

America. That is what their lease or mortgage is all about.

This is where the psychological and moral problems begin. For *tax-dodging renters willingly pay for the public services they need!* They do not pay the government. They pay their landlords, who collect the rent without paying for the services! Is it the renters' fault that government fails to collect the rents from landlords?

Table 2: UK tax structure: % of revenue

	Income taxes on individuals	Expenditure taxes	Company taxes	Wealth taxes on individuals
1908-9	26.8	49.6	1.6	0.5
1998-9	37.3	44.3	14.6	3.8

Source: Inland Revenue Statistics 1998

This outcome gives rise to enormous economic and sociological stresses.

◆ **In the labour market**, people are constantly searching for ways to avoid taxes. Workers whose services are in high demand, such as programmers in the computer industry, can persuade employers to collude with them. In Britain's information technology sector employees are converting to contract workers to collect remuneration in the form of dividends. The Treasury calculates that this is costing the Exchequer £450m a year in lost income tax.

◆ **In the political arena**, there is a perpetual feud between cash-strapped governments and people who implicitly object to paying twice for the delivery of one set of services: first, when they buy or rent those services from property owners in the market, and again when the taxman appropriates their wages.

Such tensions are traced back to bad policy, for which government is responsible. By failing to raise revenue direct from land-rent, government is obliged to resort to the damaging methods of raising revenue.

**A** RADICAL review of public finance would be socially cathartic. For the terms of such an enquiry it would be difficult to improve on the words of Edward I, the English king who said: "To each his own! We must find out what is ours, and due to us. And others, what is theirs, and due to them".

What the kings and barons of old regarded as theirs, of course, was determined over the heads of common people. Their tussle was for control over the taxable surplus of the economy. To appropriate that revenue they had to control the nation's territory and the estates of which it was composed. Land was what it was all about, because the taxable capacity of the nation was its rental income.

Nothing has changed. The taxable surplus is denoted by the rent of land and natural resources. Today, that economic reality is camouflaged by the outcome of the savage historical struggle for power over rent. That struggle became the pathology of high politics, which in turn necessarily became

## BOX 2

### Terrorising Tax Power

A CULTURE of secrecy turned the US tax-collecting agency, the Internal Revenue Service, into a ruthless system for terrorising citizens. According to US Senate Finance Committee chairman, William V. Roth, Jr.: "Many innocent taxpayers, denied due process and living lives on the edge of financial ruin, were forced and even bullied into paying more taxes than they owed, and the perpetrators of this abuse were being promoted, given cash awards, and allowed to carry on within a federal agency that is shrouded in more secrecy than the CIA".\*

Prior to September 1997, when Senator Roth launched hearings, the IRS had not been subjected to the full glare of publicity in a thorough investigation into its methods. For decades, the IRS deployed power which corrupted some of its employees to the point where citizens were driven to despair by illegal methods and harassment.

It began in 1862 when Abraham Lincoln levied the first American income tax to finance the civil war. Although the supreme court was to rule it as violating Article 1, Section VIII of the Constitution, in 1913 Congress passed the Sixteenth Amendment to permit a "direct" tax.

In 1955, following disclosure of rampant corruption, the Bureau of Revenue changed its name to the IRS. But the name change did not work: the wolf was still within. And the IRS went on to consolidate its powers in secret. This it justified with an astonishing doctrine: public disclosure of its methods was not in the public's interest, because it would weaken the IRS's ability to raise revenue! Sen. Roth interpreted this doctrine thus:

"This line of reasoning holds that people are frightened by what they don't know, by what they can't see and understand. Fear leads to submission. Frightened Americans will more readily pay their taxes".

Congress, driven by a tax-and-spend mentality, allowed the IRS to get away with proverbial murder. Even "Senators and congressmen have been threatened and intimidated. The agency has even retaliated against its own commissioners and employees," reveals Senator Roth.

But the senator's hearings failed to ask the searching questions about the foundations of income taxation. Although he brandishes the concept of equity – "there's no excuse for those who refuse to pay their fair share of taxes" – in his book he does not challenge the basis on which congress appropriates earned incomes. He does censure "overbearing taxation and runaway federal spending", but he does not identify principles that would guide government on questions of

- how much should be raised,
- the method of raising revenue, or
- the sources from which it should be raised.

So no criteria are provided for judging whether he is correct in saying that Americans are excessively taxed: "We have an income tax, something Americans aren't too fond of in the first place. Seventy per cent believe it's excessive. It's applied by a code so complex that on April 15 most folks don't know whether they're cheats or martyrs".

The Revenue Act of 1913 introduced the income tax. It took up 14 pages in the law books. Today, the law runs to 4,100 pages, with an additional 5,000 pages of regulations. The original tax applied to less than 1% of the population – about 357,000 of the wealthiest people – and applied to all income "from whatever source derived". Today, more than half of all income is subject to the tax.



■ William V Roth Jr

\* William V. Roth, Jr. & William H. Nixon, *The Power to Destroy*, New York: Atlantic Monthly Press, 1999.

(because the field of combat was the taxable surplus of the nation) the pathology of public finance.

The symptoms of that pathology are displayed in many forms. One is the money merry-go-round. In Britain, government collects between £30-40 bn in income tax and national insurance contributions from 17m households which then receive the money back as "benefits".

People accept the need to pay for public

services. But, intuitively, they sense a crippling flaw somewhere. That flaw is likely to be in the nature of taxation, which is defined by the OECD as "a compulsory, unrequited payment to general government". By unrequited they mean "benefits provided by government to taxpayers are not normally in proportion to their payments". People happily pay for what they get. They do not like paying for what they do not receive.

In the days of divine rights, the kings and barons finally settled the conflict over who owned what, and the commoners were the losers. The battle now has to be fought all over again, but this time the weapons are the tools of democratic discourse. ■