K. (1956). The general theory of second best. *Review of Economic Studies, 24*(1), 11–32.

Locke, J. 1794/2013. *The John Locke collection: 6 classic works*. Kindle Edition (Waxkeep Publishing).

Martinez-Vazquez, J., & Winer, S. L. (Eds.). (2014). *Coercion and social welfare in public finance: Economic and political perspectives*. Cambridge, UK: Cambridge University Press.

Melguizo, A., & González-Páramo, J. M. (2013). Who bears labour taxes and social contributions? A meta-analysis approach. *SERIEs, 4*(3), 247–271.

Mirrlees, J. A. (1976). Optimal tax theory: A synthesis. *Journal of Public Economics, 6*(4), 327–358.

Nozick, R. (1974). *Anarchy, state, and utopia* (Vol. 5038). New York: Basic Books.

Oswald, A. J. (1983). Altruism, jealousy and the theory of optimal non-linear taxation. *Journal of Public Economics, 20*(1), 77–87.

Plott, C. R. (1967). A notion of equilibrium and its possibility under majority rule. *American Economic Review, 57*(4), 787–806.

Pommerehne, W. W., & Frey, B. S. (1992). The effects of tax administration on tax morale (No. 191). Discussion Papers, Series II, University of Konstanz, Collaborative Research Centre (SFB) 178, Internationalization of the Economy.

Plato (360 BCE/1888). *The republic*. (Translated by B. Jowett). Oxford UK: Clarendon Press. Kindle Edition.

Pommerehne, W. W., & Schneider, F. (1978). Fiscal illusion, political institutions, and local public spending. *Kyklos*, *31*(3), 381-408.

Potrafke, N. (2018). Government ideology and economic policymaking in the United States: A survey. *Public Choice, 174*(1), 145–207.

Puviani, A. (1903/1973). *Teoria della illusions finanziaria* (Reprint). Milano: Isedi.

Ramsey, F. P. (1927). A Contribution to the theory of taxation. *Economic Journal, 37*(145), 47–61.

Rawls, J. (1999). *A theory of justice: Revised edition*. Cambridge, MA: Harvard University Press.

Samuelson, P. A. (1954). The pure theory of public expenditure. *Review of Economics and Statistics, 36*(4), 387–389.

Shepsle, K. A. (2018). Institution-induced stability. *The Oxford handbook of public choice*, *1*, 85–102.

Shepsle, K. A., and Weingast, B. R. (1981). Structure-induced equilibrium and legislative choice. *Public Choice, 37*(3), 503–519.

Slemrod, J. (1990). Optimal taxation and optimal tax systems. *Journal of Economic Perspectives, 4*(1), 157–178.

Smith, A., (1776). *Wealth of Nations: Full and Fine Text of 1776 Edition*. Available at www.WealthOfNation.com. Kindle Edition.

Sowell, T. (2002). *A conflict of visions: Ideological origins of political struggles*. New York: Basic Books.

Spencer, H. (1851/2021). *Social statics*. London UK: John Chapman.

Tideman, T. N., and Plassmann, F. (2005). Fair and efficient compensation for taking property under uncertainty. *Journal of Public Economic Theory, 7*(3), 471–495.

Tideman, T. N., & Tullock, G. (1976). A new and superior process for making social choices. *Journal of Political Economy*, *84*(6), 1145–1159.

Wagner, R. E. (1976). Revenue structure, fiscal illusion, and budgetary choice. *Public Choice*, *25*, 45–61.

Wicksell, K. (1927/1958). A new principle of just taxation. In *Classics in the theory of public finance* (pp. 72–118). London UK: Palgrave Macmillan.

Wilson, J. D. (1989). On the optimal tax base for commodity taxation. *American Economic Review, 79*(5), 1196–1206.

Winer, S. L., Profeta, P., & Hettich, W. (2013). *The political economy of taxation*. Oxford UK: Oxford University Press.