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## BACKGROUND BOOKS

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### THE POLITICS OF TAXATION

Looking back on the growth of Britain's national debt through the 18th and 19th centuries, Thomas B. Macaulay wrote in his grand *History of England* (1861) that "at every stage in the growth of that debt the nation has set up the same cry of anguish and despair.

"Like Addison's valetudinarian, who contrived to whimper that he was dying of consumption till he became so fat that he was shamed into silence, [Britain] went on complaining that she was sunk in poverty till her wealth . . . made her complaints ridiculous."

Macaulay is quoted by Jude Wanniski in **The Way the World Works** (Simon & Schuster, rev. ed., 1983), an ambitious "supply side" reinterpretation of history in terms of taxation and economic principles.

"What made the Industrial Revolution and the Pax Britannica possible," Wanniski argues, with an eye on contemporary American politics, "was the audacity of the British Parliament," which ignored the experts' dire warnings about the growing national debt in 1815, after the defeat of Napoleon, and proceeded to reduce tariffs and eliminate the wartime income tax.

Such bold judgments are rare in today's scholarly histories of taxation, which tend to focus on relatively narrow sub-topics. But much of this literature is summarized in **The Rise and Fall of the Great Powers** (Random, 1987), by Yale's Paul Kennedy. He contends that the fate of nations, from Ming China to the United States today, has depended in part on their ability to marshal resources through taxation, borrowing, and other means. But he suggests that how money is raised is less important than how it is spent: Britain became a great power after 1815, Kennedy believes, partly because it devoted only two to three percent of its gross national product to the military (versus seven percent in the United States today).

Taxes frequently involve a tradeoff between promoting social equity and fostering economic efficiency. Wanniski and Kennedy represent, in different ways, a resurgence of aca-

demic concern over the economic effects of taxation. During most of the 20th century, according to Sidney Ratner's highly readable chronicle of **American Taxation** (Norton, 1942), Americans have been most interested in equity—finding ways to use the tax code to shift burdens to the rich and redistribute income. In Ratner's view, the politics of taxation in the United States can be summarized as a constant struggle between "vested interests" and the forces of "democracy."

Taking the story through the early Reagan years, John F. Witte contends in **The Politics and Development of the Federal Income Tax** (Univ. of Wisc., 1985) that efforts to redistribute income through the tax code during this century have largely failed. Because Congress has tried to "satisfy the demands of diverse groups, to meet the political needs of decision-makers, and . . . to correct, adjust, and fine-tune the system, the income tax as a fundamental and ostensibly equitable means of raising revenue has been slowly but continuously eroded." Writing in 1985, he saw "absolutely nothing" in U.S. history to suggest that any kind of major overhaul of the tax system was possible.

As journalists Jeffrey H. Birnbaum and Alan S. Murray observe in **Showdown at Gucci Gulch** (Random, 1987), a lively account of the on-again, off-again course of 1986 federal tax reform, Witte was almost right.

Since then, U.S. tax cuts and rising discontent abroad over heavy tax burdens have sparked changes in Britain and other countries. Joseph Pechman's **World Tax Reform** (Brookings, 1988) and **Comparative Tax Systems** (Tax Analysts, 1987) are useful but already partly outdated overviews. The World Bank's **World Development Report 1988** (Oxford, 1988) examines tax trends in the poorer nations of the world.

Looking ahead in **Tax Policy in the 21st Century** (Wiley, 1988), Herbert Stein, paraphrasing Benjamin Franklin, notes that his fellow economists around the world see only two sure prospects: death and (higher) taxes.