Contents

Chapter 1

Daylight Robbery

The art of taxation consists of so plucking the goose as to obtain the most feathers with the least possible hissing.[1]

Jean-Baptiste Colbert, finance minister to Louis XIV (1661–83)

It was the early 1690s and the king needed money.

King William and Parliament had brought this problem on themselves. To gain popularity they had just got rid of a hated tax. Now he was short of cash.

What to do?

Every home had a hearth, and the English had been paying hearth taxes one way or another, usually to the church, since before the Norman invasion of 1066, when they were known as 'smoke-farthings' or 'fumage'. But in 1662, hearth money became statute. Every home worth more than 20 shillings (about US$5,000 in today's money)[2] had to pay one shilling twice a year for every stove, hearth or fireplace. People who had been out of the range of direct taxes suddenly found themselves liable. Even paupers were listed. Tax collectors were operating on commission and 'enforced their rights to the last farthing'.[3] They demanded entry into people's homes every six months to count their fireplaces, and so infringed on the Englishman's sacred privacy. Worse yet, the idea had come from France. The English hated it, and it was a huge source of grievance when the Glorious Revolution came in 1688.

Here was a means to quickly ingratiate the new monarchs, William and Mary, with their people. They abolished hearth money 'to erect a lasting monument of their Majesties' goodness in every hearth in the kingdom'.[4]

But it left a major problem. The Dutch were owed money for equipping William's invasion to overthrow the previous king, James II. There was conflict in Ireland and war on the Continent, the Nine Years War, to be paid for. There were allies of James II in Scotland to expel. There was also the small matter of a currency crisis at home.

How to pay for it all?

In 1696, a solution was found. Surprise, surprise, it came in the form of another tax: the Duty on Houses, Light and Windows. Otherwise known as the window tax.

Now a collector could walk past somebody's house and count the number of windows from outside. He didn't have to venture in. No privacy was violated. No engagement with the taxpayer was required, nor any declaration on his part. You can't hide windows, so it was a hard tax to avoid. Thanks to hearth money, the infrastructure was already in place to collect the tax. It also seemed a fair tax: the more windows somebody had, the wealthier they were likely to be and so the greater their ability to pay.

Like so much permanent government legislation, window tax was introduced on a temporary basis. The amounts payable were low at first, starting with a flat rate of two shillings per house with up to ten windows. But over the years, they crept up.

Soon, rather than pay, people began blocking up their windows. By 1718, it was already noted that the tax wasn't raising as much revenue as hoped. The reaction was not to lower the tax, but to increase it. The result was even more extreme avoidance tactics. Homes were built with fewer windows. Some were built with windows already bricked up, thus giving the owner the option to knock through and glaze at a later stage, if desired. In some cases, apartment buildings were constructed with entire floors of windowless bedrooms. At a time when electric, gas and oil lighting had not yet been invented and light came from the smoky flames of tallow candles or rush lights (reeds dipped in fat), blocking out sunlight and fresh air was no small sacrifice.

A further 'absurd impost on light',[5] as the medical journal *The Lancet* later called it, came in 1746, when the government of King George II introduced a tax on glass. Between them the two taxes became 'a cause of deformity in building',[6] according to John Stuart Mill, yet they guided architecture for 150 years, determining how the villages, towns and cities of Britain and France (which would have its own 'impôt sur les portes et fenêtres') would look – and, in many places, still look today. The thresholds – or notches, as they were known – of the tax determined how many windows a building would have. Some aspirational villagers in Wiltshire even painted the exterior bricks of their homes in black and white to resemble the windows that were now missing. When the prime minister, William Pitt, tripled the tax in 1797, one carpenter reported to Parliament that a whole street had asked him to brick or board up their windows.[7]

The glass tax inhibited the growth of an entire industry. Between 1801 and 1851, the United Kingdom population grew from 11 million to 27 million.[8] London alone saw a 170% increase in its population, from 1 million to 2.7 million.[9] There was a building boom to accompany the extraordinary population growth. Yet thanks to the tax, glass production levels remained largely unchanged over the period.[10]

Windows became a symbol of wealth, even in fiction. 'Elizabeth saw much to be pleased with,' writes Jane Austen in *Pride and Prejudice*. 'Though she could not be in such raptures as Mr Collins expected the scene to inspire, and was but slightly affected by his enumeration of the windows in front of the house, and his relation of what the glazing altogether had originally cost.'[11]

Though the tax never made it to the USA, in 1798 fear of it sparked an entire rebellion – the Fries rebellion. When assessors in Pennsylvania rode about surveying property for the Direct House Tax, German and Dutch settlers thought they were about to try and levy a window tax. They rose up in an armed revolt that spread across the state and took the federal troops of President John Adams the best part of two years to quash.

Nor did the window tax prove progressive. 'A house of £10 rent in the country', wrote Adam Smith, 'may have more windows than a house of £500 rent in London',[12] yet the poorer country house owed more tax. Rural dwellers were hit hard. But it was the urban poor who suffered most. They lived in large tenement buildings, which, having many windows, proved heavily susceptible to the tax. Landlords – on whom the tax fell – simply boarded up the tenement windows to reduce costs. This led to the tax's most pernicious unintended consequence: it made people sick. The numerous epidemics of disease in cities during the Industrial Revolution – typhus, smallpox and cholera in particular – were made worse by the cramped, damp, windowless dwellings. *The Lancet* called the tax 'a direct encouragement to disease'.[13] An official scientific inquiry concluded that 'the blocking up of the numerous windows caused by the anxiety of their owners to escape the payment of the tax, has, in very many instances, greatly aggravated, and has even . . . been the primary cause of much sickness and mortality'.[14] Even so, the tax continued.

By the nineteenth century, opposition to it was everywhere. 'The adage "free as air" has become obsolete,' fumed Charles Dickens. 'Neither air nor light have been free since the imposition of the window-tax.'[15] Campaigning against it went on for decades. Pamphlets were handed out, songs were sung, speeches were made. In 1845, shortly after the reintroduction of income tax, Sir Robert Peel repealed glass taxes, but the window tax remained. Only in 1850 was a motion finally put before Parliament to repeal it. Legend has it that MPs cried 'Daylight robbery!' when the matter was debated. The idiom has lived on as an expression for outrageous charging.[16] The motion, however, failed to pass. Only after another national campaign was the tax finally repealed in 1851. France would not repeal its version for another 75 years.

The window tax was just one tax and, in the context of history, not a particularly long-lived one, but it is a great example of how a tax comes into being and the consequences that follow. In its evolution we see the typical life cycle of a tax.

It is enacted at a time of need, usually to fund some kind of war. It is presented as temporary, but becomes permanent. The amount payable is low at first, but increases over time. It violates basic freedoms, in this case the right to light and fresh air. Many go to great lengths to avoid paying it, and it thus distorts how people behave and the decisions they make. There are all sorts of unintended consequences, which get worse as the tax matures. Much of the money raised is wasted or spent in a way with which the taxpayer does not agree. Finally people have had enough, and there is some kind of movement – a campaign, a protest, even a revolution – to get rid of it, which government is slow and reluctant to do.

It is too simplistic to say the window tax was good or bad. It worked well for a while, then it didn't. The money raised helped pay, among other things, for the essential defence of the nation. At its heart is the moral dilemma of so many taxes. On the one hand, it was an invasion of private property rights, with grave unintended consequences; on the other, it was the most practical solution at the time to pay for what some would deem to be the vital workings of government. We can see why Winston Churchill, among many others, described taxes as 'a necessary evil'.[17] The big question is: how much evil is necessary?

Chapter 2

How an Extraordinary Situation Could Offer an Extraordinary Solution

In this hard world we have to earn before we spend.

John James Cowperthwaite, Hong Kong financial secretary (1961–71)

Now let me tell you a very different story.

Hong Kong never looked like a very promising place. Just some craggy islands and shearing sea stacks in the South China Sea at the mouth of the Pearl River. The land was of little use. There were no minerals to mine nor oil to drill. Most of it was too rocky to farm. But in the deep water between one of the larger islands and the mainland was its main redeeming feature: a large natural harbour.

Sixteenth-century Portuguese explorers established a post there from which to pursue trade with China, but that disappeared with the isolationism of the Ming dynasty. Eighteenth-century British traders rediscovered the archipelago; the Opium Wars of the nineteenth century saw Britain seize control, and it remained in British hands until the Second World War.

The name Hong Kong means 'fragrant harbour', perhaps because of the many incense factories that once lined the docks. To London, Hong Kong was a strategically important trading outpost of the Empire, but when the Second World War came, it was deemed too difficult to defend. 'We must avoid frittering away our resources on untenable positions,' wrote Churchill.[1] In 1941, the Japanese invaded (without declaring war) and Hong Kong quickly fell. Almost four years of harrowing martial law followed, leaving the island starving and destitute.

Franklin Gimson took up the position of Hong Kong Colonial Secretary two days before the Japanese invasion. He spent the war in a Japanese prison camp. In 1945, as soon as he heard word of Japanese surrender, he left the camp and declared himself the territory's acting governor. He had offices up and running within a fortnight. This quick and decisive action, before China or the US had decided on any strategy, would have a profound effect on Hong Kong's destiny. It stayed British.

In the years that followed the war, Britain relinquished much of its empire, but, for fear it would be annexed by China, not Hong Kong. A team of civil servants was sent out to help get the colony back on its feet. One of them was a quiet, determined and deeply principled Scot by the name of John James Cowperthwaite.

Cowperthwaite had studied classics at both Edinburgh and Cambridge, but he had also studied economics at St Andrews, where he became deeply versed in the ideas of the Enlightenment, particularly Adam Smith. In 1951, he rose to the position of deputy financial secretary, and in 1961 he became financial secretary. 'For about 25 years,' says his biographer, Neil Monnery, 'he was absolutely central to Hong Kong economic policy.'[2] During that period, Hong Kong experienced one of the most extraordinary periods of economic expansion the world has ever seen.

What made it all possible was the colony's tax policy.

Cowperthwaite and his team arrived in late 1945. Their first task was to get industry up and running again. The governor announced that Hong Kong was a free port. There would be no tariffs on any goods bar a few commodities, no export subsidies and few import restrictions. Imports and exports resumed, and many who had fled the war were now returning. Trade grew quickly. It was patently apparent to Cowperthwaite that business was picking up by itself.

Cowperthwaite was an observant man. He would walk the streets, and visit the factories and ports to keep an eye on activity.

The more he watched, the more progress he observed – all without the civil service having to do anything. Hong Kong did not need an economic plan, he decided. As long as the framework was right, the colony was fine by itself. Its people and its businesses could do the heavy lifting. Steeped as he was in Adam Smith (it is said he slept with a copy of *The Wealth of Nations* by his bed), this was an observation Cowperthwaite, a classical liberal if ever there was one, was glad to make.

His second task was to manage the department responsible for getting essential supplies to the island – buying, selling and distributing food and fuel, and administering price controls. The department was beset with problems. 'That was a formative influence for him,' says Monnery, 'to see how difficult it was for a set of civil servants to run a trading business.'[3] Cowperthwaite developed a low opinion of bureaucrats. 'I trust the commercial judgment only of those who are themselves taking the risks,'[4] he said. 'When Government gets into a business it tends to make it uneconomic for anyone else.'[5]

He was beginning to formulate a theory he would later call 'positive non-intervention'. His idea was that government intervention in an open economy often does more harm than good. The default position should be not to intervene, unless careful consideration gives good reason to do so. 'Clumsy bureaucratic fingers' should be kept out of the 'sensitive mechanism' of the economy, he said.[6] It is better to rely on the 'hidden hand'. 'A multiplicity of individual decisions by businessmen and industrialists will . . . produce a better and wiser result than a single decision by a Government or by a board with its inevitably limited knowledge of the myriad factors involved, and its inflexibility.'[7]

Hong Kong's tax policies were the polar opposite of those pursued by Britain over the same period. Where Britain – and most of the West – had high levels of taxation, government spending, deficit financing, industrial planning and economic intervention, Hong Kong went the other way. Most people – 'all but the well-to-do'[8] – paid no income tax at all. Even higher earners only paid 15%. There were no tariffs or duties, no sales taxes or VAT, no taxes on capital gains, on interest or on overseas earnings. But there was a land value tax. The overall tax burden never exceeded 14% of GDP.

Meddling and change was kept to a minimum. The principle was that 'taxes should be constant over long periods (provided, that is, that they are neither burdensome nor inequitable)'.[9] At the same time, the collection of taxes should not be overly aggressive. Cowperthwaite spoke of 'the benefits to our economy, particularly in terms of investment and enterprise, both local and from overseas, of not having the inquisitorial type of tax system inevitably associated with a full income tax'.[10]

The Keynesian deficit financing that Western governments pursued to boost their economies was a no-no. 'It is wholly inappropriate to our economic situation . . . we don't, and can't, produce more than a small fraction of what we consume, and increased consumption would merely mean increased imports without matching exports; and a severe balance of payment crisis, which would destroy Hong Kong's credit and confidence in the Hong Kong dollar; and which we could not cure without coming close to ruining ourselves. Keynes was not writing with our situation in mind.'[11]

Government borrowing, meanwhile, was equally unacceptable – 'high national debt . . . is the surest precursor of high taxation',[12] Cowperthwaite said. 'I am sceptical of the theory that we have a right, if we could, to pass on our capital burden to future generations . . . Our predecessors had not passed any significant part of their burden on to us.'[13]

There was no industrial planning, no subsidies or economic intervention. 'I must confess my distaste for any proposal to use public funds for the support of selected, and thereby, privileged, industrialists, the more particularly if this is to be based on bureaucratic views of what is good and what is bad,'[14] he said in one of the many budget debates at the Legislative Council. 'I do not believe that any body of men can have enough knowledge of the past, the present and the future to establish "development priorities" . . . I should have thought that a desirable industry was, almost by definition, one which could establish itself and thrive without special assistance in ordinary market conditions.'[15]

Red tape was reduced to the point that a new company could be registered with just a one-page form. The tax code itself was kept short and simple. Even today, international tax lawyers regularly deem it the world's most efficient. At 300 pages and fewer than 150,000 words, it is 1.5% the size of the UK's.

Meanwhile, the currency was pegged to the pound, thus eliminating the possibility for taxation by inflation (at least by Hong Kong). In 1963, the economist Milton Friedman asked Cowperthwaite to explain the mechanism by which he pegged the currency, but he refused. Even HSBC, the bank that operated the peg, did not understand it, he said. 'Better they shouldn't. They would mess it up.'[16] He was right. Hong Kong abandoned the link after he stood down and HSBC was given a bigger say in monetary affairs. In 1983, the Hong Kong dollar met with a currency crisis, at one stage losing 13% in just two days. It had to be pegged to the dollar to stave off collapse.

Nor were there any capital controls. 'Money comes here and stays here because it can go if it wants to,' Cowperthwaite said. 'Try to hedge it around with prohibitions and it would go and we could not stop it and no more would come.'[17]

Hong Kong was no transparent democracy. It was a British colony. The governor, advised by the Legislative Council, had wide powers to make and enforce laws. In the wrong hands, the system could have been easily corrupted. But the civil servants (there were many others like-minded to Cowperthwaite) saw it as their duty to act in the best interests of the people of Hong Kong. Cowperthwaite had words to say about that too. 'If people want consultative government, the price is increased complexity and delay in arriving at decisions. If they want speed of government, then they must accept a greater degree of authoritarianism. I suspect that the real answer is that most people prefer the latter so long, that is, as government's decisions conform with their own views.'[18]

Cowperthwaite was only able to do what he did because of the unique circumstances in which Hong Kong found itself: in need of rebuilding, located far away from societies where Keynesian ideology had taken hold of government policy, not answerable to anyone. The British largely left it to its own devices. When they did get involved, they were often given short shrift. Denis Healey, the British Secretary of State for Defence, said, 'I always retired hurt from my encounters with the redoubtable financial secretary.'[19] As the transcripts of his speeches to the Hong Kong Legislative Council show, Cowperthwaite was a formidable arguer.

He was by no means a lone force. His successes built on the framework preceding financial secretaries had set. They were continued by his successor, Philip Haddon-Cave. They all strongly believed in laissez-faire, and had the support of their governors. But it was Cowperthwaite who would become the main architect.

The economic consequences to Britain and Hong Kong of their differing tax policies would be dramatic, though it is hard to put numbers on just how successful Hong Kong was, because another of Cowperthwaite's policies was to avoid compiling statistics. He believed such figures led officials to start fiddling in the economy, remedying perceived ills that didn't need remedying and thus hindering the work of the invisible hand in the market. (He constantly made such references to Adam Smith.) 'If I let them compute those statistics, they'll want to use them for planning,'[20] he explained to Friedman. He batted away request after request, both at home and from abroad.

When British officials came to find out why unemployment data was not being collected, he sent them back on the first available flight. When he met with pleas for GDP numbers from members of the Legislative Council, this was a typical response:

> Such figures are very inexact even in the most sophisticated countries. They do not have a great deal of meaning. That other countries

> make use of them is not, I think, necessarily a good reason to suppose that we need them. I am not entirely clear what practical purpose they would serve in Hong Kong . . . The need arises in other countries because high taxation and detailed Government intervention in the economy have made it essential to be able to judge (or to hope to be able to judge) the effect of policies . . . We are in the happy position, where the leverage exercised by Government on the economy is so small that it is not necessary, nor even of any particular value, to have these figures available for the formulation of policy.[21]

Later in life he was asked what poor countries should do to turn their economies around. The first thing he said was 'abolish the office of national statistics'.[22]

In 1962, Cowperthwaite had come under such pressure to provide GDP numbers and other such statistics that he hired a professor to do the necessary research. He could then declare that he had set up a study to look at the feasibility of collecting the information. For seven years he sent back the poor professor's drafts: either something needed further clarification, or it needed investigation, or it needed development. In 1969, when no data was forthcoming, he explained that the professor was having difficulties coming to closure on how it should be collated.[23] The unfortunate academic had been set up to be a fall guy.

But we do know this much.

In 1945, after years of war and Japanese occupation, Hong Kong was destitute and broken. Many people were starving. Where its pre-war population was over a million, now it was 600,000.[24] Yet in the span of little more than a generation, this tiny territory with no significant natural resources to speak of would become the world's busiest port and an international manufacturing and financial powerhouse. Its population would grow by over ten times.

Even in the 1950s, the many refugees fleeing civil war in mainland China meant it was little more than a shanty town. Friedman described his visit there in 1955, saying that 'the temporary dwellings that the government had thrown up to house the refugees were one-room cells in a multistory building that was open in the front: one family, one room'.[25] Today Hong Kong is a futuristic city state.

Its wealth has grown at a similarly extraordinary rate. We do not have official GDP per capita for the 1940s, of course, but it's likely that it was below $300, on a par with much of Africa. In 1960, it was $429 (according to the OECD, not Cowperthwaite), compared to $1,380 for the UK and $3,007 for the US.[26] Within 33 years its GDP per capita exceeded that of the UK. Within 50 years it overtook the US.[27] Today it ranks among the ten richest nations in the world. Its per capita GDP is 40% higher than the UK's.

In all this time, taxes were kept low, and government spending to a minimum. The government ran a budget surplus every year after 1946 bar one,[28] usually keeping a year's worth of spending in reserve and never creating any national debt. 'Even I, who have always believed in the vigour of our economy under our present tax regime, have been surprised by the growth of revenue generated at our present tax rates,' Cowperthwaite said.[29] Today it has become an annual event that the financial secretary underestimates the surplus – 2015 was the eighth year in succession,[30] and in 2018 it happened again.

Every year, the Washington DC economic think tank the Heritage Foundation compiles a detailed index of economic freedom for 186 countries around the world. It defines economic freedom as the amount of control people have over their own labour and property, and it has '12 quantitative and qualitative factors' by which it measures it.[31] In every year since 1995, when the Heritage Foundation began compiling its index, Hong Kong has ranked first – the most economically free nation on earth.[32]

On the supply side, it is not as though Hong Kong's services lack in any way. The territory has the fourth best education system in the world, according to Pearson,[33] and it ranks top of Bloomberg's healthcare index.[34] Its public transport was ranked the world's best last year,[35] and it is consistently used as a model elsewhere, regularly achieving a 99.9% 'on-time success rate', with 94% of the population living within one kilometre of a railway station.[36] It is also one of the world's most profitable systems.

Laissez-faire economies tend to be painted as ruthless and heartless, but Cowperthwaite was adamant that his policies were for the good of all. Tax was an imposition, an obstacle to growth. Lower taxes meant greater profits. Greater profits meant more growth. More growth meant more jobs, better-paid jobs and greater wealth for all. 'I am more concerned with the creation of wealth than with its distribution,' he said. 'The rapid growth of the economy, and the pressure that comes with it on demand for labour, both produce a rapid and substantial redistribution of income directly of itself.'[37] In other words, leave the economy alone, and redistribution will take care of itself.

But here was a key point for Cowperthwaite: 'It also makes it possible to assist more generously those who are not, from misfortune temporary or permanent, sharing in the general advance.'[38] The interests of those at the very bottom were close to Cowperthwaite's heart, and a booming economy put the government in the best possible position to help them.[39] As he remarked, 'Due to our low tax policy . . . revenue has increased.' The evidence of Hong Kong's growth bears out his argument. Eventually, 'funds left in the hands of the public will come into the Exchequer', Cowperthwaite said, but 'with interest'.[40]

Hong Kong dealt with every challenge thrown at it, but with almost every crisis – public housing aside – the default position of the government was not intervention, but 'positive non-intervention'. In 1950, Hong Kong's main industries sprang from its role getting goods in and out of China – warehousing, shipping, shipbuilding, insurance and so on. When the Korean War began, and the US imposed sanctions, the colony's trade with China collapsed by around 90% over the next four years.[41] Hong Kong should have ground to a halt, but it didn't. Immigrants fleeing civil war in China brought their cotton spinning skills with them, and the colony would grow to dominate international textile markets instead, to the extent that the UK and the US both resorted to dramatic protectionist measures to support their domestic textile industries. Hong Kong businesses adapted to the strict import quotas on Hong Kong cotton by growing their synthetic textile output instead. They diversified into other forms of manufacturing – especially electronics and plastics. In 1967, the devaluation of the pound meant a loss of some £30 million to Hong Kong's foreign exchange reserves, but the colony took that in its stride too, as it did the destabilising impact of Mao's Cultural Revolution in China and the Asian crisis of 1997.

When Hong Kong was handed back to China in 1997, the expectation was that it and its policies would effectively be annexed. In fact, the opposite happened. The rest of Asia had noticed Hong Kong's success and they were copying it. Soon after Lee Kuan Yew became the first prime minister of Singapore, in 1959, he adopted the colony's low-tax, non-interventionist model, with similarly successful results. South Korea and Taiwan, even Japan to an extent, all had their own adaptations of low-tax, high-export models and all enjoyed huge periods of economic growth of their own. China itself would do something similar.

After Chairman Mao's death in 1976, reformers in China, who had observed the extraordinary growth of Hong Kong and Singapore, thought Cowperthwaite's model could work on the mainland too. In 1980, Shenzhen was chosen to be a 'special economic zone' – light on taxes and regulation. The population then was 30,000. It has grown to nearly 13 million, as more and more people have gone there seeking their fortune. At one stage its growth rate was an astonishing 40%.[42] Today it is another Hong Kong.

China wanted to 'appropriate capitalism for the good of socialism', as the National People's Congress put it in their legislation.[43] 'We didn't pay enough attention to developing the productive forces,' said Deng Xiaoping in his famous 1984 speech, 'Build Socialism with Chinese Characteristics'.[44] Given what these tiny islands had achieved, what was China capable of? Today China, with its own brand of authoritarian capitalism, is the second-largest economy in the world, in purchasing power parity terms perhaps the biggest.[45]

There is no doubt that Hong Kong was an extraordinary situation in an extraordinary time, but its low taxes and positive non-intervention are where the Asian economic miracle began. Cowperthwaite's achievement lay not so much in what he did do, but in what he didn't. 'I did very little,' he said with typical humility. 'All I did was to try to prevent some of the things that might undo it.'[46]

Chapter 3

Why Tax?

'Tis impossible to be sure of any thing but Death and Taxes.[1]

Christopher Bullock, *The Cobbler of Preston* (1716)

Taxation is as old as civilisation itself.

Even in early hunter-gatherer societies there existed a sense of duty to the greater collective, so when man first settled some 10,000 years ago, leaders were already requisitioning labour and produce. In all the years since, not a single civilisation has existed without taxation.

Yet how much do we actually think or talk about tax? During the Enlightenment, the ethics of taxes, as well as the practicalities, were intensely and extensively discussed, but today, somehow, the arguments have faded. Taxes are the dull domain of accountants and economists. While we resign ourselves to their payment, politicians rarely seem to think beyond adding a little here or taking away a little there. The moralities of many taxes, particularly income tax, are rarely, if ever, questioned. Major reform is left to another day.

My aim with this book is to get people thinking and talking about tax again. When you look at the world through the prism of taxation – at the world around us today, at the past and at the future – so much becomes clear: why things are as they are, why events happened in the way they did, how the future will pan out – and what must be done to change it. Civilisations are shaped by the way they are taxed. A large part of a nation's destiny – whether its people will be prosperous or poor, free or subordinated, happy or depressed – is determined by its system of tax.

Tax is power. Whether king, emperor or government, if they lose their tax revenue, they lose their power. This rule has always applied, from the first king of ancient Sumer[2] to the social democracies of today. Taxes are the fuel on which the state's operations run. Limit taxes, and you limit ruling power.

Every war, from ancient Mesopotamia to modern Iraq, was paid for by some kind of tax. Taxes make wars possible. If you want to end war, end taxes. The aim of every conqueror, from Alexander the Great to Napoleon and beyond, was to take control of the tax base: the land, the labour, the produce and the profits. Conquerors plunder and then they tax. 'Taxes are the chief business of a conqueror of the world,' said George Bernard Shaw's Caesar. When Genghis Khan took China, his plan was to kill everyone, as was his way. This was no small undertaking, as China then, as now, was the most populous nation on earth. One of his counsellors, however, a little-known man by the name of Yeliu Ch'uts'ai, pointed out that dead peasants pay considerably less tax than living. Genghis saw the light and millions of lives were saved.

The same goes for revolution and revolt. Inequitable taxation almost always lurks near their heart. 'No taxation without representation' was the cry of the American revolutionaries. Ruinous taxes levied by the tsar against peasant farmers led to the Russian Revolution. Perhaps most explicitly of all, the Philippine Revolution began with the Cry of Pugad Lawin, exhorting rebels to tear up their tax certificates. From Spartacus to Boudicca to Robin Hood to Mahatma Gandhi, the greatest rebels in history were usually tax rebels.

History looks different when viewed through this lens of taxation. There is a tax story – often an overlooked one – somewhere near the heart of almost all of humanity's defining events. Jesus was only born in Bethlehem because Mary and Joseph were there to pay tax. Taxes paid for man to take his first steps on the moon. Tax stories lurk within even apparently unconnected episodes. Take women's suffrage, for example: that women joined the workforce and paid income taxes during the First World War was a major factor in their being given the vote. Even natural disasters often incorporate tax stories. The Plague, for example, effectively ended the feudal system in Europe and created a new class of tax-paying workers. Usually the tax story occurs in the rebuilding effort that follows the disaster. After the Great Fire of London, the funds to rebuild the city came mostly from taxes on coal (indeed, it has even been suggested that the Great Fire was started by tax evasion – the not uncommon scam of knocking through to the chimney next door in order to avoid hearth money).

Many of our greatest buildings – from the Pyramids to the White House – were, one way or another, built on the back of taxes. Some were constructed for the purpose of collecting them. We presume the Great Wall of China was intended to protect against invasion – and it was – but, manned at its peak by as many as a million men, it was also built to collect duties on goods coming in and out of the nation, especially along the Silk Road; in other words, to protect government revenue. Hadrian's Wall served the same purpose for the Roman Empire.

Even the names we have, we have because of tax. Prior to the thirteenth century, ordinary people in the British Isles and (to a slightly lesser extent) Europe did not have surnames. By the end of the fourteenth century, they did, typically based around their occupation (for example, Smith); their paternity (Jackson, Matthews, MacDonald); some defining geographical feature where they lived (Hill or Ford); or, as in my case, the village they came from (Frisby). Sometimes, especially in Gaelic cultures, the name derived from a physical characteristic – Cameron, for example, means 'crooked nose', Kennedy 'shaggy head', Connolly 'valiant'. The reason surnames came about? To distinguish people for the purposes of levying poll taxes.

In China, surnames are rather older. They go back, legend has it, all the way to 2852 BC and Emperor Fuxi.[3] The reason for their existence, however, is the same: to facilitate taxation.

The word 'tax' only appeared in the English language in the 1300s, as coinage became more widespread. Prior to that, we used the word 'task', from Old French, and taxes were often paid in kind – rulers took a share of the harvest, and debts were paid with labour. But whether we call it tax, burden, duty, tribute, tithe, charge, corvée, toll, impost or tariff, the principle is the same. The close relationship between taxation and freedom is even apparent in the evolution of language. Censorship and tax assessment (as in census) both have their origins in the same Latin word. The censor was an ancient Roman magistrate who maintained the census, supervised public morality and oversaw certain aspects of the government's finances. Censorship and taxation both involve the restriction of freedoms – whether economic or otherwise.

Leaders will use taxation as a means of control – to influence behaviour and the decisions people make. Peter the Great wanted to modernise Russia and he felt beards were unfashionable, so he levied a tax against them. Russians had to shave, or pay the tax. To prove they had paid it, they had to hang a copper token from their beard on which was written, 'The beard is a superfluous burden.' Often such taxes do change behaviour, though not always in the way intended. If you tax cigarettes, some people choose not to smoke, but others take up smuggling. Tax fuel, and some will change the way they travel, others will not travel at all. Tax labour heavily, and some will work harder, others will relocate offshore and others will not bother working. Tax, as I'll show, even affects the number of children people decide to have. With all such taxes there is an underlying moral argument: what is the role of the state? What one might see as sensible planning, another will see as nanny-state meddling beyond the remit of government.

Today taxes are taken without choice, often by stealth, at source and by force. My agent hates me saying that – 'They are not taken by force,' she insists. She is right in that armed guards do not collect them. Where the force comes in is that if you do not pay them, you face jail. In many cases, the option to not pay and risk jail is not even there, because taxes are deducted at source. As comedian