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F O R

GOOD

A N D

EVIL

THE IMPACT OF TAXES
ON THE COURSE OF CIVILIZATION

SECOND EDITION

CHARLES ADAMS

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For Good and Evil

*The Impact of Taxes
on the Course of Civilization*

Second Edition

Charles Adams

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To our children in the twenty-first century—with the hope that they may be creative and develop a tax system devoid of the evils that permeate the system under which we now live.

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ARISTIDES
Father of Just Taxation

He drew up a list of assessments not only with scrupulous integrity and justice, but also in such a way that all states felt they had been justly and fairly taxed. . . . The levy of Aristides was a golden age for the allies of Athens.

—Plutarch, *Life of Aristides*

Foreword

In 1982, Charles W. Adams published a wonderful book entitled *Fight, Flight, Fraud: The Story of Taxation*. I own two copies. I keep one for handy reference in my office, and the other at home (I will replace them with two copies of *For Good and Evil: The Impact of Taxes on the Course of Civilization*). I consult them frequently for anecdotes of tax folly as well as for bibliographical references in my own research. I can honestly say that in the course of fifteen years of professional research and writing about taxation, I would place Charles W. Adams's history of taxation at the absolute top of any reading list on the subject.

Fight, Flight, Fraud was entertaining, informative, and full of lessons about why taxes matter. I delight in telling one and all that the origins of recorded history were inextricably linked to oppressive taxation. Over six thousand years ago, the dawn of history was discovered in the form of clay cuneiform cones excavated at Lagash, in Sumer, which is located in the fertile plain between the Tigris and Euphrates in modern Iraq. And what was recorded on those cones? That Sumerians had more to fear from tax collectors than from their lords or kings. Plus ça change, plus la même chose!

I have lots of other favorite stories. The Rosetta Stone, for example, whose text in hieroglyphics, demotics, and Greek was the key to revealing the stories of ancient Egypt, was in fact a grant of tax immunity. Which is why, of course, it was engraved in stone and not written on papyrus.

Another example is the prosperous island of Rhodes, which charged a 2 percent harbor tax on trade. Rhodes lost 85 percent of its trade in one year after Rome established a tax-free port on the Isle of Delos. Free trade, not war, enabled Rome to overthrow Rhodian commercial supremacy. And Rome itself fell, not to the Huns, but to tax evasion, as

wealthy landowners devised one clever scheme after another to escape taxation, leaving the state without resources to defend itself. *Fight, Flight, Fraud* is a gold mine for producers of television series.

Ten years later, Charles W. Adams has brought forth on this continent a new history of taxation. *For Good and Evil* adds both new material and several new chapters to an already impressive body of research and exposition that encompasses ancient civilizations, the Greek and Roman eras, the Middle Ages, the evolving states of Western and Eastern Europe, the Aztecs, and the history of American taxation. One new chapter describes the miracle economies of Japan, Hong Kong, Singapore, Taiwan, and South Korea, which practiced low-tax, supply-side economics decades before Ronald Reagan popularized the term. Another new chapter shows how state constitutions actively protect taxpayers by giving them constitutional controls on taxing and spending. Perhaps the most famous of these is Proposition 13, the brainchild of the late Howard Jarvis, which limits real property tax rates in California to 1 percent of a home's cash value.

Adams also adds a new chapter on "Taming the Monster." He offers several reforms, decidedly pro-taxpayer, to make taxes work for good, not evil. They include making tax extortion on the part of government officials a criminal offense, allowing taxpayers to sue the tax authorities for misconduct, and granting voters recall powers over district directors of the Internal Revenue Service. Perhaps the most important reform is to switch from a regime of direct taxation to one of indirect taxation, to minimize the intrusive powers of the government into the private affairs of individuals.

My favorite recommendation is to scrap the entire U.S. federal income tax system in favor of a 10 percent flat tax without "special" exemptions. This is not a new idea. A 10 percent flat tax is well grounded in several thousand years of the history of Israel, Rome, Greece, and ancient China.

The ten years between *Fight, Flight, Fraud* and *For Good and Evil* were put to productive use by the author. He offers readers several insights learned from the history of taxation. First, good tax systems go bad unless citizens are able to restrain their governments, which have a normal propensity to adjust their spending to their innate voracious appetites, not their wallets. Second, civilization tends to self-destruct from excessive taxation. Third, moderation is an important principle in the design and implementation of any tax system. The principle of moderation includes the choice of tax rates and penalties for evasion, the intrusiveness of tax collection, and the need to treat taxpayers equally by avoiding severe progressivity or regressivity.

Happy reading! And let's hope that our elected, appointed, or, as the case may be, self-anointed rulers take Adams's admonitions to heart.

Alvin Rabushka
Senior Fellow
Hoover Institution
Stanford University
1993

Preface to the Second Edition

Professor Alvin Rabushka advised me soon after the first edition of this book appeared to prepare for a revised edition to keep this study alive as a classic and to make any additions and corrections that would, in time, be required. As a result of that advice I have kept notes on changing events, done new research, and included the input of many readers who have been thoughtful enough to contact me about matters in the text that concerned them and which they believed needed revision. In addition, since the ending of this study deals with current events and not history, it was inevitable that the course of history would deviate from what I had expected, proving the Japanese proverb that the most precious thing in life is its uncertainty.

The most dramatic and surprising event of this decade has been the meltdown of what I called the “Miracle Economies” of Asia. The collapse of their currencies, which damaged their economies, was not anticipated a few years ago. Japan Inc. was not just a world competitor to the Western economies; it was an incredible economic giant that challenged and usually surpassed any competitors. Now it is in economic decline along with the rest of the Asian tigers, and we are reminded that it takes more than a good tax policy to prosper in this world. Good money management and sound banking are as much requirements for sustained prosperity as are good tax laws. My new Asian chapter could well be called “Miracles No More.” But I suspect that the Asians will, sooner or later, get their fiscal affairs in proper order, refrain from lend-happy banking, and reassert their dominance in world commerce.

I became especially interested in the critics who complained about my admiration for Elizabeth I and her tax and fiscal policies. It seems Good Queen Bess has a lot of haters in the world who were itching to attack her reign. This motivated me to look further into her fiscal affairs to see if the Elizabeth-haters had good cause. I have not changed my

mind; indeed, I find her an even wiser and better monarch than I had originally believed. I had suggested that she was the greatest monarch Europe ever had; I now think she was the greatest monarch bar none!

My view that taxes, not slavery, started the American Civil War was vindicated by *American Heritage* in June of 1996, which said: “The tariff, then nearly synonymous with federal taxes, was a prime cause of the Civil War.” I have added and corrected some of the material in that chapter, which the reader should find of interest.

I also became somewhat fascinated with writings about slavery—about tax slavery—which was so prominent with the Founders. Does that kind of slavery still exist? And what did these writers mean? I have ended with a brief look into that. In the nineteenth century we had chattel slavery for the few, the Africans, but have we rid ourselves of that brand of slavery, only to find we have instituted tax slavery for the many?

In looking into the taxes of the ancient world, where taxes began, I had overlooked the Chinese, whose civilization goes back three thousand years. That civilization was known for its great wisdom and sages, and the reader will discover that they were wise indeed in matters of taxation.

Tax reform has heated up substantially since the 1980s, but is there any chance we will rid ourselves of the income tax? We have an administration that likes the income tax “just the way it is.” And the mainstream media shies away from the tax reform issue and the tax sins of the IRS except when congressional hearings force them to take note. We got out of Vietnam only after the major networks, and Walter Cronkite in particular, decided it was a senseless and hopeless war. When these same news professionals, who do so much to shape public thinking, finally get on the bandwagon to rid us of the income tax, then perhaps we can expect real change.

This study has now been almost thirty years in the making. It has two main roots: one being my experiences as a tax professional in the trenches, so to speak; the other being a few wonderful years I spent teaching history in a small college with students from the Third World. In the course of that endeavor the role of taxation in many of the important events of history caught my attention. When I sought more knowledge on the matter, I discovered that despite its crucial importance in civilized life, taxation had rarely been studied on its own as a force shaping and directing civilization. This study is designed to set taxation apart and bring it into focus as one of the most powerful forces at work structuring society, today as well as in the past.

It is no surprise that this book does not pigeonhole itself into any of the established academic disciplines. There is no family of American

scholars who have devoted their lives to probing into the broad sweep of tax history and the significance of civilization's tax struggles. This study is made to help fill that void.

It is amazing that our great academic institutions have no studies focusing on tax history. We are still in search of the tax historian. We have developed whole new courses and even programs for special interest studies on gays and lesbians, multiculturalism, women's studies, black studies, and ecology, and we can expect to see Latin studies, as that population keeps growing. But taxes, even though they are the fuel that makes civilization run, have never been set apart for study as a force directing and shaping civilization, at least not in this country. In Europe many of the major universities, like the universities of Amsterdam and Lieden, for example, have not only courses on tax history but also endowed chairs for the professorships that are popularized with formal cap and gown ceremonies and with addresses by the newly appointed professors, later printed into booklet form for the academic communities. Perhaps our present tax mess is the consequence of our ignorance of tax history at all levels—at the government level, in our universities, and among our citizens. If history makes men wise, then it is no wonder wisdom is not with us in tax making.

This book deals in part with history, law, economics, politics, ethics, human rights, and the social sciences as a whole. Whenever taxation has touched civilization, we have ventured in for an examination. Limiting our study to a single volume, we have had to simply introduce the reader to a world heretofore explored very little, if at all. We will have to leave it to other scholars to make more comprehensive studies to sharpen our perspective. For me, it has been exciting to explore new territory and unearth new insights into the past and, more important, into our future course.

A book with such a broad scope as this is based to a large extent upon the research and opinions of others. I tried to give the essential facts and interpret them in the light of what others had written. When experts disagreed, I had to make a selection. Some years ago a writer was being praised for his original work. He replied by saying that his work was like a string of pearls, but the only thing that was his was the string. That certainly applies to this study.

Stringing the pearls of civilization's tax story has been a fascinating experience. Our tax story has been deadly serious, of course, but it has also had a lighter side. Consequently, the text that follows is filled with many anecdotes, illustrations, and caricatures that should make this book fun to read.

Introductions appear from time to time to help orient the reader. The narrative is broken for comments and comparisons with modern taxa-

tion. There are lessons to be learned from the tax struggles of our ancestors, and parallels are drawn when it seems important to do so. The ancient historians were masters of the art of digression, which is what makes them exciting to read even when the events seem so remote from our times. Digression is necessary if, as the ancient historians believed, history ought to teach. These men believed that knowledge of the past was man's best guide to the future: "It will enable men to act more sensibly and to avoid mistakes" (Michael Grant, *The Ancient Historians* [London, 1970], p. 78).

At the end of this book there are a few hard-hitting chapters that present my analysis and ideas on curing the many faults in the way Western citizens are taxed. Those ideas should form a valuable climax to this study.

I wish to acknowledge the support I received from my fellow professionals, including some of my friends in the revenue service. I want to thank so many readers for their encouragement to bring this study up to date in this revised form, and I want to thank my editor, Jean Donelson, for her skillful editing and for her extraordinary patience with an author who doesn't know when to stop researching and writing. Finally, I wish to thank the many librarians and helpers, at home and abroad, who assisted me with the numerous illustrations that have added spice and flavor to this book. Without these many fascinating tidbits of visual history, many of the insights into our past would have been dulled or lost. In addition, they have also added just the right amount of seasoning to make the main course appetizing.