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Financing the Minimalist State: Is Consumption Tax a Libertarian Alternative to Income Tax?

Abstract

This dissertation addresses a problem that is faced by minimalist state libertarians: how to finance the state so it may undertake its role of protecting liberty but restrict it from taking on more redistributive functions. The qualitative study refers to arguments recognizing that democracy is complementary to liberty, but that liberty is eroded when a democratically elected majority uses the political system to redistribute wealth, armed with the ability to tax income. A case against income tax is made from a libertarian perspective. Historical figures drawn from both Canada and the U.S. demonstrate how the percentage of tax taken from individual income has grown and how government transfer payments to individuals have increased as a percentage of GDP. Using current government revenue and GDP expenditure-based data from Statistics Canada, a retail sales tax (RST) of 28.51% applied to all goods and services is calculated as appropriate to replace income tax yet maintain current government revenue levels. A case study uses examples to illustrate the effect of replacing income tax with the RST on individuals, business and government, with reference to transition issues relevant to current tax policies. The study concludes that the RST can provide the state with the resources it needs to undertake the administration of justice. At the same time, individual taxpayers can deny the state a revenue increase by curtailing discretionary spending. Democracy is enhanced by the ability of consumers to restrict government spending or at least allow individuals some control over how much they are taxed.