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How Taxes Help Build a Democracy

By Alexei Bayer

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Historians have a theory that democracy in Britain grew out of the state's need for money and the necessity to tax the country's population. Unlike great land powers in continental Europe, which relied on huge conscripted armies to wage wars, early modern Britain needed a strong fleet to defend itself and to advance its interests abroad. Building and outfitting boats was expensive, and the king had to keep raising money from his noblemen. In return for paying taxes, British citizens demanded — and received — considerable privileges and freedoms and, ultimately, a say in the way the country was run.

"No taxation without representation!" was the rallying cry of early American settlers when they rebelled against Britain, leading directly to the signing of the Declaration of Independence and the U.S. Constitution, a fundamental document of modern democracy.

Citizens of rich industrial nations — all of which are democracies — have become averse to footing the bill for their governments. Politicians have been financing the state by borrowing in financial markets. It isn't money that comes directly out of voters' pockets, even though it falls on their children and grandchildren. Voters have therefore watched this process with complete indifference. Left without democratic control, politicians have effectively bankrupted many nations in Europe and, possibly, the United States. Since voters still don't want to pay taxes, the next step will surely be the loss of their democratic freedoms.

It is a situation that citizens of commodity-exporting countries know well. Oil producers in particular live on revenues they raise by taxing oil, so their governments don't have to rely much on citizens to pay taxes. The list of oil exporters makes depressing reading. It almost entirely consists of authoritarian, theocratic or populist regimes, as well as kleptocracies and failed states.

The exceptions are industrial nations such as Norway and Britain. Both have a solid industrial base and societies in which citizens pay taxes.

Mexico was a one-party state while it remained an oil producer. After signing a free-trade agreement with the United States and Canada, it developed an industrial base and very soon went through a democratization process.

Russia is a textbook illustration for the theory. During the Soviet era, the state owned everything and was the only employer. It paid everyone a pittance and boasted that Soviet workers didn't have to shoulder any tax burden to speak of, unlike their colleagues in the West. They also had few rights and no freedoms, but this, of course, was ignored by Soviet propaganda.

The 1990s was a period of very low oil prices, reaching $10 per barrel late in the decade. Russia was restructuring and reforming and, while citizens were too poor to pay taxes, the state had no choice but to rely on taxes for its revenues.

Starting in 1999, oil prices began to climb, providing the state with a thickening stream of petrodollars. Russia then achieved unprecedented prosperity, and the state grew rich by taxing oil production and exports. But at the same time, Russian citizens saw their rights and freedoms largely curtailed.

As the old saying goes, if you don't pay the piper you end up listening to whatever tune he chooses to play. And it is unlikely to be the one you'll want to hear.

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The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.