



Worksheet 5.1

Politicians Beware: Romania's Witches Resent Being Taxed

[This story](#) about Romania taxing its witches, and the witches fighting back, appeared in the Associated Press in January of 2010 and turned into something of an Internet sensation. In many ways, it seems to be telling an unsurprising story: a desperate government seeks new sources of revenue and outraged citizens protest that their taxes will increase. So, why all the fuss? Most notably, the outraged citizens are witches: self-proclaimed, proud, and sincere practitioners of what are called the 'dark arts'. Moreover, to show their outrage, they intend to curse the politicians who tax them.

But first, a little background on the story is in order. Romania's government had recently experienced a severe budget crisis as a result of the Great Recession. They, of course, were not alone: the UK, Ireland, Greece, Spain, Portugal, and Iceland, to mention just a few, experienced combinations of internal and external debt that threatened to bankrupt each country. Romania, like others, requested loans from the International Monetary Fund. The IMF, in turn, would only lend to Romania if it proved creditworthy, which meant slashing government spending (on the salaries of teachers and doctors, for example) and raising taxes, including the VAT.

It was then noted that some professions, like the embalmer, driving instructor, and witch were left out of previous labor listings. In other words, their jobs did not exist, according to the government, and therefore could not be taxed. And so it came to pass that the government announced plans to add them to the rolls and to begin taxing their income the following year.

Furthermore, as a resident of Bucharest, the tax on witchcraft appears to be a cynical attempt to appeal to anti-gypsy resentment, a feeling that runs high here. It would be as if the US state of Louisiana were to suddenly start taxing the practice of voodoo, what happens to be a cultural and religious practice of the Creole people who have lived there for centuries.

TOK-related Discussion questions:

1. Most government leave such activities to the 'informal' or 'parallel' markets. Is Romania justified in levying this tax?
2. One witch, quoted in the article, did not mind the ruling because it gives her profession some legitimacy in the eyes of the state. Romania, as many countries do, offers tax exemptions for religious organizations. To what degree could their profession qualify for tax exemptions in this fashion?

Application questions:

1. Assume that the government chooses not to tax incomes but the services themselves with an excise tax. For example, say the government taxed each 'hex' placed on behalf of a customer at 20 RON (about 5 euro). Using a diagram, show this tax on a diagram with an average price of 100 RON



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(about 25 euro). Show the respective producer and consumer burden, along with the area of deadweight loss.

2. Assume that during an economic expansion, the demand for courses is strong because of competition between businesses (and perhaps politicians), and demand is relatively inelastic. Explain how your answer to number 2 might change as a result.