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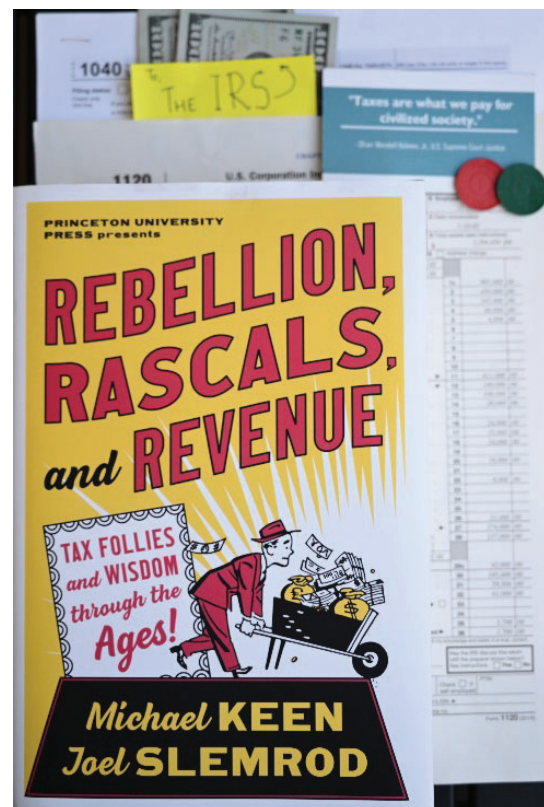
Book Review: *Rebellion, Rascals, and Revenue: Tax Follies and Wisdom Through the Ages*

Rachana Khandelwal, MST

Rebellion, Rascals, and Revenue: Tax Follies and Wisdom through the Ages (2021)¹ is a grand epic of hard work, strife, drama, and the triumph of the indomitable human spirit in a story as old as civilization itself - the history of taxation, of economic governance and good intentions. The authors, Joel Slemrod, Deputy Director, Fiscal Affairs at the International Monetary Fund; and Michael Keen, Professor of Economics at the University of Michigan, keep us riveted throughout this remarkable book with the global history of tax spread across centuries interspersed with delightful anecdotes, ground-breaking events, and thought-provoking observations. In my opinion, the authors successfully weave together focal points of taxation: the economics, the constitution of an effective tax policy and its effect on social behavior, and the evolution of tax systems.

The book is unique in explaining the subject with fascinating facts, sparkling humor and exciting references which makes it thoroughly enjoyable to readers. Snippets about games such as *Monopoly* and *Stick the IRS: The Tax Shelter*, the fictional tax war in *Star Wars I: The Phantom Menace*, the idea of an imaginary tax-free moon in Robert Heinlein's *The Moon is a Harsh Mistress* (2008), the galactic tax in Douglas Adam's *The Hitchhiker's Guide*, and a mention of rock bands such as The Beatles, The Who and The Kinks, makes for an exhilarating reading experience.

Tax is often misunderstood and regarded as a penalty for working hard. Reading this book, one can better understand taxation and why taxes are imposed. Governments need money to maintain law and order, protect their citizens, improve social wellbeing, and secure resources for scientific and technological developments among many other things. Joel Slemrod and Michael Keen take us through events in history to explain how some taxes proved to be wise and how others were mistakes to learn from. They connect events to project a bigger picture, that with a well-balanced tax policy, an efficient and ethical tax system, the general



¹ Book photo taken by Rachana Khandelwal.

perception about tax can be changed from “punishment” to a well-meaning “contribution” towards building a better society.

Generally, people are bitter about taxes, and the book talks about this bitterness through numerous stories of rebellions in history. The lack of “consent” often resulted in civil unrest leading to losses of life and property. In one instance, a tax imposed on huts by the British was strongly opposed by the colonials leading to a rebellion eventually destroying the tax base (huts). Some weird taxes which find mention in the book include taxes on windows, hearths, hats, beards, hair, salt, cooking oil and bachelors, which were eventually repealed due to behavioral changes in the tax base. A toll was levied in Curaçao on whoever crossed the Queen’s Bridge wearing shoes. In the early 19th century, a “breast tax” was levied in the Kingdom of Travancore (southern India) on women of lower castes for covering their breasts. Intriguing and interesting, indeed!

Among other fascinating facts in the book, the most colorful and astonishing are about stamps of Elvis Presley, the geography of Bolivia, and the Boston Tea Party. I was surprised to learn that a tax protest contributed to defining the geographical boundaries of Bolivia, and that the Boston Tea Party revolt was actually on account of a tax cut and not a tax increase.

Who actually pays taxes? The question seems fairly simple from a layman’s perspective but it is actually complex. The authors have done a wonderful job in explaining tax incidences and their impact on an economy. The economic burden of a tax falls far from its label. The tax on maids and female servants introduced by William Pitt in 1785 caused undue hardship as it, in substance, impacted the servants in the form of reduced wages.

How is all of this relevant to tax professionals today? Consider for example, the Robinhood tax, which is a tax on financial transactions. The tax seems to be levied on rich bankers, however, in a real sense, the tax is indirectly passed on to those who put their money in investment vehicles such as pension funds. In the case of excise taxes, the real tax incidence on a consumer or producer depends on price elasticity. When the demand for a product is elastic and taxes go up, the product demand likely shifts or reduces. In case of demand inelasticity, buyers bear the tax burden if there are few good alternatives to the product in demand (e.g., cigarettes and perfumes). In corporate taxes, if there is an increase in tax rates, the burden likely falls on stakeholders and labor. The authors remind us that when framing a tax policy, policymakers should consider the strata of people likely to be impacted by the tax.

It is important for students to understand the crucial economic concept of “excess burden.” Taxes such as the Greek tax on finished buildings, or the British tax on ships, led to people taking advantage of clever loopholes such as leaving buildings unfinished or reducing the size of ships to avoid being taxed. Any tax which is oppressive or brings discomfort often leads to a change in the taxpayer’s behavior, creates inefficient choices, and economic distortions resulting in an economic loss to the government and welfare loss to taxpayers. The authors emphasize that accounting for excess burden in taxation is critical to tax policymaking.

What I find invaluable is the book’s growing theme of fairness, equity, efficiency and the theory of optimal taxation. Through the account of ravaging taxes in history such as the English poll tax

(1380) and the community charge (1990), the authors demonstrate the pitfalls of bad tax design and implementation. A good tax policy is a tightrope act of fairness and equity without creating an excess burden on the taxpayer while raising the desired revenue for the government. Throughout the book, the authors elucidate the principles of good tax policy with insightful examples including ones on horizontal and vertical equity.

By calling out specific events in history, the book focuses on age-old issues which we still haven't managed to solve completely. The story of William Vestey and his coteries' countless ingenious tax avoidance schemes in the early 19th century depicts how the rich managed to escape taxes through aggressive tax planning, formation of trusts, offshore entities, political interference, lobbying and corruption. Through stories of tax evasion and avoidance, the book showcases the need for creating a fair and equitable tax policy. To achieve this, the authors emphasize the importance of the public's faith in the political-tax system and clearly defined enforcement measures against evaders.

The authors did not forget the oft-misunderstood, hardworking tax-administrators who perform their duties honestly and diligently. The book covers challenges posed to traditional means of taxation with the changing landscape of global business operations and societal behavior. By adopting technological innovations such as blockchain, enforcing comprehensive reporting requirements, and with cooperation between countries, escape routes for evaders are blocked. Advances in data sciences have facilitated the quick and accurate processing of information, streamlined tax compliance, and sped up the identification of defaulters. The authors briefly discuss the digital economy, aggressive corporate tax structures and measures taken to reform international tax policies by the Organization for Economic Co-operation and Development (OECD).

The authors share their insights on the problems the world would face against the background of Covid-19: rising public debt, increased spending on health and infrastructure, education, and tax breaks to rebuild the economy. The fiscal deficit may be addressed by a future increase in taxes. The challenge for governments is to maintain equity, fairness, and efficiency as they recover from the pandemic.

In the last part of the book, the authors provide eleven lessons² to learn from past events and the current state of the tax system, and how we can shape the future of taxation. They recognize that wars and revolts in the past weren't fought solely against the tax system, but also for freedom against political misgovernance and a general lack of fairness. Some taxes are imposed to correct behavior rather than raise revenue such as taxes on gasoline, tobacco, and carbon emissions. A tax, like a rose, by any other name works just as well. They point out that governments also collect revenue from people in the form of taxes by skirting around the tax moniker (e.g., levy, fee, charge, price regulation). This highlights the importance of words and linguistic precision that plays a vital role in framing laws. In summary, the high-unattainable gold standard is a fair and

² A reader might want to ask why eleven, and not ten or twelve? Hint: Think sports.

equitable tax system, which every government should grow toward; fertilized by successful tax endeavors and lessons learned from follies.

I feel that the authors present some acute observations in taxation with empirical references, which help readers think about taxes in a meaningful way. They deserve admiration for the parallels they offer on the breadth and depth of taxation: studying events in history, covering international tax aspects, underscoring the power of evolving technologies, exploring the value of (digital) information, and the deconstruction of tax policies to understand their pros and cons. The recent riots against taxes in Columbia,³ the U.S. Treasury report on \$2.4 billion in taxes underpaid by rich taxpayers,⁴ a proposal by a Canadian political party to introduce excess profits tax on corporations to cover Covid-19 pandemic costs,⁵ and the tremendous backlog of returns due to out-of-ink printers⁶ sounds like history repeating itself, except for the absurdity of printers. To echo the authors' sentiment: "What will they think of us (in the future)?"

The book is as much a treasure trove of taxation for students, tax nerds, tax authorities, and policymakers, as it is for anyone with a curious mind. The encyclopaedic book is painstakingly well-researched, illustrated and organized with detailed notes, references, and credits. Michael Keen and Joel Slemrod take us through an uncharted path through places and time, making the book a scenic route to the well-travelled destination of taxes.

I thank Professor Annette Nellen for introducing me to *Rebellion, Rascals and Revenue* and for the opportunity to review it for *The Contemporary Tax Journal*.

³ BBC, Colombia tax protests: At least 17 dead, ombudsman says, May 3, 2021, available at <https://www.bbc.com/news/world-latin-america-56970028>.

⁴ Laura Davison, Bloomberg Wealth, IRS Failed to Collect \$2.4 Billion in Taxes from Millionaires, March 15, 2021; available at <https://www.bloomberg.com/news/articles/2021-03-15/irs-failed-to-collect-2-4-billion-in-taxes-from-millionaires>.

⁵ David Thurton, CBC, NDP's proposed tax on 'excess' profits could rake in \$8B: budget watchdog, April 27, 2021; available at <https://www.cbc.ca/news/politics/ndp-pandemic-tax-corporate-profits-1.6003850>.

⁶ Brian Faler, Politico, The strange saga of the IRS' plague of broken printers, May 7, 2021; available at <https://www.politico.com/news/2021/05/07/irs-tax-returns-broken-printers-485749>.