

## A Minor Flaw

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Larry J. Sechrest's "Rand, Anarchy, and Taxes" brings up several great points about anarchism—a view toward which this writer is sympathetic. Even so, there appears to be a minor flaw in his reasoning. What is this flaw?

It is his claim that the natural rate of interest and time preferences are "unobservable" (Sechrest 1999, 99). There are two problems with this claim. One is that it seems to contradict what he states elsewhere. The other is that it undercuts his case against neutral taxation.

The contradiction lies in Sechrest's definition of "time preference" as "one's preferred rate of spending relative to saving" (96). This would seem to be *highly* observable—even if there is a degree of error. After all, one could track a given person and see how much she spent versus how much she saved. If this is all time preference is, then it is hard to see how it would be unobservable.

He also states that the "interplay of all persons' individual time preferences" generates the natural rate of interest (96). Now, if the former can be observed, given that one can measure, however imperfectly, individual time preferences, it would seem possible that one could also measure the natural rate of interest. It might be difficult or only approximate, but it does not follow that it's unobservable or, to be more precise, that it cannot be inferred from other data. (No claim is being made here that this is a simple relationship.)

If somehow Sechrest is granted his unobservable time preferences and natural rates of interest, then it does not follow that market prices somehow map onto these and track them accurately. Not only

is there the problem of comparing the alleged unobservables to actual prices but time lags, imperfect information, and the like affect market prices as much as they affect taxes. If this is so, then this part of his argument cannot be used at all—whether to castigate government and non-profits or to differentiate market prices from taxation. To put it simply: if one cannot know time preferences or the natural rate of interest, then one cannot claim taxes violate them or prices demonstrate them.

This does not mean that his conclusions are wrong. We can observe market efficiencies as well as non-profit and governmental inefficiencies. Yet, this would seem not to be because the market somehow knows the unknowable or observes the unobservable, but because it is the means of transmitting such information.

Does this mean that taxes can be neutral? I doubt it and Sechrest presents many arguments why many different varieties of taxation distort the market. Proponents of neutral taxation will have to either give up or come up with more sophisticated means of taxation to achieve their goal. I maintain they won't succeed because taxation involves force and force goes against individual time preferences *in a very observable way*.

## References

- Sechrest, Larry J. 1999. Rand, anarchy, and taxes. *The Journal of Ayn Rand Studies* 1, no. 1 (Fall): 87–105.