
Making Peace with the Tax Man

By Kerry Pechter Thu, Dec 17, 2020

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Here comes the end of the year—the end of decade—and that means I'll soon be writing my last estimated tax payment of the year. These seasonal checks to the IRS (actually they're electronic transfers executed on the web) are among the biggest checks I'll write all year.

“Writing” those virtual checks is painful, of course. But I've made my peace with the Tax Man. Or you might say, I've adopted a few rationalizations that make it tolerable, if not exactly sweet, to send those large checks to Uncle Sam each quarter. (If I didn't have to pay income taxes, I could probably afford to hire an office assistant. But then how would I deduct the expense?)

Years ago, a band of “tax strikers” in Whitefish, Montana, argued that the alleged “confiscation” of their money by the IRS violated the US Constitution. More recently, Grover Norquist, the founder of Americans for Tax Reform, said he wishes for a government small enough to “drown in a bathtub.” I don't agree with the bases of those views, as I note below.

Historically, Americans have always resented taxes. Every schoolchild learns about the Boston Tea Party and perhaps the Whiskey Rebellion as well. Here in Lehigh County, Pennsylvania, Frey's Rebellion erupted in 1799 when Quaker taxmen arrived in sinister English-speaking pairs from Philadelphia and demanded about 25 cents per window from German-speaking homesteaders.

Coins were scarce in those days. So from their garnished windows, German frauen poured boiling water on the tax collectors below. Meanwhile their husbands met at the Commix Hotel, Red Lion Inn and Trum Tavern (all still serving ale and spirits) to plot their resistance. During the ensuing skirmish with Alexander Hamilton's troops, they were too drunk to shoot straight. No harm, no foul; a jury in Philadelphia chose not to convict the eponymous ringleader, John Frey, of treason.

Taxes today are far more than 25 cents per window, but they've stopped bothering me. One

of my rationalizations is that I'll get part of my taxes back in the form of a guaranteed inflation-adjusted joint and survivor life annuity, plus health care, in retirement, thanks to Social Security and Medicare. I think even the wealthy undervalue those social insurance programs.

A second rationalization is that federal government spending accounts for about 31% of U.S. gross domestic product. I figure that, since money is so fungible, about 31% of my own revenue (and the value of public services I use, like freeways) must come from Uncle Sam's expenditures. So it makes sense to pay about a third of my taxable income back to the government.

A third, and related, reason why taxes don't discourage or inflame me: I believe that paying taxes reduces inflation and ipso facto, protects the purchasing power of my after-tax dollars. This may or may not technically be true (economists still differ). But from what I know about the "monetary circuit" (i.e., the federal government spends high-powered dollars into existence and taxes them out of existence; in between, the banks multiply the dollars by lending them) this makes sense.

The history of paper money bears this out. In colonial America, this is exactly what happened. If a bridge or toll road was needed and no one, as was often the case, had access to significant quantities of gold or silver money, a state government might issue paper money to pay the contractors. Simultaneously, they levied a tax—as dues for living in the colony, you might say.

The money was declared legal tender. Its value would be moot if not for the fact that, at tax time, people could use that same paper money to settle their tax bill. When the tax was collected, officials of the colony burned to remove it from circulation and "make room" for a new round of paper-money issuance to pay for infrastructure, lest it cause inflation.

You may not buy that story. But it's documented (thank you, Farley Grubb of the University of Delaware) and it explains why we don't have to pour boiling water on IRS agents anymore. If the government really needed to squeeze money out of us *before* it could pay any of its bills, then two thickset gentlemen would probably appear on your doorstep every April 15 with badges and a warrant to search under your couch cushions. It would be ugly.

All of these rationalizations have led me, however reluctantly, to conclude that taxes are simply the cost of money; or, at least, the cost of maintaining the value of our fiat money,

which has succeeded in financing a far-reaching empire because it is universally accepted as legal tender.

We should certainly not pay any more taxes than we absolutely must. But we're only diluting the currency pool by taking extraordinary measures not to pay them. That's why Grover Norquist's bathtub story gets it wrong. Without taxes, we would not be richer. Without taxes, there would be no US money—and nothing in which to drown the government.

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