

FOR GOOD AND EVIL – THE IMPACT OF TAXES ON THE COURSE OF CIVILIZATION, Charles Adams, 2006, Institute of Public Finance, Zagreb, 513 pp.**

Review*

Sooner or later, in one way or another, taxes will affect us all. As children we do not know much about them, but most tax systems, including ours, enable our parents to report us as a deduction on their personal income tax returns. One day when we start working again, we turn from being a passive to an active taxpayer, and are faced with liabilities for personal income tax and surtax and other different types of taxes, depending on the place and situation we are in. But how many of us know how long taxes have existed, and how they have been developed? How many of us know the oldest written document in which taxes are mentioned? What is intelligent and what is bad taxation? What are the main principles of taxation? It is these and many other questions that are answered by Charles Adams in his book *For Good and Evil – the Impact of Taxes on the Course of Civilization*, in which in an interesting way he spins the tale of the history of taxation ever since ancient Egypt.

“Nothing is certain in this world except death and taxes” wrote American statesman Benjamin Franklin (1706-1790). And he was not mistaken, for although some people might regard them as a necessary *evil*, taxes have existed since the earliest days of civilisation. According to Adams, taxation has been a very reliable barometer of the social order, and there is nothing that speaks so reliably of a nation as its tax system. Society can be best of all evaluated according to who pays taxes and why, how taxes are assessed, collected and spent. In other words, the very history of human freedom is closely interwoven with the history of taxation.

Reading this book, we understand what kind of an impact taxes have had through the course of history on civilisation as a whole and the way they have channelled human activities, the economic condition and the trends of some country, and have frequently neg-

* Received: February 7, 2007.

Accepted: February 28, 2007.

Translated to Croatian and published under the title “Za dobro i zlo: utjecaj poreza na kretanje civilizacije”.

actively impacted history. Many positive and negative phenomena have been associated with taxation – flights (and mass flights) into exile, conflicts of greater or lesser intensity, and in the most extreme cases wars, the rises and falls of empires and states and the origins of republics and parliaments.

History has been marked by numerous conflicts brought about by taxation, mostly those among taxpayers and tax collectors. The United Provinces of the Netherlands first modern republic in the world was created in the 16th century, as a reaction against taxation. Whenever the state set out on new conquests, it had to finance them, and so introduced new and usually higher taxes, leading to discontent, revolt and threats to commerce and production, the vehicles of economic development. Although revolts and wars were fought against taxes, after they were over, the taxes were regularly larger than those of pre-war times, and what is still more interesting, were usually never repealed when the wars were over.

Taxation has led to numerous positive and negative phenomena. For example the rise and fall (or disappearance) of empires and states. Countries were won with astute, low taxation (the Spanish conquest of Mexico in the early 16th century), while because of the severe tax burden old states vanished (the Roman Empire) and new states and civilisations arose (the United States after the War of Independence). Today's UK enjoyed a golden age at the time of Elizabeth I (1558-1603), for her government managed taxes well and had the lowest tax rates in Europe, which made commerce more competitive and government smaller. Spain in the 16th century and in particular Holland in the 17th were world powers in many areas – in seafaring, painting, science, commerce, medicine and philosophy. But from the end of the 16th and the 17th centuries respectively their power and influence weakened because of debts, warfare and excessive taxation that hit trade particularly hard. It is quite clear that all these states were faced with problems and lost their power when they started overtaxing.

As long as there has been taxation, so there has been resistance to it, and in parallel with the development of taxation, legal and illegal ways of avoidance and evasion have gained ground. The reasons were best explained in 1744 by poet Alexander Pope:

Whoever hopes a faultless tax to see

Hopes what ne'er was, is not, and ne'er shall be.

Similarly, ever since taxes have existed, there have been the tax-oppressed and the tax-privileged. Through history, certain groups of taxpayers have always fared worse in the taxation process. The best example is that of the peasants whose insurrections against excessive taxation were suppressed in blood. The peasant revolts were most common from the 13th to the 15th centuries in Europe, when the peasants were not entitled to vote on the imposition of taxes although they had to bear the major part of the tax burden. Clearly “the closer you are to the fire [i.e., central government], the warmer you are”, as best expressed by James Madison (1751-1836) who said that “in democratic societies the tax laws privilege those who are in government and overburden those who do not take part in it.”

The ultimate result of tax treatments in which not all are equal before taxes is that every tax exemption overturns the principle of equality and distorts the tax system. One of the best tax systems that Adams cites is that in Switzerland, which also respects the vital

principle of taxation, that of consent, for in this country the people have the last word in taxation. It is the lack of consent to taxation that led to war in Holland in the 16th century, and to the American War of Independence. These two tax principles – taxation with consent and the principle of equality – have shown themselves in history the most important principles of intelligent taxation.

Taxes have affected the development of parliamentarism, and the economic function of legislation can be seen precisely in the taxation and collection of money for executive government. But the laws that have governed taxation have often oppressed the taxed instead of protecting them. Adams points out that bad tax laws, including laws about the tax revenue service, which nevertheless effectively collect public revenue, are very hard to repeal. Apart from that, governments have often resorted to tax police that employ coercion to collect as large tax revenues as possible. In 17th century France, the tax police was one of the severest in Europe.

Excessive taxation (or the severe burden of taxation) tend to lead to corruption, bribery and evasion, restrict freedom, stifle enterprise, work, property, industry, investment and savings and lead to a flight of people and capital from taxes, and in the worst case can lead to war. Nor should one disregard a fact that Adams particularly highlights: “Good taxes turn bad, because governments expect too much from them.” At the end it is shown that the just government is the one that taxes low.

In brief, this book is a story of history related through the prism of taxation, and it is clear that during history little has changed in taxation. The book shows that history should be the guiding light in taxation. The best way to intelligent taxation is to respect the principles of equality and taxation with consent. Taxation is, finally, the matter of the people, and if the government does not have its assent, revolt will ensue.

For this reason it would perhaps be best to learn from the history of 18th century Enlightenment (Locke, Smith and Montesquieu), which was marked by respect for the tax principles of equality and consensual taxation, the political concept of the division of power into executive, legislative and judicial, representative democracy and checks on power. Power must be subject to supervision, that is, in line with the spirit of the Enlightenment, limited, which can only be achieved with strict control of the power to tax and spend. It would also be necessary to restrict the bureaucracy, because when it governs the economy, a state with state-owned property usually fares poorly. Unfortunately, as Adams states, “[a]lthough Enlightenment ideas are praised today, in reality there is neither moderate government nor moderate taxation (although the two go together)”.

Particularly instructive are the last parts of the book, in which Adams summarises all experience acquired to date in the history of taxation, which might be further abstracted as follows. Firstly, tax rates must be moderate. Secondly, we all have to be equal before taxation. Thirdly, everything that is taxed has to be supervised, but moderately, and fourthly, there should certainly be a system of rewards and penalties for tax offenders. The key to moderate taxation lies in the legislation, which should not be created by tax specialists but by new and energetic forces that “do not know the reasons why something should not be done”, meaning that it is they that will find the way to just and moderate taxation. Ultimately, when a state taxes too much, three things can happen: revolt, flight to avoid taxation, and evasion. It is taxation in the 20th century, thinks Adams, that, along with world

wars, pollution and overpopulation, can be considered the scourge of the times. In addition, Adams highlights the fact that in the past taxes have often been the fuse to detonate the charge of human discontent, little attention being paid to the fuse when the explosion has already happened. Let us thus act according to the saying of Francis Bacon who said that “history makes men wiser”, and not make the same mistakes, rather be guided by moderation in taxation. For “it is not the high taxes which executes great deeds but the moderate one” (old Asian proverb).

The book needs no special recommendation, for it speaks for itself, and the reading is a real pleasure, the more so that it abounds in useful and wise quotations the truth of which has been confirmed through the ages. Above all, it is a highly instructive book meant for all those who pay taxes, and for tax authorities, who ought during their impositions to learn from the mistakes made by their predecessors, as well as all those who want to learn more about the history, kinds and manners of taxation, and it will certainly find a place within the many university departments involved in these tax matters.

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