

Utilitarianism and Tax Policies

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Abstract

This essay is aimed to answer the question what tax policies does utilitarianism recommend? Based on the summary of utilitarianism basic guidelines and principles were separated. Following those principles income, sales, and capital gain taxes are discussed to see whether or not the utilitarian government would favor them or what changes it would make. The outcome showed that utilitarianism would recommend taxes which balance the principles of equality, need, and dessert while treating everyone equally and taking as a basis increase of net utility for a long-term and not satisfying needs for short-term. The discussion provided in this essay about taxes and countries is brief, nonetheless, it gives a general understanding of both utilitarian principles of policymaking.

Introduction

Utilitarianism is a consequential philosophical thought which aims to maximize overall happiness, well-being, and welfare, in other words, its aim is to increase the level of net utility. Utilitarian philosophical thought has been discoursed a lot and received a lot of criticism. This although did not affect the number of supporters or make the attractions of utilitarianism any less solid or weighty.

In current essay main guidelines, principles, and goals of utilitarian thought are discussed. After general summary tax policies are discussed. For tax policies also utilitarianism has principles to guide the governments while they decide which taxes and how to impose. With the guidance of those principles, values, and desired consequences income, sales, and capital gain taxes were discussed.

The discussion aimed to answer the question what tax policies does utilitarianism recommend? To understand what tax policies utilitarian governments would prefer to maximize the net utility the essay not only discusses the taxes but also shows what changes would utilitarianisms suppose and why. The consequences depend not only on taxes in general or the changes utilitarian government would make, but still, the discussion shows that there is a causative relation.

The limitation of study lies in its broadness. There are internal and external factors which can change the outcome of the same policies in different countries. The essay gives a general overview of utilitarianism, its decision-making process, specifically when it comes to

tax policies, but yet a deeper research of case studies is required to uncover the relation of utilitarian tax policies and increase in net utility.

Summary of Utilitarianism

The main elements of utilitarian theory can be interpreted in many ways, which makes the theory all-inclusive and universal but also vulnerable to a great deal of criticism. An oversimplified formulation of utilitarianism affirms that this theory is based on actions which are considered right if they maximize the overall utility. An important feature of this thought is that utilitarianism “counts everybody for one and nobody for more than one” (Knowles 2001 p24). Utilitarianism is a consequential theory. In its simplest formulation, this means that decisions are made based on the consequences they might bring. In other words, utilitarians justify the actions if they bring utility and avoid disutility. The alternative choices are eliminated based on the comparison of available options and results. The amounts of utilities caused by each alternative are compared after utilitarians choose the one that brings the greatest amount of utility. In some cases, all the available options bring only disutility, so in that case, utilitarians would choose the one that brings the least amount of disutility (Bird 2006).

Another important feature of utilitarian consequentialism is that it is not merely based on pure judgments. It requires identifying who and how is affected by the decisions (Kymlicka 2002). Utilitarian philosophical thought produces more aggregate utility rather than provides a mutual advantage. Mutual advantage justifies decisions or choices if they bring utility to each person involved in that particular case. Aggregate utility counts overall happiness. In aggregate utilitarianism individually received utility is not the priority (Bird 2006).

As the purpose of utilitarianism is to maximize the utility a conflict within the theory arises- shall it maximize total welfare or average welfare. Total utilitarianism aims to increase the total amount of utility of the population. Average utilitarianism measures the average utility of the population, which means that total utility is divided by the size of the population. In other words, total utilitarianism prefers a small amount of happiness for a larger amount of people over a large amount of utility for a small amount of population. Thus, we can see why depending on the population size the preference between these two differs. When the population size becomes larger average utilitarianism is more reasonable.

The utility itself measures the happiness or unhappiness that results from a particular action. The net utility measures the balance of the happiness over the unhappiness. To measure the total net utility, we subtract the unhappiness caused by an action from the happiness it causes. If after computing the happiness caused by an action is more than unhappiness then we have a positive net utility, otherwise we have negative net utility.

Utilitarians judge the action with the following steps (Kymlicka 2002, Harsanyi 1997, Knowles 2001).

1. First, they determine the available courses of action.
2. Second, they consider the happiness and unhappiness that the action can cause.
3. Third, they look into the results (net utility).
4. And finally, they perform that action from the available alternatives which has most net utility.

Utilitarianism is a preference based theory. This so-called preference utilitarianism is not the same as the original theory which was hedonistic utilitarianism. Hedonistic utilitarianism puts pleasure as the only desirable consequence. Another division in utilitarian

thought is ideal utilitarianism. This approach puts social and individual utilities on “mental states of intrinsic worth” (Harsanyi 1997 p54). These last two approaches have been seriously criticized. Not all our actions are purposed to achieve pleasure. Mothers’ love their children and do everything for them not for their own pleasure and happiness but for the sake of their children’s happiness. From the general description of utilitarianism, we can see that this philosophical thought is based on sympathy and the ability to do good for the society. Helping others without hurting anybody can be one of the fundamental rules of utilitarianism. This assumes that only desires which are relevant are the ones that do not oppose the moral values and ethics of utilitarianism, otherwise, they will be considered in policymaking (Harsanyi 1997).

There are two ways to act according to the utilitarian theory. The first is act utilitarianism (also called direct utilitarianism) and the second is indirect or rule utilitarianism. In the first case, the decisions are made based on the information available for each case so the actions affect the consequences directly. For the second case actions follow certain rules which means they affect the results indirectly. Those rules are directed for all the cases which are of similar category. After making some calculations agents of utilitarianism apply those actions by following particular acts or particular sets of rules.

Rule utilitarians follow the rules even if there are alternative actions which will bring more utility. Unlike rule utilitarians act utilitarians choose the best available alternative. Rule utilitarianism is more desirable in the terms of safeness, justice, maintaining special relationships and obligations. Act utilitarianism gives more space for abusing other people’s right in the name of common good. Rules utilitarianism is impartial so it respects the rights despite race, social or financial status, personal irrelevant preferences, or any other factors (Kymlicka 2002).

To put in other words, act utilitarianism decides what is the right action in any given case and rule utilitarianism provides the rules for “a given class of situations” (Harsanyi 1997 p57). So, these two approaches give us different ways to solve the same problems. According to rule utilitarianism, all so-called U-agents (followers of utilitarianism who make calculations to find out the possible consequences) shall have the same set of rules for a given class of situations, whilst act utilitarianism assumes that all U-agents have their own set of rules for a given situation. This adds another layer of difference between act and rule utilitarianism. The first as elaborated will be following a certain chain of rules or acting based on a case to case approach. The second is that the rules shall be the same for all U-agents or individually.

Thus, the wrongness and rightness of actions can be judged differently. Elaborating further the above-given concepts it must be said that the followers of act utilitarianism choose the action from available alternatives looking into the possible consequences that can be reached through that choice. Motive or disposition utilitarianism is looking for qualities which will improve the chances of having the expected consequences. Each of these approaches elaborates the wrongness or rightness of actions differently and their justifications and action choices can contradict each other. Let me illustrate this with an example. Suppose the mother of a very poor family, where the children are starving, steals some food from a person who is so rich that will not even notice the “deficit”. This action is not done repeatedly, as the family arranges to change their financial condition to the best. Act and rule utilitarian thoughts will interpret this action differently. According to act utilitarianism, she did the right thing, as she made the decision which brought better consequences than alternative options could have done. Unlike act utilitarianism, rule utilitarianism does not justify her action as that was against the rules (Knowles 2001 p26).

The example where a passer-by gives money to a poor person again shows that a single situation can be viewed from different standpoints. The trick is that we never know where and how the money will be used. As a member of a compassionate society which follows a dispositional utilitarian thought, she will be justified, but we cannot say the same from act utilitarian's point of view. In case the money that the person gave to the poor one is used in order to cause harm then the act will not be justified (Knowles 2001 p26).

From organizing and strategy planning point of view rule, utilitarianism is dominating. Rule utilitarianism provides more security and preciseness for the future. As an example, I will use the act of giving promises. When we judge breaking the promises from the utility maximizing point of view, we can never be safe enough as we are unable to predict future and change our expectations from those who made promises. When following a set of rules, we have an actual idea what to expect in certain situations. This social trust preservation is a very solid advantage of rule utilitarianism (Harsanyi 1997). Utilitarians tried to use the long-term utility maximization to show that promises, contract or other alike services are not violated by utilitarian principles, as what utilitarians care about is a long-term increase of welfare. When breaking promises we deform the image of the exemplary social structure. This is true only if people who are defeated speak out and inform others about their misfortunate experience, otherwise, nobody will be aware of the act which means no changes will occur (Kymlicka 2002).

The importance of humans' ability to make right decisions is essential in the utilitarian way of thought. In everyday life, rational decision making is the guarantee of getting the wanted consequences for utility maximization. Harsanyi (1997) claims that human behavior in various fields starting from social interactions and up to economic decision making shows the high capability of humans to make rational decisions. Humans act in

accordance with their goals, so when the goal is utility maximization they are most prone to act in the way that will increase the amount of expected utility.

Understanding rational behavior is one big step towards understanding the challenges of the utilitarian theory. This paragraph discusses the three parts of individual rational behavior as Harsanyi (1997) did. Individual decision making is conducted according to three main scenarios or it would be also right to say in three main circumstances. The first is uncertainty. Decisions are made without knowing what the consequence will be. The second is the risk factor. In this case, we know the possible outcomes, risks, and benefits but there is no guarantee for the desired results. The third is making decisions under certainty when you know precisely what are the consequences. All these three together build up utility theory, as it involves all of the three possibilities. Decision making under risk and uncertainty is called decision theory (Harsanyi 1997, p43).

The decision-making process of individuals differs from the decision-making processes of government and institutions. While in individual cases it is possible to gather the required information about all the sides included in the action and shift from making decisions under uncertainty into making decisions under risk or certainty, we cannot say the same for governments. Governments have to make decisions based on very general assumptions, as they are neither able to collect information about every single citizen nor they have the right to (Harsanyi 1997, Kymlicka 2002).

The political implication of utilitarianism has its own peculiarities. Political decision making is different from individual decision making thus the advantages and risks are different as well. One of the most discussed threats of political utilitarianism is the preference given to the majority. When looking back to the history of utilitarianism we see that this political and philosophical strain of thought arose in English society where utilitarianism was

political though which promoted democracy. Currently, we look into a more mature definition of utilitarianism which is not a political movement anymore. Back then society was fighting for the rights of the majority while nowadays it is minorities that need to be protected and it is at this point where utilitarianism cannot give us precise answers and solutions (Kymlicka 2002).

Interpersonal utility comparison is an important part of utilitarianism. Making comparisons is an inseparable part of our daily lives. We make decisions based on comparisons all the time and those decisions concern not only our private lives but also our families, friends, and other people. Most of the time we are able to make decisions that are acceptable, as we have enough information and mental capacities to make comparisons and act. The best way is to start looking at that certain situation from their point of view. This is though again very risky as one person cannot put oneself in the shoes of several people, stay unbiased, measure the satisfaction or pain each of those people will get, be emotionally on the same level as they are, and many other issues. Utilitarian theorists do not justify interpersonal comparisons as nothing can guarantee that the presence of all the necessary factors to make informed and relevant decisions (Harsanyi 1997). Let alone the fact that we cannot access to real feelings and performances of others.

Attractions of Utilitarianism

As any other philosophical thought utilitarianism also has its supporters and opponents. One of the strongest attractions of the utilitarian theory is giving equal weight to the welfare and well-being of every individual. No one is superior to another, and no one's well-being is more important than the others'. Utilitarians pursue happiness, pleasure, utility maximization, well-being, or welfare (the consequences) for everyone in the society (Kymlicka 2002). Religion, race, sex, social status are irrelevant factors when it comes to considering who shall be better-off.

Consequentialism is another attraction of Utilitarian thought. As a consequentialist theory, utilitarianism accepts something morally right if that policy, action, or decision results in overall maximization of well-being. Unlike many other theories, utilitarianism does not consider morally justified action to necessarily follow already settled rules. Even if there are rules, then those rules shall serve the same goal- that is to maximize utility. The main concern of utilitarianism is human welfare- whichever decision or action maximizes it is considered morally justified. Here I shall mention that utilitarian theory is in contrast with itself in regard

of act and rule utilitarianism, which have already been discussed in the introduction and more elaboration will be provided in the following sections (Kymlicka 2002).

As a consequentialist theory utilitarianism is considered a formal theory as it follows the realization of expected consequences. As a value theory utilitarianism concentrates on which utilities are worth of being maximized (Knowles 2001). Consequentialism is not mixing morality with other factors which affect our decision-making process. Improper desires and motives are not important as we are not interested in merely “aesthetic criticism” but in real consequences (Kymlicka 2002 p2). The absence of willingness to live in a neighborhood of homosexuals or people of a different race is considered improper as it is irrelevant in maximizing the overall welfare or happiness.

Utilitarianism, as a consequentialist theory, judges whether actions are moral or not according to the calculations, which orientate us to consider the actions which have more tendency to provide more utility. This approach eliminates such factors as spiritual or political leaders, traditions or other aspects while making decisions and choices. The utility is the one absolute measure which is taken as the basis for considering actions as moral or immoral. The above mentioned about utilitarianism makes it a strong and solid defense against prejudices and superstitions (Kymlicka 2002 p2).

Criticism of Utilitarianism

For a deeper understanding of utilitarianism, first of all, it is essential to define the utility itself. There are several definitions of utility. Welfare hedonism sees the utility as experiencing pleasure as it is what this strain considers the most important human good. This explains why we prefer some things over the others. The more is the level of welfare caused by a particular action the higher is the possibility that we will follow that path.

This hedonistic approach of utilitarianism has received a lot of criticism. Let us assume that the pleasure is the only interest of mankind and we have the opportunity to be attached to a pleasure machine which will give us the exact sensation we need to feel happy (Kymlicka 2002). Many of us will not agree to this offer as it seems not right. Despite the fact that we can be totally happy and lead “pleasurable life” this option still does not seem right. What makes us really happy is not just the state of mind, but the journey itself also the results of our actions and enjoying the process itself. We feel happy not only because we are engaged in the job we favor but also because we see the fruits of our efforts. This argument might not seem strong enough but let me bring another example. What would you wish for

your children, parents, or any other person you love to have a real life full of real happiness or just the illusion of being happy? It most likely that we would not like our children live in a “reality” of a machine but be bullied outside of that “experiment”. So, what is more, important here is what we have in realia and not in a mere state of mind.

Another example will help us to dive into this particular part of utilitarianism deeper. Let us assume that a cook wants to be attached to the machine which provides the feeling of happiness. This may seem a very convenient option for the cook, but what if one’s real happiness is in creating new dishes and in the whole process of cooking? What causes the maximization of her well-being cannot be totally provided by a machine and this assumption is true for all other similar cases (Kymlicka 2002). Despite the fact that the author totally rejects the possible effectiveness of a hypothetical machine theory, it still is not absolutely worthless. Yes, what makes the cook happy is not the feeling of pleasure or state of mind that he is the best cook, but the actual fact that he is the one. In case cooking is not what she does the best, she can work harder or try something else. It is here that I would like to partially object to this chain of thought. Not everyone is so ambitious to have the goal of becoming the best in the sphere one is involved in. Very often we want something without taking into account the fact that we cannot be fully accomplished in it. Nothing is wrong with that, and there might be some people that as a result of many circumstances will benefit from being attached to a machine. This example can be interpreted differently based on which approach of decision making we favor more. As it will be discussed below act and rule utilitarianism will elaborate this example differently.

The non-hedonistic mental state utility does not accept happiness as the only desirable goal to achieve. Non-hedonistic utilitarianism is based on all the mental states and not only happiness. This variation though does not absolutely leave out the experience of machine

criticism discussed above. The difference, in this case, is that the machine provides the satisfaction of different states of mind (Kymlicka 2002).

Happiness is not the only thing that we are most probably willing to experience just through an experience machine. Having a family, friends, travelling, and many other experiences are desirable for us as such, we want to experience the whole process and the final results. What we desire is not a fraction or part of that specific experience. In case we choose the machine, our desires and preferences do not matter anymore, as it provides one single unit- pleasure or happiness. Those sensations might be diverse and have dissimilar levels of intensity. Dreaming about an expensive car and working hard to save money to buy it can be more exciting than just getting it as a present. To sum up mental states are not what we look for when it comes to the accomplishment of our desires.

Preference utilitarianism did not refrain from criticism. With this approach, the divergence between individual and government decision-making is quite evident, but that will be discussed later. Now I will introduce some arguments concerning the preferences apart from utilitarianism in general so that its role and place in utilitarianism becomes more obvious. Whether the preferences are rational or not depends on multiple factors, but informed and unbiased are the most important conditions for having rational preferences (Harsanyi 1997). A decision or an action that we seek currently may not be what we need now. I do not say those decisions might not be the right ones to achieve more utility, but there is a possibility that they do not match with our real preferences, with what we really want eventually. The preferences in Utilitarianism are divided into rational and irrational ones. This point means not only ours but also others' utility matters. This does not always happen smoothly not only for hedonistic and ideal utilitarian approaches but also for preference utilitarianism, as preferences do not always coincide (Harsanyi 1997).

Discoursing about utilitarianism as a preference based thought means that utility itself is the preferences people have, so it follows that utility maximizing is equal to the preference satisfaction. This approach towards utility involves too many layers. Regardless the fact that utilitarians consider satisfying only informed preferences, this does not mean that all informed preferences are the right ones. A person may still not want to sit next to a disabled person even when she has the full information about how wrong his behavior is. That person might also know the consequences of her action, which might be the opposite of what utilitarians will long for. Satisfying preferences can bring to maximizing well-being but this is not necessarily true for all instances. What is worth doing is not always what we would prefer to do thus just satisfying our preferences does not guarantee an increase in welfare (Kymlicka 2002).

From this follows that to maximize utility only rational and informed preferences satisfaction must be considered. This seems a very rational approach up to the point when we try to figure out how shall we measure the level of “being informed”? Also, as already discussed above-informed preferences are not always rational. A person who is addicted to drugs can be fully informed about the effects the drugs have on his health or social status but he still might continue pursuing the same lifestyle.

Interpersonal comparisons which lack information and are biased or subjective are very dangerous and troublesome. Shall we accept slavery or sadism as right and moral things just because as a result of interpersonal comparisons we found out that a sadist gets more pleasure from torturing their victims than the amount of agony those victims get? With the same logic shall we bring back the Slavic society as more people will be happy with that regime? Of course, to all those who have common sense all these and alike actions are bizarre and unacceptable. For this reason, while seeking to maximize the overall utility we shall abandon this interpretation which is based on the interpersonal comparisons (Shapiro 2003).

Pareto goes further with his criticism for the interpersonal comparisons and calls them completely irrelevant for political and economic decision making. Including and comparing all their desires into the decision-making process for politicians and economists is equivalent for engineers to consider some astrological fact while working on their projects (Harsanyi 1997).

Preferences do not always match, moreover, there is a high risk of conflicting preferences. Common sense tells us to eliminate irrational and ill-informed preferences, but if the preferences do not match it is not indispensable that one of them is irrational, let alone that in real life it is not possible to filter out all the preferences. To compare preferences a person shall consider multiple factors such as personal information about other people, their emotional condition, and many other similar factors. In many cases, we do not want to and do not have to deliver such information. All these difficulties become sharper when we consider the government to filter out the preferences. The government cannot collect all the personal information about each individual, which can also be biased and subjective (Kymlicka 2002). This means that the government shall rely on a more common background for references such as social conditions, cultural peculiarities.

As in real world, it is impossible for the government to consider the preferences of all the citizens, the decisions it makes and the policies it adopts are aimed to provide such conditions, rights, and liberties that people can achieve the highest level of utility. In other words what a government can do is to provide the necessary background and conditions so that people can satisfy their own preferences with the help of those policies. From this follows that utilitarian government maximizes the goods, services, and resources for us to use all those opportunities satisfy our preferences. Thus, the government affects the changes in the amount of utility indirectly (Kymlicka 2002).

According to utilitarians, the only special obligation we have is maximizing total or average well-being. The decisions and choices we make are and shall be based to meet only this obligation (Kymlicka 2002). This approach is wrong in many layers. Let us assume I want to study German so I hire a tutor to help me. At the end of the month, I do not give that person the money as someone else needs it more, which means that money will bring more utility/ happiness to that person and not my tutor. Utilitarians will not criticize me if I do not give the money to my tutor but to the person who needs it more at that moment. Some utilitarians will argue that giving money will bring only to short-term good consequences, as the trust among people eventually will fade away. Here I would like to look at this example from another angle. When I give some money to the person who needs it more than to the person who I initially had promised to give to maximize overall well-being. This, instead of decreasing trust among people and making them unsafe, means giving the necessary resources to a person who really needs it. So, if my tutor needs money or other good/ service at some point he can be sure that his well-being will be prioritized in that case. Can we say then, that it right is not paying to my tutor? The answer is no, as that approach is violating my tutor's freedom, property rights, and disrespectful towards his "wasted" time (which cannot be brought back).

Maximizing average or aggregate utility is another issue with the utilitarian in theory itself. To understand the difference between these two concepts it would be better to explain it with an example. Suppose we have two societies where the first (A) one has a population of 50 people and the second (B) has a population of 200 people. In the first society each person has 1 point of utility and in the second each peruses $\frac{1}{2}$ point of utility. The number of utility for each society, in accordance, will be 50 units and 100 units. It is obvious that in the A has better conditions for its citizens than the B, so average utilitarianism will choose the A over

the B, while aggregate utilitarianism will make the opposite decision. This illustrates that both lines have different outcomes while having the same goal (Knowles 2001 p26).

To go deeper into this average ad aggregate differences let us discuss the following example. We again have two societies A (100 people) and B (200 people). The policy has 100 units of utility to distribute. It is obvious that we will choose the society A as everybody gets more utility. While we can agree on this another issue arises, what about the missing 100? Shan't we consider their interests as well? Isn't it our government's obligation to think about future generations as well? These questions and many another one that can arise might seem irrelevant at the moment, especially for those who do not have children (grandchildren) now or for those who do not plan to have any, but what we shall consider here is the main principle of utilitarianism- looking for better consequences (Knowles 2001 p26).

A very important fact was mentioned by Rawls concerning our right for personal choices (Harsanyi 1997). To sacrifice your own interest for the sake of others can be justified by U-agents, but it is not difficult to see that this approach is wrong in many ways. Starting from individual cases, we all shall have the space for ourselves, that is our right to invest our time in things that are delightful for us and do not serve others every single time they need, even if in the last case the utility they can get is bigger than ours. For institutions and companies, this approach is also irrelevant. Devotion and concentration are key concepts for success, and leaving one's job to help others can distract and unnecessarily prolong the working process and have undesirable results. So, in this case being free to make personal choices is again rational. If my colleagues' projects are more important I cannot put aside mine all the time and arrange their projects first. Commitment and time are very important to be successful but if I spend my time, energy, ideas, and other resources on others' projects I will never succeed. For utilitarians, my "sacrifice" is the right choice as my project is not more important than other ones' projects, which does not leave out space and time to be free

and work on what I personally think is important. As a utilitarian, I shall work on my project for no other reason but to maximize the overall well-being.

Another objection towards utilitarianism is the fact that the information required to make the rational choices. In daily situations when there are involved just a few people it might be possible or it is better to say easier to collect the required data to act rationally. For governments, this is not so “simple” anymore. Governments or other institutions cannot collect the information from every single person, and even if that was possible to do they can never be sure that the received information is not biased or is not given under the influence of somebody or something else. Let alone the fact that government does not have the right to intervene in all aspects of its citizens' lives which excludes much information thus the decisions will be made based on incomplete information. How do we decide who gets what? The answer is comparing the utility maximizing potential of each alternative. This, of course, does not save the situation but brings, even more, issues to worry about. As already discussed the interpersonal comparison is a very problematic topic which is troublesome on so many levels that hardly ever any philosophical theory can give a comprehensive explanation for that phenomenon. One of the options to solve this problem is criticized by Pareto as well. According to whom the right thing to do is to compare “the sensations of one man with those of another man” and based on this comparison and the results we want to see or have in the end “place those men relative to each other” (Shapiro 2003 p39). What shall we do if my friend and I both want to buy the last ticket for our most favorite band concert? How shall we make that interpersonal comparison?

Utilitarianism and Tax Policies

From the previous sections, it is clear that utilitarianism stands for the actions or we can say classifies actions as right ones when they contribute in overall happiness or avoidance of pain so it does not suggest any non-logical principles for decision-making. This section is contributed to the discussion of the relationship between utilitarianism and tax policies (Brandt 1893). As Pigou states tax policies alone cannot guarantee economic well-being of people as solid law system is also a must. He wrote that

“The law about taxes ought to affect different people’s satisfactions equally while allowing that the rest of the legal system may properly affect them very unequally, seems not a little arbitrary.”

(Murphy and Nagel 2002, p 26)

The government has to consider all these factors while adopting laws and policies. The government is responsible for the state and its citizens, and each decision it makes is directed towards securing them economically, socially, or in any other way. This, of course, does not mean sacrificing all our liberties, rights, and preferences, but rather building a system where all those will be present and respected (Harrison 1987).

When it comes to performing its duties, the government faces the contradiction between non-interference right and rights of provision (Knowles 2001). Policymaking process, tax policies included, is not an exception. Governments do not have the right to intervene in people’s life’s and constitute policies that will satisfy the requirements of the majority. Even if the government is given the right it is hardly possible to collect unbiased data from all the citizens or come up with all-inclusive or satisfying policies for everyone. These difficulties though do not presume that the government can avoid the responsibility of provision. The difficulties tax policy issuing has does not give the right of escaping from practicing them (Knowles 2001).

Taxes can be different, depending on the principles they are based on, Poll or head taxes, for example, require each person to pay the same amount of money (in percentages) regardless how much they earn. It is clear that these taxes do not consider the differences present among taxpayers, in other words, these taxes do not provide equality or equity for everybody taxwise. Head tax policies can be adequate in case we have fixed incomes which are the result of equal market/ economic opportunities for everyone. (Piketty and Saez 2012, Murphy and Nagel 2002).

Those who protect head taxes justify it with the fact that each citizen receives the same amount of benefits that taxes provide. This, of course, is a very plausible argument, as first of all head tax supporters shall prove that the market provides equal opportunities for everyone. Amount of benefits each citizen gets from the government can be different from the number of benefits or services the government suggests or gives. As far as the pretax market outcomes are not proven to be equal for everyone, these taxes cannot be defensible (Murphy and Nagel 2002).

The government cannot change the abilities, needs or demands of its citizens. What it can offer is economic stability and security, accurate and high-quality government services for its citizens' proper life conditions or living standards. Going back to freedom or liberty limitations, in defense of taxes it is necessary to say that they are ways to provide those liberties. As Locke and Rousseau recognized the role of the government is to protect its citizen's lives, property, liberties, and provide equality (Knowles 2001).

On the way of identifying which tax policies are the most adequate one principle that must be considered is the benefit principle, according to which taxes shall be paid in accordance with the benefits we get from the government. What are the benefits we expect to receive from the government? Shall we define what is the minimum amount of benefits that the government is obliged to provide? Even if we define, then it will be the existence of the government itself, as it saves us from the state of nature, that is "a war of all against all" as Hobbes will state (Murphy and Nagel 2002, p16). As this benefit-tax ratio is rather complicated baseline shall be considered as well. Baseline is the lowest level of welfare. With the presence of the government, the lowest baseline is the income people have, or rather the opportunities people have to earn the income. (Murphy and Nagel 2002).

Another principle of taxpaying is the ability of each person. The previously discussed head tax ignored the differences among people, while this option is entirely based on the abilities a person has. This method, of course, does not escape from criticism. First of all, which abilities shall we consider: abilities that are based on the economic conditions such as income for example or the abilities we create for ourselves such as our decisions and preferences? From the justice perspective, this principle of taxpaying is again not clear cut. In this case as well the ability to pay is expressed in the income a person has, as the more and “better” a person’s abilities are the higher the income will be. So, who can guarantee that everybody is using their full potential or that they are doing whatever they are best at? And even when the government finds that out, what can it change? Is it going to make the person change the job? Or how it is going to make or persuade people work harder and use all the potential, especially when it will result in higher taxes? This last point is the reason why this principle can have the opposite effect: people might choose not to work more as the money received (after paying the taxes) is not worth the extra effort and time spent on it (Murphy and Nagel 2002).

The fundamental utilitarian principle is “not build on altruism but benevolence” (Smart and Williams 1973 p32) The utilitarianian philosophy accepts tax policies only if the benefits of the paid taxes surpass benefits of alternative ways of spending the amount of money paid (Cruz et al 2000, Glover 1990). A U-agent would like to use tax policies as transfers from people with more abilities to earn money to people who have fewer abilities to earn money and this will be justified as the net utility will increase (the amount of overall happiness will surpass the pain of paying taxes). Those abilities cannot be measured or counted, that is why the government takes income as “measurement unit for the abilities” to fix respective and tolerable tax policies (Mankiw and Weinzierl 2010). Utilitarians though are not directly concerned with abilities or duties people have. What they look into is the way

taxes affect people's behavior, which in its turn has a direct connection with increasing or decreasing overall welfare. Utilitarianism does not approve any type of tax policies which will make people act in a way that will decrease aggregate utility. Hence utilitarians would prefer taxes which will affect people's well-being positively and will not potentially affect the baseline needed for decent living standards (Murphy and Nagel 2002).

Equal sacrifice is another principle for outlining tax policies. People with different incomes shall pay different amount of taxes based on the principle that their sacrifice in form of taxes shall have the same "price" for themselves. The taxes paid shall not result in a greater loss in their welfares. The fundamental principle is that after paying the taxes people with originally higher income will still have more welfare at the end than those who had a lesser amount of welfare. In other words, the utilitarian justification of tax policies is that the amount of money taken from relatively rich people will do them less harm while the same amount of money will do more good to less wealthy people (with less abilities to earn money) thus the consequences will make positive changes in net utility or on overall wellbeing. Utilitarianism is moving towards establishing equal economic conditions, but the equality itself is not the goal utilitarianism pursues but the consequence of maximizing general welfare and well-being (Brandt 1893).

Considering all these general remarks next more precise basics and principles will be elaborated to see what tax policies utilitarian governments would prefer. Also, the amount and types of taxes will be discussed to see whether it is possible to increase welfare and wellbeing with the help of taxes. These all will be analyzed taking into account the fundamental principles of utilitarian thought and its desired consequences.

Utilitarians are not extremely conservative or opportunistic when it comes to choosing principles for improvements. The three fundamental principles which guide utilitarians are

equality, need, and desert principles. First comes equality principle, which stands for equal distribution of resources among everyone. Each person gets her / his fair and equal share. In the example of cake, it is shared equally among everyone. This option seems quite plausible in case everyone in the group loves cake or that they are equally hungry. In other words when their needs and preferences are the same. Not considering these factors might result in dissatisfaction, as they do not get what they want or how much they need. In other words, according to the diminishing marginal utility principle. Each additional slice of cake (amount of redistributed resources) brings less happiness (increase in net utility) (Knowles 2001, Edgeworth 1897).

The second principle is the need principle. Utilitarians believe in the claim of need and consider it a principle which will result in a higher level of utility compared to the average utility. Suppose somebody in the group is starving and needs more than one slice of the cake to stay alive. A utilitarian government will give the cake to those who need it to save their lives. The consequences, in this case, will bring more utility than equal sharing. To conclude, utilitarians favor provision policies which results surpass average utility score (Knowles 2001).

Combination and balance of these two policies can bring the most amount of net utility. The person who is starving shall get the big part of the cake. Other members shall equally share the rest of the cake among themselves. This allows to eliminate the sufferings of a starving people and at the same time is solving the problems of diminishing marginal utility principle. Both principles together can increase the net utility the most as it aims to satisfy needs and provide equality. Balancing these principles allows utilitarians not to neglect the needs of a starving person as his needs have the same value as the needs of other members. Sharing the rest of the cake equally again indicate the equality among members' needs importance (Knowles 2001).

The third and last principle is the desert principle. According to this principle, those who work harder shall be awarded according to their efforts. Essentially this means awarding productiveness. The benefits that people get from being productive invest in their well-being, which in its turn is increasing the total net utility. One might ask why is it her/his obligation to “pay” for others? This argument shall not be neglected, as the taxes which neglect it might result in a negative change in their behavior, that is they will not be as productive anymore as it is not worth it. As utilitarians do not want to have negative changes in behavior their suggested tax policies shall cover this issue as well. On the other hand, utilitarians cannot neglect the needs of those who cannot use or do not have the required abilities to provide proper income for themselves (Knowles 2001).

To the question why people with higher income shall pay or sacrifice from their slice of cake utilitarians will say that the answer is in comparing the total happiness received and the total loss. The benefits do not come only after paying the taxes, but also before payment. What is meant by this is the platform that they have been provided to use their abilities and have higher incomes. The conditions (economic, social, etc.) before paying the taxes are not equally distributed which changes the share of taxes to pay (Knowles 2001).

The Consequences of taxation are not only the serveries, benefits, increase/decrease in welfare, but also the response of taxpayers in form of behavioral changes. The responsiveness depends on the economic cost of the taxes, which in its turn shall be considered in framing the taxes and their progressiveness. The progressivity of the taxes shall not neglect the issue of sacrifice as each person shall make the same amount or level of sacrifice (Selmrod 1990). The taxes shall not push people with higher income to change their fields of activities, in other words, they shall not change their current work or businesses with the less taxable ones just to avoid paying higher taxes. The policies do not aim to affect in this way and have negative responses. The economic cost of the taxes which people pay shall not negatively

affect their productiveness. Not only progressivity but also redistribution shall follow this guideline (Selmrod 1990).

The best indicator for productiveness and abilities to earn money is the income, which is a result of decisions each individual makes. Redistributive or progressive taxes shall not depend on people's tastes and choices based on those tastes. So, what shall be considered is not only the income but also the labor provided in change for the income. In case a person works for 20 hours per week, does not mean there are no conditions or opportunities to earn more or that person lacks abilities to earn more. The amount of income is the result of their tastes and decisions and the government shall consider these factors of this category as well (Selmrod 1990).

People who earn more might be willing to pay higher taxes just to keep receiving benefits as they benefit more from paying the taxes and enjoying the services provided in return than they lose from paying taxes. In case the amount of taxes people pay is spent to provide the conditions they want, will satisfy their needs, as there will not be an optimal way to organize all the services. In this case, chaos will be unavoidable as once again interpersonal comparisons will be required, which is not the easiest and safest way to choose policies (Selmrod 1990).

These principles are not perfect and open to criticism. Still, from a utilitarian point of view, they summarize all the required feature that tax policies must have. Utilitarian tax policies shall follow all the three principles by finding the balance among them which will have the best consequences possible. Summing up, utilitarians choose policies based on the equal share which on its turn shall be done in accordance with the needs of people. At the same time, productiveness and abilities to work and earn more shall not be suppressed with

tax policies. The ideal tax policy shall combine elements from all the three principles to guarantee an increase in overall well-being and satisfaction (Knowles 2001).

Based on the elaborated principles and guidelines the discussion of policies will follow. The policies which will be analyzed from the utilitarian point will be income taxes (salary or profits) and sales (consumption) taxes. The election of these taxes is based on ability and need factors: which taxes can be transferred as needs and abilities. Before discussing the types of taxes that utilitarian government would favor, the amount or the level of the taxes shall be discussed. In accordance with the basic principles and guidelines, the taxes shall not negatively affect the baseline. The lowest and the highest levels of income for decent living standards can be based on the consumption basket in each country. Based on various internal and external factors, the baseline will be different for each country, so no single clear-cut option can be provided in this case. Next, the tax level (progressivity) shall not change the responsiveness of tax-payers in a negative way. These are the basic principles (concerning the amount of taxes) for utilitarian governments when choosing policies to have growth in net utility.

Income taxes

Starting with income taxes. From the discussion above we can conclude that utilitarian government will not justify flat taxes also called proportional taxes, as they do not consider the differences in abilities or productiveness, thus they are not treating everyone equally which is the fundament of utilitarian theory. Regressive taxes are not welcomed by utilitarian governments as the economic loss for people with lower income surpasses the overall happiness. Progressive taxes are a preferable option for utilitarian government. While flat taxes policies took the same percent of taxes from everyone, progressive taxes take a different amount of taxes which have the same value for the payers. People with higher

income pay more but their loss is less than the overall gained happiness, so utilitarian government would impose progressive taxes.

According to Forbes and Telegraph the following countries are among the happiest countries (the countries that are included in both lists are chosen randomly).

- Norway- progressive income tax from 0%- 46.9% (includes 8.2% pension contribution),
- Denmark- progressive income tax (for state income) from 29.68% to 55.794% and a flat tax for local income.
- Australia- progressive income tax from 0% to 49%
- Finland- progressive state tax from 6.5% to 31.75%.
- Austria- progressive income tax from 0 % to 55%

From the examples, it is obvious that progressive income taxes, which are rather high (except Finland), do not decrease overall happiness. Obviously, the progressive income tax is not the only factor making these countries happy, but it is definitely not making them less happy, despite the fact that they are quite high. Thereby utilitarian government would adopt progressive income taxes with a low level of progressivity. The mentioned countries are also included in the list of countries with highest living standards based on Social Progress Index (human rights, foundations of well-being, and opportunities) (Smith 2016). From this, we can conclude that connection of taxes and happiness is not just coincidence.

Sales taxes

Consumption or sales taxes are more need-based rather than ability based. In this case, different goods and services shall be taxed differently based on the types of those goods and services. Taxes imposed for example on medicine and luxurious cars affect people's happiness differently. Depending on preference and personal desires the needs and wants differ, but utilitarianism chooses the alternative with long-term consequences which will bring an increase in welfare and make everybody better off and not just please temporary preferences. With each additional luxurious good obtained the pleasure is prone to diminish, the same cannot be said about medicine as no matter how much painkillers you buy, every time they have the same effect. Thus, based on the tendency of adding into net utility, the goods and services shall be taxed differently. Basic items or services required to content elementary necessary needs, and other goods/ services such as extravagant items, private professional services shall be taxed differently. For this end the consumption basket can be considered as a basic unit for defining which goods shall be taxed, also fix the level of taxation to provide decent living standards. This said the above-listed countries will be considered. In Finland value-added tax on medicine (10%) is different from the one put on food for example (14%). In Australia essential items are not taxed while other items are taxed at 10%. In Austria and Norway there is also a difference in value-added taxes among basic/ essential items and other items (the numbers are based on the data from Deloitte International Tax reports for Austria and Australia, Policy on Main tax policy features of Norway, and 2018 Draft Budgetary Plan of Finland (the links will be included in the references)).

Capital gain taxes

Income and sales taxes affect if not everybody then almost everybody. The capital gain tax will be analyzed not only to see what utilitarian government would recommend but also to see the difference between different types of taxes and by different taxes here is meant the different groups of taxpayers. Capital gain taxes are imposed on the goods which are sold

at higher prices than they have been bought initially (Amadeo 2016). In case the price has gone up as a result of appreciation. This means that if a person owns something which price is appreciating over time he does not pay capital gain tax unless decides to sell it.

Capital gains or losses can be a short-term or a long term. For short-term capital gains (when the owner sells the purchase after less than a year for buying it) the tax rate is higher. The aim is to avoid uncertainty in the market that short term trading can bring. The tax rate again can depend on the income the seller has, or the type of property they are selling. The amount of money left after paying the taxes shall allow the seller to purchase the equivalent property. Let us assume that someone is selling his house. He bought the house at price X now the price in the market is $X + C$. This means that the price of real estate has gone up in general. The rate of tax shall leave the seller with the amount of money to buy an equivalent house. The same principle shall be imposed on for example when someone is selling her share form a company. After-tax profit shall not leave the seller with a lesser amount of money/ income than she had before. With these principles, the capital gain taxes will not decrease the net utility as both the seller and the buyer will make equal deals.

This approach does not contradict to utilitarian thought but does not actualize the fundamental intention of utilitarianism, which is not just keeping the level of net utility but also maximizing it. For this purpose, the transactions shall be beneficial for both sides, which means the buyer shall be satisfied with the purchase and the seller shall not feel that he has lost something. For this aim, the level of taxes shall be based on what percentage of the government budget do capital gain taxes from. Depending on the economy and which industries are developed in the country the number will change. The more is government dependent on capital gain taxes the higher they will be. The maximum level of taxes is again dependent on the behavioral changes of the taxpayers, as it has been indicated for the income and consumption taxes. Ensuring that the government budget is sufficient to provide all the

required services is essential for increasing overall well-being. This said the burden shall not fall on any social group, thus balancing and equalizing are important as utilitarian governments treat all the citizens equally.

Conclusion

After discussing utilitarian thought, more specifically what are its main intentions and principles, and based on these what are the attractions of this philosophical thought and what criticisms it has received government policymaking was discoursed based. After a general description, the tax policies were considered for a deeper examination. After implementing the guidelines that a utilitarian government would follow while planning a tax policy income, sales, and corporate gain policies were brought as an example. This aimed to show how utilitarian governments would make policies.

The basic and fundamental principles guiding utilitarian government for policy making discussed in this essay are the principles of equality, need, and desert. The discussion showed that these principles can be contradictory and it is not always possible to easily combine them. At the same time finding a balance among these principles is the key to have the highest increase in net utility on which the utilitarian thought is based on.

The next step was discussing why should people pay taxes, what are the tax policies that utilitarian government would recommend and how they will increase the total level of net utility. Examples of countries are brought to show the connection of overall happiness, high living standards, and types of taxes those countries impose. The discussion showed that the relation between tax policies utilitarian government would favor have neutral (the consequences do not increase net utility but do not decrease either) and positive effects (the amount of paid taxes was used by the government in ways that increased the overall being).

To conclude, utilitarianism would recommend taxes which balance the principles of equality, need, and dessert, while treating everyone equally and take as a basis increase of net utility for a long-term and not satisfying needs for short-term. In this essay, the discussion about taxes and countries is brief, although it gives a general understanding of utilitarian principles of policymaking. For deeper understanding for future research on this topic, I

would recommend considering case studies to find out to what extent and how policies recommended by utilitarian governments favor increasing net utility. Also, considering the other factors that help or hinder those tax policies to succeed.

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