THE REGENERATION OF WESTERN DEMOCRATIES. TAX WAY

Getmantsev Danylo Oleksandrovych

Doctor of Juridical Science, Professor of Finance Law Department

Taras Shevchenko National University of Kyiv

60 Volodymyrska Str., Kyiv 01004, Ukraine

Abstract

The article is devoted to historical analysis of certain peculiarities of tax systems of empires and ancient civilizations at the stage of their decline, comparing them with the peculiarities of tax systems of foreign countries and Ukraine. The author makes a conclusion on resemblance of these systems that causes concern. The author pays special attention to an excessive level of tax pressure on the taxpayers by the state that, on his opinion, witnesses a decline of western tax systems.

Key words: *taxation, tax pressure, democracy, tax tyranny*

1. INTRODUCTION

Currently, the ministers of the Belgian king work for the state for 215 days a year, citizens of Germany for about 200, and British for 149, which is one month more than the obligatory labour to which Medieval European serfs were bound by their landlords.

This article hardly discusses taxation and Ukraine; however, it is not only about taxation and Ukraine. This article is about the problems in modern society, the sources of the conflicts inside it, and the role of the state in our life, all of which are warped because of tax relations.

Is taxation really justified? Not only in Ukraine, but also in France, the USA, and Germany, i.e. in those countries which we are so striving to imitate? The taxation system in Russia, the Near East, Africa, and Asia conducts functions which are far from democratic but are slightly sprinkled with a democratic seasoning. But what is the taxation in the developed countries, what does the system target, and whose tool is it? Answers to these questions seem to be quite unpredictable…

2. PUBLIC AND LEGAL NATURE OF TAX OBLIGATION

In the 19th century, there was a general consensus concerning the public and legal nature of a citizen's tax obligation towards the state in financial theory and in the science of financial law. Contrary to earlier theories supposing that the relations between the state and citizen are either built on the basis of the idea of a social contract (Jean-Jacques Rousseau and Charles de Montesquieu), or on an exchange of services (Knut Wicksell), offering a more or less direct connection of taxes paid by a taxpayer and state services received by a taxpayer, the victim theory (Yanzhul 2002; Berendts 1914) advocated a non-equivalence in the relations between the state and taxpayer, whose tax obligation towards the state was considered to be one-sided and did not include any beneficial reciprocity. With the advent of this and the later theories, all relations, even ephemeral ones, between the amount of tax paid by a taxpayer and the purposes for which the state spent it were finally broken.

Some say that such a relationship is really impossible to establish; others say that, in a democratic state, the use of funds may be controlled through fiscal mechanisms and rigid, well-written algorithms of budgetary procedures and be public at every stage of their implementation. Thus, the society seems to have all the necessary tools to control the state, which is known to be at the service of society. In developed countries, these mechanisms are perfect, but in ours, they are not fully mended yet, and

have been destroyed by the virus of corruption from inside, which infected us, as well as our nearest neighbors, on the ruins of the Soviet empire. So it is extremely important to eradicate corruption and to align the basic framework of our budgetary and tax mechanisms with European standards. This is the simplest formula of universal tax welfare for any country of Eastern Europe.

What is embarrassing in this seemingly obvious ideal systematically imposed during the last two decades? It is very simple. We shall compare two separate and interesting facts from ancient and not-so-ancient taxation history with certain manifestations of the modern tax systems of developed countries.

3. TAX BURDEN

Let's start from the beginning: the tax burden. America's taxation system has something known as Tax Freedom Day. This is a fixed day in which US citizens have fulfilled their obligations to the federal and local budgets (or imagine that they have been giving their earned income to the state in full) and start working for themselves. In 2014 this day was on April 21, so American citizens have been working for the benefits of the state for 111 days (Nitti 1922, Tax Freedom Day® 2014). For example, in 1900, when an income tax had not been already introduced, Tax Freedom Day was on January 22, and in 1950, on April 1. Similar calculations of days look more pitiful in Europe: Ministers of the Belgian king work for the state for 215 days a year; citizens of Germany for 200 days; British people about 149 days, which, according to the calculations of some researches, is one month more than the obligatory labour to which Medieval European serfs were bound by their landlords. In France, in the middle the 19th century, an amount of poll tax (if there was no income tax) was calculated based on a three-day salary, the maximum amount of which was one and a half franc. So the total amount of tax received per year was 4.5 francs per taxpayer, or three three-day salaries a year. To compare, in 2013 a Frenchman worked for the Fifth Republic for 207 days!

A financial expert of the 19th century considers a state income being 12-15% of the national income to be absolutely unacceptable. For example, the income tax rate in the USA, introduced in 1913, ranged from 2 to 7% (which today is up to 77%), and an extremely heavy income tax at the rate of 3% (which today can exceed 70%) was introduced in 1842 in England, which afterwards was canceled in order to protect the interests of taxpayers. Economists of the 20th century became more flexible, and A. Laffer has talked about having one third of private incomes redistributed by the tax mechanism.

However, over the past 50 years, changes in the volume and structure of governmental incomes and governmental expenditures have exceeded everything, even the most improbable predictions of the classic authors of public finance theory and of ordinary citizen-taxpayers. And all this has been, and still is, happening in these very countries we are so striving to imitate! For comparison, at the present time (before the implementation of the insidious ideas of the Ministry of Finance) the Tax Freedom Day of a simple Ukrainian taxpayer will most likely not happen in April. In comparison with the three days a week which a peasant serf should serve out for his landlord according to the edict of Paul I of Russia in 1797, such a tax burden seems more than acceptable. Actually, we are not talking about the recent legislative initiatives of "the reformers of the Ministry of Finance", which, fortunately, the Government fails to implement through the Ukrainian parliament. By these initiatives, a team of naïve financial experts tries to align as much as possible the status of a national taxpayer with the legal regime of the Russian serf of the 18th century, not even of the 19th century.

4. TAX CHEATING

Contemporary excessive taxation directly causes massive tax evasion in all of society. Thus, Ukrainian businesses at a certain stage got used to using currency exchange centers. It has been a regular business practice since 2010. So, for the average taxpayer of the Western world, a game with the government called "Economizing on Taxes" is one of the most popular forms of entertainment.

On the one hand, such a "game" may bring significant income; on the other hand, it automatically makes a taxpayer a potential or actual law-breaker. A failure to bring tax evaders to justice is likely the fault of the tax administration, but it is not a victory for such citizens. That is why punishing such people for tax evasion is an effective tool of the state to combat undesirable elements in society. The punishment of this crime was the first blow by the FBI against Al Capone's mafia empire. But it can also become a tool of punishment against more innocent citizens who, for whatever reasons, fell out of favor with Big Brother.

Thus, each democracy conceals a seed of totalitarianism sprouting in tax procedures and mechanisms, whose purpose is monitoring the objects of taxation and, consequently, all the spheres of taxpayers' lives. At one point, the hearth tax in England was replaced by the window tax due to the fact that inspecting a number of hearths in the house breached the right of the English crown's servant to inviolability of residence, which was specified by the common law, and the number of windows was easily viewed from the outside. Today, however, the government does not hesitate to intervene in the private life of a taxpayer, carefully examining his underwear in search of the hidden taxables. And this is the second essential feature of modern tax systems.

5. TAX TYRANNIES

It is evident that, except for the direct tax rate, the level of tax pressure in the state is also characterized by the nature of the tax procedures and by the ratio of rights and obligations of taxpayers. Even a simple analysis of applicable tax control and supervisory mechanisms in the civilized world leads to a clear conclusion: for the current tax burden, the applicable tax procedures are some of the most onerous to taxpayers in the entire history of taxation. Of course it is not the pillaging of Sicily by Verres or the ruining of Macedonia by Piso. The modern tax system, with respect to the level of taxpayers' "custody", likely resembles the tax system of ancient Egypt during the period of its decline (Ptolemaic era).

In ancient Egypt, just as in contemporary Ukraine, almost everything was taxed, and the tyranny of tax collectors and tax farmers caused the most painful consequences for this society. They were entitled to inspect everything that might have been connected with taxation, spreading tax supervision into all spheres of life. The great powers of the inspectors led to all kinds of abuse. All taxable transactions and objects were carefully recorded. A ubiquitous system of whistle-blowers, who received a percent of the sums collected with their assistance, was encouraged and well-developed (Adams 1999).

Renowned Russian historian M.I. Rostovtseff considered the cause of the fall of Egypt to be nothing but the tyranny of tax agents, whose power in the Egyptian society was immense. Egyptians had no motivation to work, since their entire income was burdened with taxes. Activity had decreased, the lands were not cultivated, and crime had increased, all of which required more funds for the governmental apparatus. As a result, Egypt easily fell before the Roman Empire (Rostovtseff 1926).

We find the same thing one and a half thousand years later in the Spanish Empire, "the empire on which the sun never sets". The extremely onerous sales tax named alcabala, in conjunction with the tax tyranny, caused the most powerful empire to fall to a greater extent than the Armada was defeated by the English north of Gravelines. The decline of Spain was not the result of a single event. There were a series of erroneous political and economic decisions which had led to a prolonged, excessive tax burden on taxpayers, who were forced to either evade taxes or flee to other countries and the New World (Adams 1999).

These are just two famous examples of great powers which fell because of disastrous fiscal policies.

For the same reasons the Incas and Aztecs fell; excessive fiscal pressure also caused the Peasants' Wars in Germany, the English Civil War, and, of course, the French Revolution, which had hundreds of thousands of victims.

6. UNREASONABLY BROAD POWERS OF TAX AGENCIES

Democracy is justifying the total surveillance of the tax authorities for all transactions of taxpayers without exception and of all asset transactions of corporations and citizens. What today, after several centuries, makes democracy forget the lessons of history? Note that we do not ask why today our Ministry of Finance, reforming an obviously repressive Ukrainian tax system, offers to tighten fiscal control even more by granting authority to the tax administration to control the OUTGOINGS of taxpayers! We have no illusions about the level of professional competence, and even elementary human sagacity, of the Ministry of Finance today; it has long been discredited by its, to put it mildly, ambiguous initiatives. We wonder what the Western government relies on, having already implemented similar mechanisms which became a basis for domestic reformers within their system of taxation.

Now let us discuss why such complex, multi-level tools for combating international terrorism and money laundering were so simply and easily obtained by the tax service authorities, who use them so shamelessly and "efficiently". It arouses reasonable suspicion: were such legal institutions established for these purposes from the very beginning?

The remarkable thing is that the tax tyranny could not take place without going to extraordinary lengths to ensure the fulfillment of taxpayer obligations -- this is the third major feature of modern tax relations. It is obvious that the tax specialists forgot the commandments of the great thinkers D. Lokka and C. Montesquieu long ago, who considered an establishment of punishment for tax offenses absolutely unacceptable. But today there are an abundance of punishments for tax evasion. Moreover, the government can no longer guarantee the effectiveness of taxation without punishing tax evaders by depriving them of their freedom, since the opposition of society to the tyranny of the state is so strong.

7. MODERN ACUTE CONTRADICTIONS BETWEEN GOVERNMENT AND TAXPAYERS

It is obvious that an excessive tax burden on a society causes nothing other than a tax revolt. This is the revolt that has been ripening for several decades in modern society, which only outwardly obeys the controlling Big Brother more and more. Indeed, this revolt is already happening! Of course, tax collectors are not decapitated, as in old times, nor are they tarred and feathered. Society apparently became more civilized. But what is society’s attitude toward the tax system that destroyed banking secrecy itself, actually neutralizing the right to privacy? What is society’s attitude toward this offence wrought by the tax system?

The latest research shows that the majority of citizens in developed countries justify, more or less, tax evasion, considering it morally permissible. This is a clear example of law and morality differing in their assessments because of an arbitrary governmental policy in relation to the taxpayer. We no longer talk about voluntarily paying more taxes than is required as we used to. Today, the fact that such actions quite often took place, not only in ancient Greece, but also in the United States in the first half of the last century, will probably make a taxpayer no more than incredulously smile.

The fact that it is actually impossible for any citizen to control governmental expenditures justifies tax evasion even more. The complexity of the technologies of the state administration in the field of finance leaves no chance for anyone to control the use of funds other than the state. The taxpayer, having paid their money, cannot even theoretically track its usage. On his behalf, it is done by the state under the guise of democracy. The taxpayer pays his tax, which is used not only for the performance of the state’s functions, but also to finance state control over the execution of its own functions. In addition, it is used to fight against the consequences of corruption in the state itself while performing those same functions, and in the end – for control over how the taxpayer pays his tax. Has the modern institution of the state become too expensive, and necessary enough, for the taxpayer?

At the dawn of the Western democracies, the state and the citizen (‘servant’) were a single whole, but they have become opponents because of taxation, and one (the government) suppresses the other. What happened was even warned by Montesquieu, who argued that "freedom produces excessive

taxes; the result of excessive taxation is slavery." Thus, freedom itself sowed the seeds of its self-destruction.

How perceptive he was! Democracy, using taxation, actually became modern society's Big Brother, establishing a dictatorship that took control of everything. Beware: citizens, at first glance, may affect the staffing of governments through the mechanism of elections, but no government elected by citizens can reduce a tax tyranny. Moreover, the tax burden from year to year only increases and control procedures grow more complicated! Perhaps citizens actually vote for tax increases and public spending? And these are in the platforms of candidates? Well, at least in one of them? And if not, can we say that the principle of "no taxation without representation" is implemented in modern democracies? Are parliaments of European states expressing the will of the people by introducing a new tax or increasing fiscal responsibility? Or is this principle, which is inscribed in blood in the Magna Carta, the Bill of Rights, and dozens of other documents which the corpse of modern democracy rests upon, distorted beyond recognition, having become a fig leaf which covers up the remnants of the state?

After all, freedom does not exist in the abstract --it needs specific, actually operating structures and mechanisms through which the link between society and the state in its service is manifest. In the case of public finances, it is obvious that the link is completely broken, and this caused the transformation of the state from the servant of the people into its master. And unlike earlier dictatorships, in our case, the dictator is not apparent, but is a complex organism which, sacrificing its parts for self-preservation, possesses goals which are not in line with the interests of the society which it has enslaved.

And if so, if this has been done without the consent of taxpayers, can we justifiably speak, not of "the law of taxation," but of "legalized robbery", and do people possess the right to refuse to pay taxes? Our ancestors responded to this question with an unequivocal yes.

Every tax system, like every social system, experiences periods of development and decline. The time when paying taxes was considered an honorable duty of taxpayers and resulted in an increase in their public status has already passed for modern tax systems. The heyday of such taxpayers is also behind us. Obviously we are witnessing the most severe and repressive tax technologies which testify to the decline of Western tax systems. Even just a superficial analysis shows a striking resemblance between the modern tax system and the countries characterized by us today as tax tyrannies. Excessive tax rates, cumbersome procedures, taxation without the consent of the payer, the leveling of the right to privacy, excessive criminal penalties - all links of a chain that bind the taxpayer's hands and feet, which leads to a tax revolt and, as a result, to a reboot of the tax system in particular or of any state system. Tax revolt is still bloodless. Citizens and non-state corporations still secretly oppose tax pressure. Tycoons and businesses quietly leave the jurisdictions with high taxes into the jurisdictions with low ones, taking with them the most talented and valuable taxpayers. However, as history shows, states, and even whole civilizations, that failed to identify and prevent probable tragedies are irreversibly left behind in history...

We are infinitely far from knowing the conclusion to the impending collapse of European civilization, which is too burdened with taxes. Moreover, the European and American tax systems today truly are among the best in the world. And maybe we are wrong. Maybe you can reboot the system from the inside. Maybe the problem does not exist at all and everything will turn out well for them. However, perhaps we Ukrainians should not blindly accept the western example of a private financial system? After all, we remember that, as of now, the best tax system was in ancient Rome while it was falling. This fall froze the development of European civilization for thousands of years ...

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