"John Bull troubled with the Blue Devils." So read the caption on this 1799 cartoon. Britain, like other European nations, had enacted an income tax to pay for the war against Napoleon. It was a turning point: the "temporary" levy on income became permanent.

The Politics of Taxation

During the 1980s, taxes have been America's Number One domestic political issue. The decade began with Ronald Reagan slashing taxes. It ends with George Bush pledging "no new taxes" in the face of clamor over unprecedented U.S. peacetime budget deficits. More is involved than dollars and cents. Throughout history, debates over taxes have set off larger controversies not only over the *size* of government, but also over its purposes. In Europe, as Carolyn Webber notes below, new taxes imposed between the 13th and 18th centuries helped monarchs forge the modern nation and wage wars. U.S. and Western European taxes now finance the welfare state. Since early in this century, as W. Elliot Brownlee shows, Americans have opted for mild "soak the rich" levies to redistribute wealth. Today, as Congress ponders ways to close the budget gap, further "leveling" of incomes through taxation is out; pragmatic "revenue initiatives" are in. That shift may be the chief political legacy of the early 1980s.

PLUCKING THE GOOSE

by Carolyn Webber

The art of taxation, wrote Jean-Baptiste Colbert, an adviser to France's Louis XIV, "consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing."

Over the centuries, each European government has found a different way to pluck the goose. Today, in Italy, where evading income taxes is practically a national pastime, the government relies heavily on automatic payroll deductions; in West Germany, bureaucrats calculate the amount of income tax each citizen owes at the end of the year, and the Germans dutifully pay up.

Until the 20th century, taxation had only two functions; to underwrite the day-to-day workings of government, and to finance warfare and standing armies—by far the greatest expense of government until recent times. During this century, especially since World War II, tax burdens have grown dramatically, and taxation has acquired two new uses: "stabilizing" domestic economies and redistributing income through the welfare state.

Whether they have been extracted by brute force, as they frequently were until recent centuries, or with the acquiescence of taxpayers, taxes have long been a lightning rod for conflict over the nature of society—who will pay? for what purposes? The answers keep changing. As England's Edmund Burke observed in 1774, "To tax and to please, no more than to love and be wise, is not given to men."

The first taxpayers probably were the people of ancient Mesopotamia, who, some 5,000 years ago, began making gifts of grain and livestock to temple priests, hoping to win the favor of the gods. In time, as priests became priest-kings and the temple bureaucracies expanded, the "gifts" became compulsory. By the mid-2nd millennium B.C., royal bureaucrats in Egypt and Mesopotamia were collecting taxes at regular intervals. Those too poor to pay in grain or livestock paid with their labor, erecting the Pyramids and other great monuments of antiquity.

In Egypt, as in most lands throughout history, the poor paid the taxes; the privileged classes were exempt. In Athens during the Golden Age of Pericles (mid-5th century B.C.), free citizens, rich or poor, were not subjected to the indignity of paying "direct" head or property levies. While everybody payed indirect taxes (e.g., customs duties and sales taxes) only prostitutes, resident foreigners, and other lowly sorts paid direct taxes. But, in an ancient version of "privatization," each wealthy Greek was expected to take his turn providing governmental services: outfitting a ship for the navy, erecting a temple, or sponsoring a public festival. These liturgies (from *liturgos*, or public service), like philanthropy nowadays, conferred honor upon the donor.

Later, during the Peloponnesian Wars (431–404 B.C.), Athens adopted a progressive tax on wealth called the *eisphora*. ("Progressive" taxes impose rates that increase with income or wealth. "Proportional" taxes, levied at a flat rate, force the wealthy to pay more than others, but less than they would under progressive rates.) Isocrates, an Athenian rhetorician, later complained that taxes on the rich "cause so much vexation that property owners lead a harder life than utter paupers."

When the Romans overthrew the Athenian empire in 197 B.C., they adopted the liturgies, which the Romans called *munera*. Along with the tributes paid by various conquered peoples, the *munera* allowed the Roman Senate to abolish land and personal taxes on Roman citizens in Italy in 167 B.C.

As Rome's bureaucracy and army grew, however, the emperors were compelled to reimpose taxes. Emperor Augustus assessed death duties and a sales tax in 6 A.D. (It was Augustus' comprehensive tax census of the Roman Empire, which required all subjects to return to their native cities, that brought Joseph and Mary to Bethlehem.) His successor, Tiberius, refused to raise taxes, declaring that "the subjects should be sheared but not shaved." Later emperors were not so restrained.

By the 4th century, the Roman Empire was disintegrating under the pressure of civil war, corruption, and barbarian invasions. Roman subjects were fleeing the cities of Gaul and Italy, seeking refuge as much from the desperate emperors' tax collectors as from the Goths and other barbarians. The refugees, along with impoverished farmers, offered their labor to powerful local landowners, surrendering their liberty for security. "These wretched people . . . seek exile . . . for the enemy is more lenient to them than the tax collector," alleged Salvian the Presbyter, an early Christian priest. The Romans "extort tribute from the poor . . . the weaker carry the load for the stronger." As the descendants of the Roman freeholders became tied to the land, medieval serfdom emerged.

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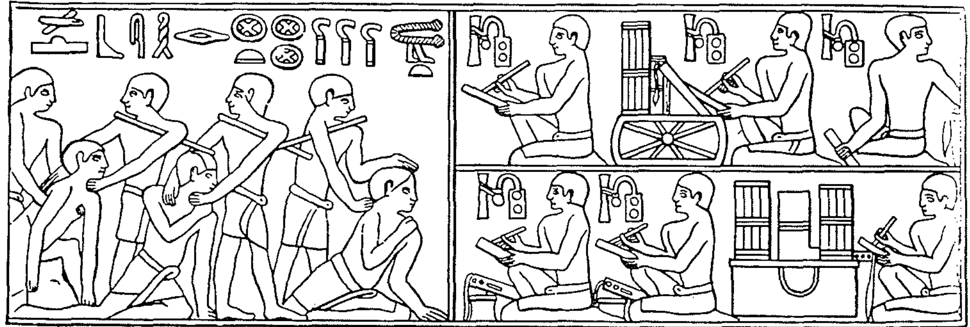


Collecting taxes the old-fashioned way. Hieroglyphics found on the tomb beneath this Egyptian carving (circa 2500 B.C.) read: "Seizing the town rulers for a reckoning."

By the late 8th century, when Viking invasions impelled landowners in parts of Western Europe to band together under the leadership of weak kings, regular taxes had long since vanished. Every king under the nascent feudal order was required to "live off his own"—the surplus produced by his scattered estates. According to historian Marc Bloch, medieval kings "positively killed themselves by travel." England's King Edward I logged 1,300 miles during one 14-month period during the late 13th century. As the king traveled from one estate to another, however, his vassals were obliged to extend hospitality, which, depending on the length of the royal visit, often amounted to a substantial de facto tax.

On special occasions—when his daughter married or his son was knighted—the king could also command a special *aid* from his vassals. They were also expected to supply troops for the king's army. But the king had no other taxing power and frequently lived hand to mouth.

When Europe's kings embarked on the Crusades during the 12th century, they suddenly needed cash to meet the expense of shipping their armies across the Mediterranean to the Holy Land. They asked their pious subjects to pay special *aids*; these were medieval Europe's first royal money taxes. Once their subjects had paid, the kings could ask again—and again.

Even at this early date, the emerging nations of Europe were embarking on different courses. In England, a council of noblemen, angered by the ever-increasing *aids*, forced King John I to sign a charter in 1215 limiting, among other things, his power to tax. "No . . . aid shall be imposed . . . except by the common council of our kingdom . . . and it shall be only a reasonable aid," declared the Magna Carta. In France, by contrast, kings were able to impose some money taxes (notably the *taille*, a head and property tax) while avoiding such permanent checks on their power: They simply exempted nobles (and the clergy) from most direct taxes, leaving peasants and merchants to bear the ever-increasing burden of supporting government. By the time of the Revolution, peasants and middle-class merchants in some areas of France were surrendering up to half of their income to Versailles.

An expanding economy, generating enough surplus for the state to skim, has always been essential to increasing revenues. Thus, it was the flourishing city-states of Renaissance Italy—Siena, Lucca, Prato, Florence, and several others—that ushered in modern taxation during the 13th and 14th centuries. Moreover, Siena and its sister cities were self-governing republics; with the notable ex-

ception of the United States, it generally has been easier to impose high taxes in lands where citizens give their consent. "In constitutional states," Montesquieu observed in 1748, "liberty is compensation for the heavy taxation; in despotic states the equivalent of liberty is light taxes."

Constantly at war with one another, and thus always in need of greater revenues, the city-states imposed sales and production taxes on "all but air and water"—clothing, salt, grain, bread, meat, wine, and all imports. In a few cases, the Italian communes invoked modern notions of fairness. Thus, the city fathers of 13th century Siena imposed a property tax on land and personal assets "so a greater equality will be maintained among the citizens." Anticipating the modern income tax, the Italian communes also tried, without much success, to tax the earnings of soldiers, city officials, and professional men.

"There is no art which one government sooner learns of another," Adam Smith noted five centuries later, "than that of draining money from the pockets of the people." Shrewdly assessing their subjects' tolerance, the kings of Europe imposed an increasing burden of new Italian-style taxes after the 15th century. The growing frequency and cost of war between the 15th and late 18th centuries kept up the pressure for more revenues. Money, observed Colbert, King Louis XIV's finance minister, "is the vital nerve of war."* Huge mercenary armies had replaced the tiny fighting forces of the Middle Ages: 100,000 to 200,000 men fought in the Thirty Years' War (1618–1648); 450,000 to 500,000 in the War of the Spanish Succession (1701–19). When Oliver Cromwell governed England (1653–1658), he kept its navy at sea for months on end to prevent the unpaid sailors from jumping ship.

"The post-1450 waging of war," writes historian Paul Kennedy, "was intimately connected with 'the birth of the nation-state'.... Most European countries witnessed a centralization of political and military authority ... accompanied by increased powers and methods of state taxation, and carried out by a much more elaborate bureaucratic machinery than had existed when kings were supposed to 'live off their own' and national armies were provided by a feudal levy."

Throughout Europe, tax was piled upon tax. When mercantilist writers such as Antoyne de Monchretien in France and Thomas Mun in England argued (as do policymakers in Japan and Third World countries today) that protectionist tariffs fostered internal economic development, revenue-hungry leaders from England to Russia seized on the idea to justify new customs duties. After all, it was thought, the burden would fall upon foreigners, not citizens.

From the 17th century on, Europe's rulers also imposed a proliferating variety of indirect taxes on goods and services traded in domestic markets. Rich and poor alike paid taxes on food (sugar, spices, grains, meat, malt, vinegar) and drink (cocoa, wine, cider, beer, ale, coffee, and tea)—virtually everything, in fact, from coal and soap to the whalebone used in corsets. When Cromwell and the Puritans governed England, they seized the estates of nobles and imposed excise taxes on wigs, playing cards, and other luxury goods.

Despite such luxury taxes, indirect imposts burdened the poor far more than the rich. Yet, at the time, they were considered equitable. Making the case for a duty on

*Colbert said "money," not "taxes," because monarchs had several other ways to raise cash: plundering conquered lands, debasing the national currency, or borrowing from private financiers. England's Bishop Berkeley remarked during the 18th century that the government's ability to borrow from the public at large (up to 40 percent of what it spent), rather than from financiers, was "the principal advantage that England hath over France."

salt before Parliament in 1732, Prime Minister Sir Robert Walpole explained: "Every subject contributes something; if he be a poor man he contributes so small a trifle, it will hardly bear a name; if he be rich, he lives more luxuriously, and consequently contributes more." Moreover, the well-to-do, especially the nobility, could not escape the indirect levies.

By the late 18th century, many advisers to the crowned heads of Europe had begun to understand that the poor were greatly overburdened. Turgot, Louis XVI's finance minister during the 1770s, told his master: "The expenses of government, having for their object the interests of all, should be borne by every one, and the more a man enjoys the advantages of society, the more he ought to hold himself honoured in contributing to these expenses."

The French aristocracy disagreed; Turgot was sacked after only two years in office. Reform fared better elsewhere in Europe. In Catherine the Great's backward Russia, as in King Joseph II's Austria and Prussia under Frederick II, peasants were relieved of some feudal obligations and aristocrats were subjected to nominal taxation. Britain remained by far the most equity-minded state.

When the French Revolution broke out in the summer of 1789, an English country squire named Arthur Young was detained while traveling in rural France and accused of being a French nobleman in disguise. He saved his life by climbing the steps of a village inn and telling the peasants of England's fiscal equity:

> Gentlemen, we have a great number of taxes in England which you know nothing of in France.... Every window in a man's house pays, but if he has no more than six windows, he pays nothing. [The window tax was originated by the Romans.] A Seigneur with a great estate pays taxes on land and personal property but the little proprietor of a garden pays nothing. The rich pay taxes for their carriages, and their servants, and even for the liberty to kill their own partridges, but the poor farmer pays nothing of all this. And what is more, we have in England a tax paid by the rich for the relief of the poor.

During the French Revolution, radicals imposed both a window tax (which remained in effect until 1925) and a progressive income tax on the wealthy. Under Napoleon (1799–1815), France derived about one-third of its revenues from levies on income and wealth.

Just as the wars of 15th century Europe transformed the experiments of Italy's city-states into common practice, so the Napoleonic Wars led to the extension of the income tax. The wars disrupted foreign trade and drastically reduced customs revenues; treasury officials throughout Europe realized that new taxes would be needed. There were few alternatives. The Dutch imposed an income tax in 1797; England in 1798, Austria in 1799, the Duchy of Baden in 1808, and Russia in 1812. All were flat-rate taxes, levied on the well-to-do.

They were universally hated. The income tax, said one critic, was "hostile to every sense of freedom, revolting to . . . Englishmen, and repugnant to the British constitution." After Napoleon was exiled to St. Helena in 1815, England and the continental powers (including France) abolished their income taxes.

Ironically, it would be the English, not the heirs of revolutionary France, who would pioneer the modern income tax.

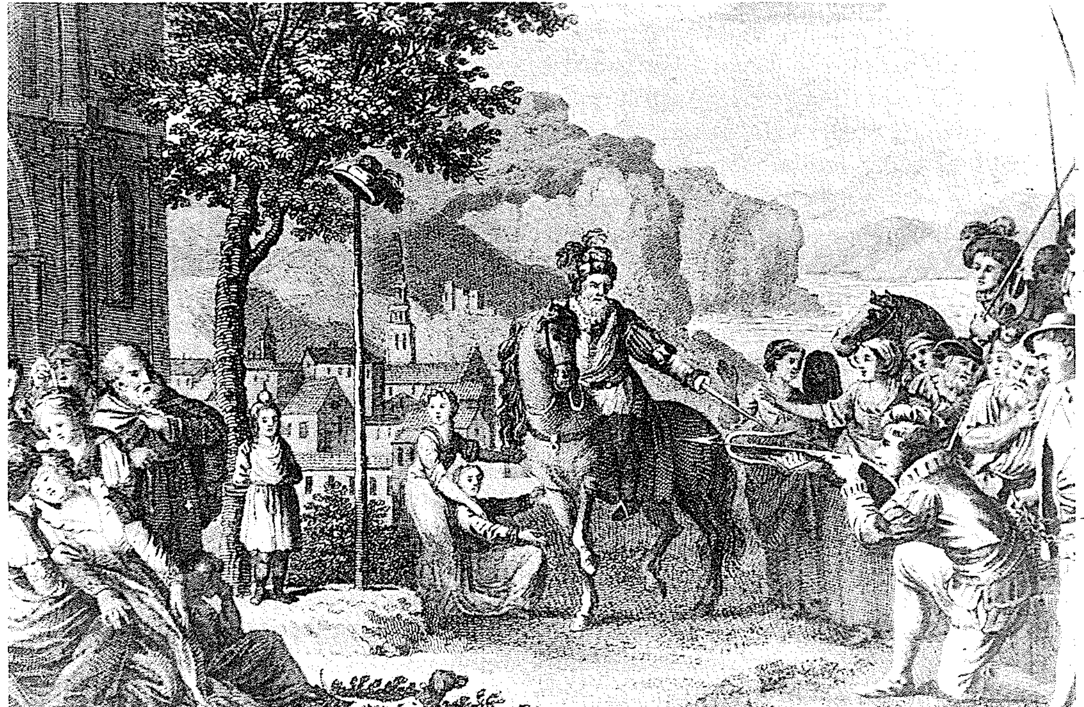
Britain was the dominant power of the era, thanks in no small part to the tax revenues provided by its robust economy. Yet,

the depressions of the 1820s and '30s brought home the evils of the early Industrial Revolution and stirred unrest in the new industrial cities of Manchester and Liverpool. Excise taxes on food and other necessities, along with the Corn Laws, which imposed import duties on wheat to protect the estates of Britain's landed aristocracy, deprived "famishing thousands" of their daily bread.

Out of this dire situation arose one of the most unusual political coalitions in history. After 1820, wealthy merchants and manufacturers joined workingmen's advocates, such as William Cobbett, in demanding the abolition of the Corn Laws and reduction of domestic excises. The workers wanted cheap food; their employers wanted free trade and economic growth. As one group of businessmen from the Anti-Corn Law League put it: "The great bulk of the people, the customers of each other, and of all the other classes, are becoming too poor to purchase, and thus they cease to consume and profits are destroyed." It was, in essence, much like the argument of today's supply-side economists: Lower taxes can improve economic performance.

Popular opinion slowly turned against protectionism. "The real question at issue," stated a report by a parliamentary Committee on Import Duties in 1840, "is, do we propose to serve the nation or particular individuals [i.e. agricultural interests]?"

When free trade advocate Robert Peel was elected prime minister in 1841, he needed a new tax to replace the revenues lost through tariff reduction. His solution: a "temporary" restoration of the Napoleonic War flat-rate income tax. The new manu-



In 1307, according to Swiss legend, William Tell was forced to shoot an apple from his son's head as a penalty for resisting the authority and taxes of Austria. Tell succeeded; his act of defiance sparked a rebellion, which ultimately led to Swiss independence.

facturers of Manchester and Liverpool were among its most fervent backers.

By the end of the century, a new European arms race (e.g., building steel "dreadnought" battleships), along with growing demands for new roads, sewers, and schools in the cities, compelled the Continent to follow Britain's lead.* (Until that time, governments claimed only 3 to 5 percent of gross national product.) By 1900, six European nations had adopted an income tax; three more followed between 1900 and 1910. (The United States did so in 1913.) The rates were very low by today's standards, between 2 and 6 percent, and the poor were exempt. At first, no one thought that more could be collected without causing grave economic damage.

But government expenses kept rising. Progressive taxation, a radical idea once rejected out of hand by mainstream politicians, began to seem both just and feasible. While industrialization raised living standards, it also created a whole new class of super-wealthy industrialists. Growing inequality between owners and workers prompted the leaders of Europe's new labor parties to seek "soak the rich" measures. Their arguments were strengthened by developments in academe. Economist F. Y. Edgeworth and others, citing the new concept of "marginal utility," argued that a $1 tax, for example, subtracted more from a poor man's "utility" than it did from a rich man's.

Britain's first graduated inheritance tax, adopted by a moderate Liberal government in 1894, made progressive taxation respectable. "Even without the pressure of immediate necessity," declared Home Secretary Sir William Harcourt, "it would be a mere act of financial justice to redress inequalities which have too long existed." France, Germany, and Italy adopted progressive income and inheritance taxes soon after the turn of the century. All did so to finance rearmament.

Britain also enacted, in 1908, the first progressive tax intended specifically to *redistribute* income. Needing a way to finance a new old age and sickness insurance scheme which would protect workers already too old to have made contributions to the plan, Prime Minister David Lloyd George, a Liberal, decided that the rich would pay. "I have got to rob somebody's hen roost," Lloyd George explained. "I am on the lookout which will be the easiest to get and where I shall be least punished, and where I shall get the most eggs."

By the beginning of World War I, most of the nations of Europe had adopted the same kinds of taxes, but chose to emphasize different ones. Britain relied heavily on the income tax. In France, direct taxes were still tainted by memories of the *ancien régime*'s abuses; sales taxes and other indirect levies supplied 50 to 60 percent of revenues as late as the 1920s. The Italians relied on direct taxes and on profits from government monopolies in industry and banking. And Germany's government, hampered by restrictions on direct taxation in its 1871 constitution, borrowed heavily during and after World War I. The resulting "hyperinflation" under the Weimar Republic left a legacy of aversion to deficit spending that still guides economic thinking in West Germany.

Germany had been the first nation (in 1871) to create a social insurance program—funded by employee payroll "contributions"—for the elderly and sick. In theory, every worker would pay for the benefits he later collected. (Unemployment insurance was added in 1927.) Britain, France, and Sweden followed the German example. The

*Added pressure came from the relatively new notion of the balanced budget. Until the 19th century, Europe's governments possessed neither unified national budgets nor the ability to forecast reliably the next year's outlays.

Great Depression of the 1930s began the transformation of these social *insurance* programs into social *welfare* programs. As the demand for benefits surpassed worker contributions (except the United States), the programs were increasingly paid for out of general tax revenues.

The Depression also spawned John Maynard Keynes' sweeping revision of economic thought, the *General Theory of Employment, Interest and Money* (1935).

The scale of unemployment during the 1930s convinced Keynes that the cause of the Depression was not, as mainstream economists then believed, excessive wages; it was deficient buying power throughout the economy. For Keynes, and for the economists and policymakers who built on his ideas after World War II, the solution was increased government intervention in the economy. The manipulation of taxes was one method (along with heavy spending on labor-intensive public works). By varying income tax rates and by using tax incentives to spur targeted industries, government would "fine tune" the economies of the West. Increasingly, raising revenue was only one tax goal among many.

Once again, however, each nation shaped its taxes in unique ways.

In Britain, as in the other nations of Western Europe, the very high tax rates imposed during World War II came down only slightly after the war, as political leaders rapidly expanded the welfare state. In Britain, Labor governments favored income redistribution; Conservative governments favored investment incentives. As the two parties alternated in power, each one modified, but did not eliminate its predecessor's changes, and the British tax code became a maze. "No one would design such a system on purpose," writes Anthony King, a British political scientist, "and nobody did."

Britain long ago surrendered its dubious pride of place as the heaviest taxer to Sweden. In 1976, Britons enjoyed the spectacle of Swedish filmmaker Ingmar Bergman fleeing to their country in search of a tax haven! In comparisons among nations, Sweden holds the world record, claiming half of its gross domestic product in taxes.

Surprisingly, corporate tax burdens are light in socialist Sweden—even by U.S. standards. (See charts, p. 84.) And many of the wealthy also escape heavy taxation. The reason: Sweden uses its tax code aggressively to encourage government-approved investments (e.g., in steelmaking or shipbuilding) that promote economic stability. Perhaps because it never experienced the sharp break with feudalism that most of Western Europe did, Sweden is the ultimate "nanny" state. Capital invested "properly" is taxed lightly; investments not deemed to be socially useful (e.g., yachts, private estates, jewelry) are taxed at confiscatory rates. Likewise, while Sweden claims much of its citizens' personal income, it gives much back. In the United States, many government benefits are means-tested; but 75 percent of all Swedes receive some sort of benefit—family allowances, tuition assistance, job training.

West Germany funds a large share of its social welfare outlays, as it did in Bismarck's time, through regressive payroll taxes. Like Sweden, it uses tax incentives to lower certain burdens on the wealthy. Capital gains on stocks and bonds, subject to a tax of up to 33 percent in the United States, are exempt in West Germany—as well as the Netherlands, Belgium, and Japan. (But the United States, virtually alone among Western nations, leaves gains from the sale of one's home, in most cases, untouched.)

In France, one of the most heavily taxed nations in Europe, successive governments after World War II clung to the tradition of

indirect taxation. France adopted a value added tax (VAT), a consumption tax on goods and services, in 1954, more than a decade before the rest of Europe. The French, like other people, have shaped the tax system to reflect their culture. Wine is taxed at a lower rate than mineral water or Coca Cola; a tax on yachts, horses, limousines, and other "signs of wealth" remains as a legacy of the Revolution. "The effect is that on the whole the rich in France are far more discreet than they are in most countries," notes historian Theodore Zeldin.

France has a steeply progressive income tax, but it is easy to evade—there is no compulsory withholding. To collect taxes, note Richard Rose and Guy Peters, officials in France (and Italy) "estimate what they think an individual earns, and wait for the person to accept the figure or bargain for a lower tax assessment. Like buyers and sellers in a used car transaction, tax collectors try to get as much as possible, and citizens to pay as little as possible."

Sweden, alone among European nations, purports to have almost no tax avoidance. The Finance Ministry audits each tax return. If discrepancies are discovered, the auditor consults a local tax board about the suspect's means. The state has a long reach: A small town of 20,000 souls may have 10 or 12 boards, so board members know taxpayers personally.

Long gone are the days when impoverished feudal monarchs traveled through their kingdoms importuning their subjects for revenue. Some economists today wonder whether Western Europe is approaching a ceiling on the taxes that can be extracted to support social welfare spending. Yet, with the exception of Denmark in 1973, no European nation has experienced a "tax revolt" since World War II. Only opinion polls and the growth of Western Europe's "underground" economies testify to popular discontent.

Western Europe has kept a watchful eye on Ronald Reagan's tax reform experiments in the United States. Our massive budget deficits have convinced European leaders not to embrace the supply side arguments used to justify Reagan's 1981 tax cuts. On the other hand, Reagan's 1986 reforms—which reduced individual income tax rates but closed many loophole-creating investment incentives—have attracted much interest and several imitators, notably Britain's Margaret Thatcher. Virtually every Western European nation, along with Japan, has taken at least some modest steps to lower tax rates and broaden the tax base (without lightening the total tax burden) to increase economic efficiency. "The tax reform movement is universal," writes Brookings' Joseph Pechman. Even in the Soviet Union, Gorbachev's proposal for a steep progressive income tax (peaking at 90 percent) on earnings in the infant private sector provoked such loud protests that it was dropped.

But taxes will remain high in Western Europe because Europeans want the security that generous government spending affords. Even in the United States, where the federal tax burden diminished slightly during the Reagan era (as a percentage of gross national product), federal *spending* rose slightly.

In most nations, at most times in history, the argument has been less over *how much* government should tax than *whom* it should tax. Over the millennia, tax burdens have shifted from the very poor to the middle class and the rich. Senator Russell B. Long (D-La.) once summed up the politics of taxation this way: "Don't tax you, don't tax me. Tax that fellow behind the tree."

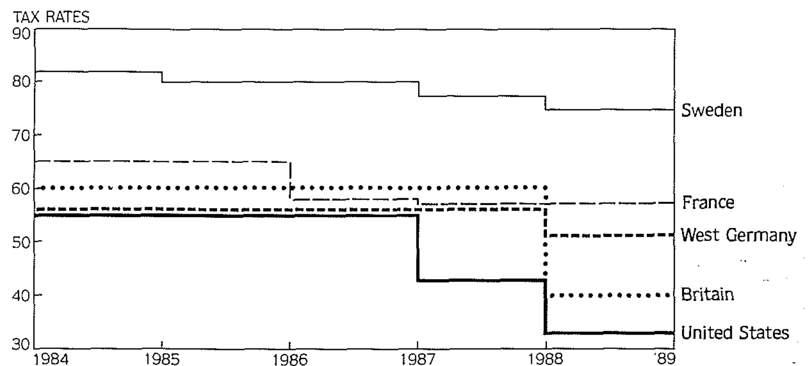
TAX BURDENS AND TAX SOURCES IN 10 NATIONS[1]

	Taxes as a Percentage of GDP	Tax Sources as a Percentage of Total Government Revenues					
		Personal Income	Corporate Income	Payroll	Consumption[2]	Property	Wealth[3]
Sweden	50.5	38.5	3.5	29.1	27.3	0.9	0.7
France	45.6	12.8	4.3	45.7	33.8	2.5	0.8
Netherlands	44.9	19.5	7.0	43.9	26.8	1.8	0.9
Britain	38.1	26.0	12.9	17.5	32.4	10.5	0.6
West Germany	37.7	28.7	6.1	36.5	26.3	1.1	1.3
Italy	34.7	27.4	9.5	35.3	27.7	NA	0.2
Canada	33.2	36.0	8.4	13.3	32.8	8.6	0.9
Australia	30.4	45.1	9.2	5.5	35.5	4.6	NA
United States	**29.2**	**35.7**	**7.1**	**29.4**	**17.9**	**9.1**	**0.8**
Japan	28.0	24.8	21.0	30.2	17.1	5.7	1.2

[1] National, state, and local taxes, 1985. [2] Includes sales, value-added, and excise taxes, tariffs, and miscellaneous levies. [3] Includes wealth taxes and estate, inheritance, and gift taxes.

The tax "mix" (above) varies even more from nation to nation than does the overall tax burden. The differences reflect cultural and political factors. For example, property taxes are heaviest in the United States, Britain, and Canada, where local government is strongest. Despite an international trend toward lower income tax rates (left), sharp differences remain: Sweden's top rate (75 percent) is almost twice Britain's. Tax rates on average factory workers (below) also vary greatly.

REDUCTIONS IN TOP PERSONAL INCOME TAX RATES, 1984–88



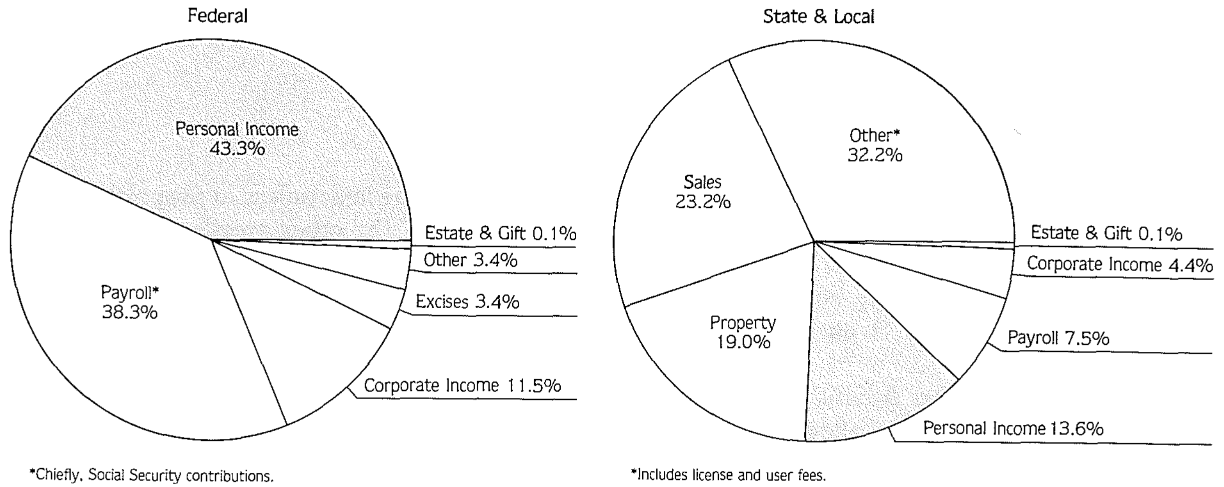
INCOME TAX RATES ON AVERAGE FACTORY WORKERS, 1986*
(As a percentage of gross earnings)

1) Sweden 34.5%
2) Australia 17.5%
3) Britain 17.4%
4) Italy 13.7%
5) United States 12.4%
6) Canada 11.0%
7) Netherlands 8.5%
8) West Germany 8.3%
9) Japan 3.1%
10) France 0%

*Reflects the impact of standard deductions.

Sources: Joseph Pechman, *World Tax Reform* and *Federal Tax Policy*; Organization for Economic Cooperation and Development; U.S. Department of Commerce, Bureau of Economic Analysis; District of Columbia, Department of Finance and Revenue.

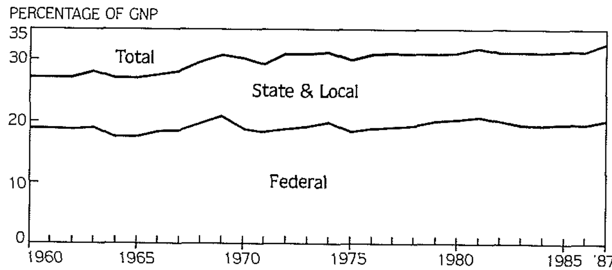
WHERE THE PUBLIC SECTOR'S MONEY COMES FROM:
Federal, State & Local Tax Revenues, 1987



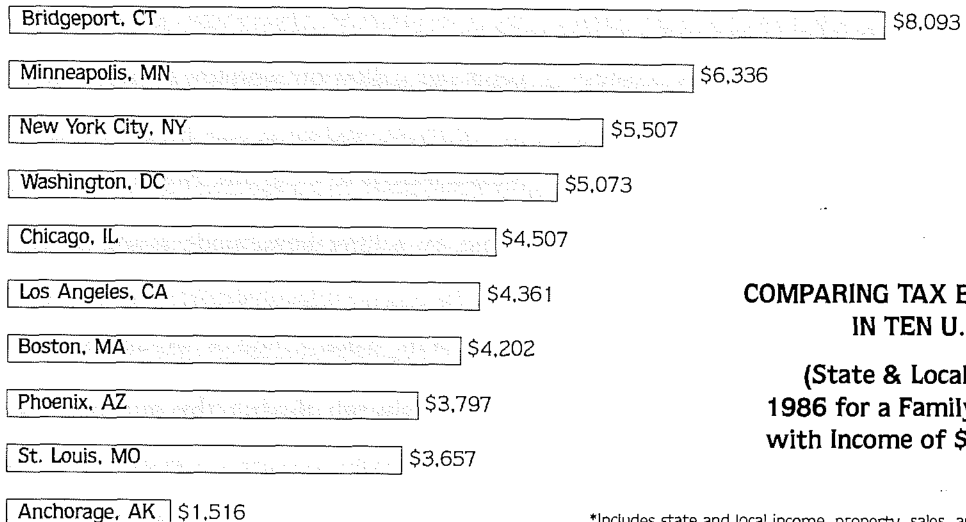
*Chiefly, Social Security contributions.

*Includes license and user fees.

THE GROWING U.S. TAX BURDEN, 1960–87
(Taxes as a percentage of gross national product)



A division of labor: Washington (above) relies mostly on income and payroll levies; the states and localities impose regressive sales taxes, property levies (in effect, wealth taxes), and various fees. Surprisingly, since 1960, the state and local tax bite has grown by 50 percent (to 12.2 percent of GNP), faster than has Washington's. As the chart below shows, large regional contrasts remain. In addition to the taxes shown, the family would pay about $10,000 to the IRS and $3,000 in Social Security contributions.



COMPARING TAX BURDENS IN TEN U.S. CITIES

(State & Local Taxes in 1986 for a Family of Four with Income of $50,000*)

*Includes state and local income, property, sales, and auto taxes.