Section 13.2 Fiscal policy: An Introductory libertarian perspective

To begin with, it should be kept in mind that America's freedom movement against Britain, culminating in its Independence in 1776, was based on a protest against taxes. The passage of the so-called Tea Act of 1773 (with tax concessions only to the East India Company) resulted in the Boston Tea Party in that year, during which the protestors climbed up aboard a ship and threw out the chests of tea that were being imported. The settlers in America were campaigning against "taxation without representation", since decisions on taxes were made by the U.K. Parliament, where they were not represented.

Similarly a pioneering event in India's freedom movement was tax resistance. The Dandi Salt March of March-April 1930, down to the sea, was launched by Mahatma Gandhi, in protest against the 1882 Salt Act that gave the Government of British India a monopoly on salt production and/or right to tax it. Prior to the Act, salt was being panned (extracted) from the ocean freely. Thousands were jailed all over India as they participated in the salt Satyagraha.

Prior to the New Deal, in USA, taxes in general were very low, and the types of taxes very few. Taxes would be raised during wartime and then reduced after the war ended. As was the case for U.K., debt would build up during wars and then curtailed after war was over. (ChartPG#1)

Before getting to fiscal variables and trends, it is worth discussing whether higher taxes are necessary for a higher standard of living, The standard argument in favour of higher taxes and government spending, and a major justification for the push towards a cashless society is that India is an undertaxed nation, based on tax/GDP ratio in absolute terms and adjusted for per capita income (Economic Survey Govt of India, 2016-17). In critiquing this argument, I wrote, It needs to be noted that much of the development of the western economies took place in the nineteenth century, before taxes were raised starting in the 1930's…..By the early 1920's developed countries had achieved an average standard of living well above the average standard of living in India at present, under relatively laissez faire conditions. The standard of living ultimately depends on technical progress…..not on higher taxes per se (i.e. by themselves)…..What India is now emulating is not the West but…. The Great Degeneration (of the West). (Chapter 8 Analyzing India's Demonetization, Applied Macroeconomics: EGI 2017 pg. 186, 189, VM).

This critical question --- to begin with, as to whether more taxes should be raised --- is unfortunately ignored in most discussions of demonetization, taxes and black money.

Section 13.3 Trends in tax rates and taxes in USA

In USA, the corporate tax rates was introduced in 1909, with initially a 1% rate (yes, 1 percent!). It was raised to a peak of over 50% during the mid 1960s. Then rates were lowered down to 35%, where it has been for a long time until 2017. Simultaneously the tax threshold was raised.

It should be noted that most OECD other countries have lower tax rates (Chart Pg # 2). Further, fourteen jurisdictions (basically countries) have no corporate tax at all. Very recently, America has lowered its corporate tax rate, to make it profitable to relocate production to America. In December 2017 US President Trump signed into law the TCJA (Tax Cuts and Jobs Act) that has reduced the corporate tax rate to 21%, and that will lower income taxes also.

Income taxes were introduced in USA in a systematic way only in 1913. Prior to that, taxes were mainly on alcohol and on imports. Before the 1920s, Government revenues as a percent of GDP exceeded 5% only during wars and never 10%. (See Chart Pg # 3, keeping in mind that tax ratios data are accurate only after GDP data began to be systematically collected in the 1930s. The income tax was introduced in USA, under pressure from Prohibitionists who wanted to ban alcohol, contributing 40% of taxes at that time, and alternative revenue was needed.