Tax Compliance and Modernity

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"Training in Citizenship": Tax Compliance and Modernity

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Abstract

Do the attempts of modern states to foster tax compliance reflect wider attributes of modernity? This article analyzes the history of the creation of a tax compliance culture in Israel of the 1950s and the various practices, techniques and discourses that were deployed by the state to create model taxpaying citizens. It shows how the specific history of tax compliance can be understood as part of a wider phenomenon, the desire of modern states to create self-policing, normalized subjects. By interpreting the history of tax compliance critically, as part of the attempt of the state to control its citizens, the article suggests a new way of understanding the history of 20th century tax compliance generally and more specifically the history of judicial attempts to tackle tax evasion and tax avoidance.
I. Introduction: Lunatic Tax Evaders

Since the late 1990s a corporate tax shelter industry, employing countless lawyers, accountants and bankers, has sprung up. It deeds have scandalized public opinion and led to major Senate and Department of Justice investigations. It appearance has also prompted lawmakers and scholars to suggest various non-traditional remedies to deal with the problem including publicity and shaming provisions.

While the corporate tax shelter industry is a new phenomenon, the bigger problem of which it is a part – tax compliance - is not new. Non-compliance has existed ever since taxes were first imposed. However, the methods of tackling non-compliance have evolved over time. The question that this article seeks to answer is how do the efforts of modern states to deal with non-compliance reflect more general attributes of modernity. This question is asked both in order to gain a better understanding of the history of the modern state's attempt to minimize non-compliance and also in order to gain a better understanding of the roles played by publicity and shaming.


understanding of some of the normative issues that underlie contemporary debates about compliance, especially those connected to the current tax shelter industry debate.

The starting point of my inquiry is one of the first book-length studies of non-compliance - a 1929 book entitled *Evasion in Taxation*, written by Victor Tranter, a University of London economist.  

Tranter’s book described various methods of evasion (reducing one's taxes by criminal means) and avoidance (reducing one's taxes by abusing loopholes in the tax code) in great detail and suggested different ways of curbing them.  

Throughout the book, Tranter relied on a criminological distinction between curable and incurable criminals. Using this distinction, Tranter suggested that the state deal with “curable evaders” by appealing to their sense of patriotism, educating them in the basics of “civics,” initiating public relations campaigns, utilizing the services of teachers, accountants and the clergy and declaring tax amnesties.

As for “incurable” tax evaders, Tranter had the following suggestion. “So far,” he said “evasion is not a certifiable form of insanity nor are there yet mental hospitals which admit to their wards for kleptomaniacs those convicted of taxation frauds. We segregate those demonstrably and incurably anti-social in a physical sense, such as confirmed criminals, and those anti-social in a mental sense, such as lunatics and idiots, but not yet those anti-social in an economic sense.” But, he continued “if the test is whether or not the individual has done a serious injury to the community and may possibly do so again in the future, there would appear to be no logical reason why fiscal

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4 Tax evasion is criminal behavior in clear violation of the law; for example, the fabrication of false accounts in order to reduce one’s taxes. Tax avoidance is similar to evasion in the sense that it is also designed to reduce or eliminate one’s taxes. However, avoidance is not a criminal offence. Instead, tax avoiders achieve their goal by abusing gaps or loopholes in the law without directly breaching specific statutory provisions. See generally *Tax Law Design and Drafting* 44-45 (Victor Thuronyi ed., Washington DC: IMF, 1996).

Tranter did not see lunatic asylums as the only answer to the problem of incurable evaders. Another suggestion he made was that “a department should be established to make a scientific investigation of the whole question of evasion.”

Tranter's interest in using a variety of non-legal techniques and institutions to normalize tax evaders, his desire for “scientific investigation” of the problem and, most of all, his bizarre (but serious) reference to lunatic asylums as a method of tackling evasion, all resonate with a set of critical arguments about the nature of modernity. These arguments, associated mostly with the work of Michel Foucault but also found in the writings of other social theorists, describe the rise of modern states and related non-state institutions (for example, mental hospitals or schools) not as part of a progressive trajectory of growing individual liberty but instead in terms of growing constraints on the freedom of action of individuals, who become subject to various practices designed to make them self-policing citizens. Thus, Foucault argued in works written in the 1960s and early 1970s that the history of modernity is inextricably connected to the rise of various disciplinary institutions. In his later work he moved on to analyze the rise of an early modern and modern “science of police” designed to improve and normalize not single individuals but entire populations ruled by the state.

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6 Id., 162-3.
7 Id., 170.
Foucault's approach to modernity is not unique. Many other social thinkers have discussed modernity in similar terms. For example, as early as the 1930s, Norbert Elias suggested that modern western states and modern western individuals were both the product of a long-term "civilizing process" which, over many centuries, has succeeded in burying human violence, sexuality and other primary drives under a cover of artificial manners meant to restrain the free expression of elemental instincts and enable state monopolization of power. More recently, James C. Scott, examined several case-studies of state projects of standardization and legibility, showing how officials and non-state experts (such as architects) employed various techniques and scientific practices meant to simplify and homogenize the resources and population under their control in order to better manage and manipulate it. Of course, each of these descriptions of modernity focuses on different aspects of modern states and societies.

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12 Thus, for example, while Foucault's work analyze on the use of scientific discourses and the disciplines to create the modern individual or the "modern" national population, Elias' work draws attention to the use of manners in creating modern societies and Scott discusses the role of planners and engineers in creating some of the failed mega-projects of "high-modernism." For a detailed comparison of Elias' and Foucault's works see Pieter Spierenburg, "Punishment, Power and History: Foucault and Elias," Social Science History 28 (2004): 607. See also Dennis Smith "The Civilizing Process' and
However, all these social theorists, and many others as well, suggest that modernizing practices, techniques and discourses that are often viewed as benign actually have a darker side.

Since such a critical approach offers a framework for understanding diverse aspects of modernity, it is no wonder that its influence has been felt across many disciplines, influencing the way we now understand the history of diverse areas such as psychiatry, psychology, criminology, industrial organizations and even accounting. How exactly is the critical description of modernity related to tax compliance? 


Victor Tranter’s bizarre proposal for the creation of lunatic asylums for tax avoiders and evaders has not been implemented, but in the three-quarters of a century that have passed since Tranter wrote his book, and especially in the last three decades, Tranter’s other hope – for the “scientific investigation of the whole question of evasion” - has been fulfilled. The subject of tax compliance has become a major issue for a number of social-science disciplines, and there has been a tremendous growth in the number of studies measuring tax compliance and suggesting various cures for non-compliance. One recent bibliography of works on the subject has listed about 500 articles and more than 20 books. The academic interest in the question has been accompanied by institutional growth, as the projects and organizations devoted to the study of tax compliance have proliferated.


economic model fails to explain this phenomenon. Various works have therefore examined a host of psychological and social factors that lead taxpayers to pay their tax, despite the seeming irrationality of such behavior. Some of these studies examine different "tax cultures." However, discussions of tax cultures do not, usually, use historical methodology. Even the few historical studies that exist do not link the story of compliance to wider attributes of modernity.

Approaching the problem of tax compliance using a historical approach allows us to ask a new set of questions about tax compliance. For example, one can ask how did modern states create tax compliance cultures? What mechanisms did the state and non-state institutions use to manufacture model citizens? What techniques, discourses and bodies of knowledge did they employ? In what ways were these techniques or discourses related to wider images, perceptions and forms of knowledge of the “population” that was to be governed? Once one begins to ask such questions, the tax


compliance inquiry becomes linked to a broader narrative – that of the history of the formation of modern state and society.

This article does not attempt to provide a full account of the history of the creation of modern tax compliance cultures. This would be impossible to do given the constraints on the length of the article. Its aim is far more modest. It seeks to analyze one specific case which illustrates the link between tax compliance and wider attributes of modernity. The story told in this article is that of the creation of Israeli tax compliance culture in the 1950s. The Israeli case is not unique but it is, perhaps, more interesting than similar cases in other countries for three reasons: First, in Israel the process of creating a tax compliance culture was especially rapid. The State of Israel, established in 1948, was established amid wars that have continued ever since. Israel’s initial population was 650,000, but it soon absorbed huge waves of Jewish immigrants from post-Holocaust Europe and the Middle East, more than doubling its population in the course of a decade. The military, economic and demographic instability of the country in its early years meant that the problems faced by the engineers of Israeli tax compliance were especially urgent, and their responses to these problems were more visible than in other societies. Second, the Israeli case is relatively "pure" because in Israel of the 1950s there were few intermediaries between the state and the taxpayer. Unlike other countries, such as the United States, in which business interests had to be taken into account in designing the tax regime, in Israel of the 1950s there was no powerful commercial and business elite who could intervene in the shaping of tax administration. Finally, the birth of tax compliance culture in Israel has been

described in great detail by two acute contemporary observers, Harold Wilkenfeld and Arye Lapidoth. Their works provide insiders’ perspectives that contribute significantly to the reconstruction of the process of creating a tax compliance culture.

Why link the history of compliance and modernity? The aim of the article is not to suggest new ways to improve compliance. The article is not part of the social-science tradition of studying compliance in order to engineer better taxpayers and create new method of making taxpayers obey the laws. Instead, this article offers a critical perspective which seeks to uncover the more problematic side of the creation of compliance, not just to celebrate it. By linking compliance to more general aspects of modernity such as normalization, the article strives to enrich our normative attitude to the problem of tax evasion and tax avoidance. An important, albeit very extreme, illustration of this point may be found in the fact that among modern legal systems, Nazi law was perhaps the most unrelenting in its attitude toward one of the major manifestations of non-compliance, tax avoidance. Once we discover the link between compliance and modernity, we realize that the Nazi attitude to avoidance was not merely a coincidence but rather an expression (albeit a very extreme and deviant one) of a more general desire of modern states to create model citizens.


22 It is important to emphasize that my aim is not to find normative support for general non-compliance generally. Instead, I seek to show that compliance is not a totally positive phenomenon. For an interesting philosophical defense of one manifestation of non-compliance, tax avoidance, see Leo Katz, Ill Gotten Gains (Chicago: University of Chicago Press, 1996).

The article has three parts. The first part tells the story of the creation of Israeli tax compliance culture in the 1950s. The second part analyzes this story pointing to its links with wider attributes of modernity focusing on three specific issues: the creation of self-policing subjects, normalization and individualization. The third and concluding part argues that a critical approach to the history of tax compliance can provide an alternative perspective of the history of tax compliance and, more specifically, that it can enrich existing accounts of the history of judicial attempts to tackle tax evasion and avoidance.

II. Tax compliance in Israel: 1930s - 1960

1. 1930s to 1954

The history of Israeli tax compliance from the 1930s to 1960 can be broken into three distinct periods: The first period, between 1938 and 1951 was a period in which the level of voluntary tax compliance (to an autonomous tax system created by the Jewish community) was high, mainly because of the existential threats posed to the Jewish community in Palestine, first by the Arab Revolt of 1936-1939, then by World War II and finally by the post-war struggle for Israeli independence; The second period, from 1951 to 1954, was a period of crisis and breakdown in compliance levels; The third period, between 1954 and 1960, saw a rise in compliance due to a series of measures taken by the Israeli Revenue in order to encourage compliance.24

Before 1948, Palestine was ruled by Britain. In 1941, the British enacted a Palestinian Income Tax Act. Because British-Jewish relations during the last years of British rule in Palestine were strained and riven by violence and terror, the evasion of government-imposed taxes was socially encouraged in the Jewish community.25 This

24 This periodization is based on Wilkenfeld, Taxes, 3.

25 Wilkenfeld, Taxes, 3-4.
was especially true of the income tax, which was perceived as “an insidious means for taxing the urban Jew for the benefits [sic] of the agrarian Arab.”

While compliance with British taxation was low, the Jewish community of Palestine established a system of autonomous voluntary taxes designed to finance Jewish military expenditures in face of the growing and often violent Arab opposition to Jewish presence in Palestine. At first, these taxes were paid on a local basis, but in 1938, during the Arab rebellion of 1936-1939, a national organization was established, and progressive income and property taxes, as well as indirect taxes (collectively known as Kofer ha-Yishuv), were levied on the Jewish community. The revenue collected was used to finance the major Jewish militia, the Haganah, and also to support illegal Jewish immigration to Palestine from holocaust and post-holocaust Europe.

In addition to the external security threat to the existence of the Jewish community in Palestine, which was an important factor in fostering compliance to this voluntary system, various means were used to induce compliance. Special movies, slide shows, public conferences, lectures, exhibitions, direct letters, pamphlets, newspaper ads and articles all exhorted the Jews of Palestine to pay. Social ostracism of those who did not comply was utilized. Evaders were also prevented from using the services of

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Jewish community institutions (which provided health, housing and employment benefits). Simultaneously, evasion of official British taxes was encouraged.

When the State of Israel was established in 1948, there was some expectation that Israelis would eagerly pay their taxes, especially given the precarious security situation and the threat of annihilation that the new Israelis faced at first. David Z. Penkas, the chairman of the Knesset Finance Committee, naively declared in a 1950 speech that “every person in Israel should feel joy because he gained the right to pay taxes to the State of Israel. These taxes are used to ensure its existence and development. We [Jews] who had paid taxes to many foreign nations during our long years of Exile have now finally won the right to pay taxes to ourselves”

During the first months after independence, the desire to pay taxes to the new state may indeed have been strong. One tax official recall that “even though the citizens of the new state knew that after independence they would have to pay higher taxes than those they paid until then to the government of the [British] Mandate, they enthusiastically came to pay their taxes. Two well known citizens of Haifa argue between them even today who was the first who paid income tax to the provisional government.”

Soon, however, the early idealism waned, as security improved. An additional factor leading to a decline in compliance was the government imposed austerity.

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28 Berger, Kofer, 33-34; Berger, Magbit, 79-81, 94-6; Wilkenfeld, Taxes, 110-111.

29 Wilkenfeld, Taxes, 4.


measures that eroded living standards of the population, and extracted more and more money from the new citizens through a series of compulsory loans. In reaction, Israeli taxpayers began to evade taxation en masse, ignoring the patriotic rhetoric of their politicians.

The problem of evasion became the subject of parliamentary debates and newspaper articles. In late 1953, an article published in the newspaper of the ruling socialist labor part (Mapai) stated that of 560,000 breadwinners in Israel, only 300,000 were registered by the Revenue; 250,000 of those registered were employees and only 50,000 were self-employed. The article asserted that 150,000 additional self-employed taxpayers were evading the income tax. Another estimate published in 1956 claimed

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34 See, e.g., 2 *D.K.* 1367 (24/8/1949) (Knesset Finance Committee chairman Penkas declaring that there were 122,000 income tax payers but “tens of thousands of eligible payers do not pay the tax”); 5 *D.K.* 1803 (21/6/1950) (Finance Minister E. Kaplan complaining that tax evasion is a “national sport”); 15 *D.K.* 1527 (5/4/1954) (Finance Minister Levy Eshkol stating that tax evasion is widespread); A. Shtark, “‘Od ‘al Yahase Tsibur” (More on Public Relations), *Agaf Mas Hakhnasah: Yedion Pnimi [Y.P.]* (Income Tax Department: Internal Bulletin), 50, 52 (October-November 1953) (“the plague of tax evasion has engulfed all classes of the public”); “Leket min ha-‘Itonut” (Newspaper Clippings), *Y.P.* 8 (December 1955) (quoting an article in *Ha’aretz* that stated that “the general impression is very bad, both because [it seems] that the morality of the taxpayers is low and the efficiency of the Revenue [is also low]”); T. Brosh, “Be’ayat Bitsu’a Hok Mas Hachnasa” (Enforcement Problems in Income Tax Law), 1 *Sherut* 3 (June 1956). There were isolated, unconvincing, remarks to the contrary. See “Leket min ha-‘Itonut” (Newspaper Clippings), *Y.P.* 58 (December 1953) (the Income Tax Commissioner stated that the number of tax evaders is not large).
that while employees were paying approximately 90% of their tax liability, the self-employed were paying roughly 50-65%. The period between 1951 and 1954 was thus one in which tax evasion was growing rapidly, a “Wild West” era as far as tax compliance was concerned.

Initially, the government reacted to the problem through arbitrary assessment and collection methods. This, however, only made the crisis worse and led to a break-down in the relationship between the public and the administration. In 1954, the relative tax burden on employees and the self-employed became a major issue of political contention between the socialist-led government on one hand, and the right-wing Herut party and the centrist General Zionist party on the other. The political conflict resulted in numerous strikes by artisans and shopkeepers. The conflict reached a climax in October 1954 when a Jerusalem confectioner, Israel Sinai, committed suicide, leaving a note blaming the income tax for his death. Mr. Sinai’s suicide was followed by a major tax strike and by the establishment of a special government committee to study the circumstances of his death. It also served as a catalyst for reform of the Israeli tax administration system.

35 “Ha-Tafkid ha-Rishon: Tosefet 150,000 Meshalme Mas Hachnasa” (The First Priority: An Additional 150,000 Taxpayers), Davar reprinted in Y.P. 60 (December 1953). See also Dov Ben-Amitai, “Al ha-Erazh Lemale Hovato” (The Citizen Should Fulfill his Duty), Y.P. 65 (April 1954).

36 Anderson, Income Tax Administration, 5.

37 Wilkenfeld, Taxes, 3; “Shiput ve-Hamarat Mishpat be-Kofer Kesef” (Judgment and Monetary Penalties), 5 Sherut 3, 8 (1957).

38 Wilkenfeld, Taxes, 90.

2. “Training in Citizenship”: Creating a Tax Compliance Culture

The Israeli Ministry of Finance was aware of the problem of evasion and sought from 1951 onwards to deal with it in several ways. One factor inhibiting change was the fact that many Revenue officials began their careers in the autonomous and voluntary Jewish tax system established during the period of the British Mandate. These officials sometimes assumed that the high compliance levels they experienced in the 1940s would not decline, an assumption which proved to be unrealistic. Ultimately, tax officials came to realize that a major overhaul was needed. In the process of administrative reform, the Ministry of Finance relied on advice supplied by a number of foreign advisors affiliated with the UN technical assistance program, the US Agency for International Development and the IMF.

A. Criminal Prosecution: One obvious method to tackle evasion is criminal prosecution. Criminal prosecutions of income tax evaders began in 1952. Initially, they were unsuccessful, because the income tax ordinance did not provide sufficient penalties for evasion. In 1954, the Income Tax Act was amended to increase criminal penalties for evasion. Tax strikes were common in 1954. The year began with another strike by small businessmen and artisans. See “Shops to Close in Tax Protest,” J.P. 29/1/1954; “Artisans Call Two-Day Strike in Protest of ‘Fantastic’ Taxes,” J.P. 8/2/1954.

40 Wilkenfeld, Taxes, 55, 56, 117.

41 Wilkenfeld, Taxes, 7-8, 121, 123.

42 For an extensive discussion of the history of criminal prosecutions and their effect on compliance in the 1950s and 1960s, see Wilkenfeld, Taxes, 209-51. See also Likhovski, “Formalism,” 370. Additional reasons for the lack of success were that the tax administration system was still relatively unorganized and the courts tended to impose light sentences on the offenders taking into consideration the fact that the income tax collection machinery was not functioning properly. Wilkenfeld, Taxes, 209-11; A. Shtark, “‘Od ‘al Yahase Tsibur” (Public Relations), Y.P. 50, 52 (October-November 1953). The exact date of the first case in which criminal charges for income tax evasion were filed is not clear. Compare Wilkenfeld, Taxes, 209; “School Director Freed of Tax
tax evasion, and a policy of vigorous enforcement was adopted. In the mid-1950s, judges still tended to impose light sentences on tax evaders, but in 1959, the first jail sentence was imposed. By 1960, the Income Tax Commissioner was claiming that the proportion of criminal prosecutions for tax evasion in relation to the number of taxpayers in Israel was one of the highest in the world.  

But legal sanctions were not the only means used to fight avoidance. The Revenue experimented with various non-legal techniques for creating compliance. These methods can be divided into three types: Improving data collection, reducing friction and education.

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44 For detailed discussion of changes in judicial attitude to tax evasion (and avoidance) in the 1950s and 1960s see Likhovski, "Formalism". See also Wilkenfeld, Taxes, 214-24. See also Wilkenfeld, “Shiput”; Y. Wilkenfeld, “Zkhuyet Meshalme ha-Misim lefi Pkudat Mas Hachnasa” (The Rights of the Taxpayer according to the Income Tax Act) 1 Sherut 5 (June 1956); T. Brosh, “Agaf Mas Hachnasa bi-Shnat 1955/56” (The Income Tax Department in 1955/56) 1 Sherut, 34, 35.

B. Data Collection, Calculability, Scientization: One major aspect of tax administration reform was the attempt to improve and rationalize the Revenue’s data collection machinery, in the familiar Weberian mode. Rationalization, however, was intimately linked with surveillance – the attempt to better monitor the taxpayer population. One example of this was an income tax census undertaken in 1953. Another example was the establishment of an intelligence collection unit (Shin-Alef) in 1954. The goal of this unit was to gather information from various publicly-available sources which might be relevant to the assessment of specific taxpayers. It was also charged with conducting undercover investigations of taxpayers suspected of evasion.

One of the methods with which the revenue experimented in the 1950s in order to collect data (as well as foster compliance) was the publication of an annual income taxpayers’ register (sefer nishomin). The idea, which may have been derived from Sweden, first appeared in 1952 when the Israeli Income Tax Ordinance was revised in order to allow the Revenue to publish such a register. Another amendment in 1955 required the Revenue to publish such a register no later than a year after the close of each tax year.

The goal of the register was to publicize the reported income of taxpayers, so that those taxpayers who underreported their income would be revealed by their


47 Wilkenfeld, Taxes, 219-220. See also N. Birkenfeld, “ha-Mahlaka le-Hakirot vele-Mishpatim Plilim” (The Department for Investigation and Criminal Cases), 10 Sherut 56 (February 1959).

48 “Hatsa’at Hok le-Tikun Pkudat Mas Hachnasah: 1951,” Hatsa’ot Hok (1951/2), 44; section 3; “Hok le-Tikun Pkudat mas Hachnasah, 1952,” Sefer Ha-Hukim (1951/2), 208, section 3. See also Wilkenfeld, Taxes, 104-105, 130-32; Lapidoth, Evasion, 64-5. For some comparative perspectives discussing publicity in other jurisdictions, see Wilkenfeld, Taxes, xiv (comparing the Israeli experience and that of Japan and Sweden); Jones, “Class Tax,” 689-90; Kornhauser, “Doing the Full Monty” (discussing publicity provisions in the United States).
acquaintances and be subject to community censure.\textsuperscript{49} It was meant to “stir public indignation against taxpayers who had grossly underreported their income,” to shame them and thus to increase tax compliance.\textsuperscript{50}

The first register, containing four volumes and pertaining to the 1952/3 tax year, was published in 1955. It included the names and reported income of self-employed individuals, corporations and wage-earners who earned more than 25% of their income from sources other than wages.\textsuperscript{51} The register was published as a book and sold to the public for a small fee.\textsuperscript{52} It gained a lot of public attention, but ultimately proved a failure. One problem was that it contained many errors. Another problem was that some of the taxpayers disputed their assessments. The law required the Revenue to publish amendments to the original lists in those cases in which the taxpayer’s assessment was revised. The publication of the revised assessments undermined the credibility of the initial register.\textsuperscript{53} The second issue of the register, dealing with the 1953/4 tax year was delayed. It too proved to be full of errors. The third and final issue was published in 1958. After this issue the experiment was discontinued.\textsuperscript{54}

Failure was not merely the result of the technical difficulties of publishing accurate lists. It was also the result of cultural aversion to the informer role that the

\textsuperscript{49} “Tax Assessments Published for Self-Employed Earners,” \textit{J.P.} 10/9/1955; “Leket min ha-‘Itonut” (Newspaper Clippings), \textit{Y.P.} 8 (December 1955); Wilkenfeld, \textit{Taxes}, 104-105, 131.

\textsuperscript{50} Wilkenfeld, \textit{Taxes}, 132; “Leket min ha-‘Itonut” (Newspaper Clippings), \textit{Y.P.} 8 (December 1955).

\textsuperscript{51} Wilkenfeld, \textit{Taxes}, 131.

\textsuperscript{52} Lapidoth, \textit{Evasion}, 64-65. Copies of the list can be found in the Israel State Archive, Jerusalem.

\textsuperscript{53} Wilkenfeld, \textit{Taxes}, 130-31.

register was supposed to encourage. “Traditionally,” said one observer, “the informer is frowned upon by the Jewish community. Informing to the tax authorities, whom many considered an adversary, went against the grain.”

Extensive activities were also undertaken in order to encourage the keeping of account books. In the beginning of the 1950s, it was estimated that about 95% of the self-employed did not keep any kinds of books for tax purposes. The original Income Tax Act did not contain provisions demanding bookkeeping. It was only in 1952 that the Act was amended and a section empowering the Tax Commissioner to require bookkeeping was enacted. The first regulations requiring bookkeeping were issued in 1953. They did not impose a universal bookkeeping requirement but instead dealt only with certain professions such as doctors, lawyers and engineers. In 1955, the regulations extended the requirements to artisans and traders. In conjunction with the expansion of the legal requirements, American technical advisers to the Israeli Revenue created model books and developed methods of instruction of taxpayers in bookkeeping methods. Still, by the end of the 1950s only about 12% of the self-employed were formally required to keep books.

Because many returns filed in the early 1950s were unreliable and because bookkeeping requirements were initially imposed only on a small group of taxpayers,

55 Wilkenfeld, Taxes, 104-105.
56 Anderson, Income Tax Administration, 7-12; Lapidoth, Evasion, 81ff.
57 Anderson, Income Tax Administration, 3.
58 Lapidoth, Evasion, 83.
59 Wilkenfeld, Taxes, 155.
60 Anderson, Income Tax Administration, 11.
the Revenue had to find other means to arrive at realistic assessments. The solution found was to use standard assessment guides (tahshivim), based on economic research conducted by the Office of the Tax Commissioner. The first guides were prepared for farmers in various agricultural activities. Farmers were considered as “inclined… to be resentful of authority and very difficult to assess.” Many were Arab, and the guides were therefore seen as “a great help in bringing the Arab farmers into the tax network on a fair and scientific basis.” After creating such guides for various agricultural occupations, subsequent guides were prepared for various types of food producers, retail establishments, craftsmen and transport services providers.62

The use of these standard guides was viewed as a temporary measure, until bookkeeping would become more prevalent. It was also a way to increase the objectivity of the tax assessment process and even to involve groups of taxpayers in it (since some of the guides were prepared with the cooperation of the representatives of the businesses concerned). The standard guides were also considered a way to “scientize” tax assessments, because they were prepared by a staff of economists in the Revenue Administration and based on statistical studies.

Another project meant to provide more data on taxpayers was the Farm Inventory Program. The aim of this program was to provide information on which to base the assessments of farmers, who had previously been covered by agreements relieving them of the responsibility for filing individual returns. In 1955, the American advisors to the Israeli Revenue conducted a pilot program to map farm inventories in three Israeli villages. Based on the success of this project, they devised a plan for a comprehensive survey of farm inventory in all tax districts and for creating a national land map for tax purposes.63


An additional “scientific” tool used in the process of reform was taxpayer surveys. In 1954, the Ministry of Finance enlisted the Israel Institute for Applied Social Research to conduct a survey of 2,000 taxpayers in order to gauge taxpayer attitudes. Additional taxpayer surveys were carried out in subsequent years. In 1962 the Revenue hired a sociologist to advise the Revenue on increasing tax compliance. These surveys were not published. However, in 1974, the State Revenue Administration began participating in a general weekly public opinion survey conducted by the Hebrew University of Jerusalem. These surveys attempted to determine the scope of non-compliance by asking respondents whether they believed taxpayers generally were complying with the income tax laws. About 20% of the respondents replied that they believed that the majority of taxpayers were not complying.

C. Reducing Friction: One important goal of the administrative reforms of the mid-1950s was to reduce contact between taxpayers and tax officials, thus decreasing friction and assuring smoother and more efficient operation of the tax collection machinery. The grip on small taxpayers, who were not providing much revenue, was relaxed in order to focus more attention on larger taxpayers. Tax officials were


65 Wilkenfeld, Taxes, 114-115. The experience proved to be a failure, and when the sociologist left the Revenue in 1964, he was not replaced by a new adviser. See Yehezkel Dror, “Public Administration: Four Cases from Israel and the Netherlands,” in The Uses of Sociology (Paul F. Lazarsfeld et al., eds., New York: Basic Books, 1967), 418, 420-1.

66 Bar Haim, “Sikrey Da’at Kahal."

67 Wilkenfeld, Taxes, 15, 95-6. See also Artzi, “Yahase Tsibur be-Minhal ha-Hachnasot.”
encouraged to communicate with most taxpayers by letter or telephone. An explicit effort was also made “to break taxpayers of the habit of dropping in to the offices [of tax officials] without appointment.”

Specific attention was paid to redesigning the assessing offices in which taxpayers met tax officials. In Tel Aviv, for example, one assessing office was initially housed in a bank building. The tax inspectors sat together in a large open space. “With many conversations going on simultaneously, the general noise level was very high, frequently penetrated by cries of anguish or outrage… the general atmosphere was more like a marketplace than a government office.” The redesign of office space was carried out based on advice given by two special advisors sent to Israel by the American government. These advisors established a model income tax office in Netanya, a small town north of Tel Aviv. They created an office in which there was an information clerk near the entrance, seats were provided for waiting taxpayers and the filing system was improved in order to eliminate delays in supplying inspectors with files for interviews. Studies were also carried out in order to improve the flow of work and reduce friction in tax offices by paying attention to such items as signs, lighting, ashtrays, decorations and furniture.

Files played an important role in the effort to improve service and reduce friction. The interest in filing technology is not surprising. Files were perhaps the most important material object of pre-computer tax administration. Thus, in the anarchical period immediately before the British left Palestine, Jewish employees of the mandate government were instructed by the Jewish shadow government to protect British income tax files from destruction. In some towns, tax offices were located in areas which

68 Wilkenfeld, Taxes, 96, 98-9; T. Brosh, “Yakhase Tsibur be-Minhal ha-Hachnasot” (Public Relations in the State Revenue Division) 4 Sherut 30 (April 1957).

69 Wilkenfeld, Taxes, 95; Anderson, Income Tax Administration, 19.

70 Artzi, “Yakhase Tsibur be-Minhal ha-Hachnasot.”
became battlegrounds between Jews and Arabs, and some Jewish employees risked their lives in order to save the files, so that income tax collection could proceed smoothly after the British left.\footnote{Wilkenfeld, \textit{Taxes}, 72.}

Filing technology thus became an important issue of mid-1950s tax reform. One “important achievement” of the American technical advisors’ mission to Israel, these advisors reported, was “the installation of file cabinets and two types of patented files” in the model income tax office which they helped set up. In this office, the new patented files and filing cabinets replaced the previous open shelf filing system and the “antiquated British files…[of] the type in which papers are fastened by a string.” Filing a paper in the old British files, it was explained, “is a real chore when the paper pertains to a tax year toward the bottom of the file and scores of papers must be removed from the file and the string then must be rethreaded through all of these papers.” One new kind of patented file, the advisers enthused, “even allows keeping each year’s papers under a separate spring, and a new paper can be readily slipped under these springs without distributing or moving other papers in the file.”\footnote{Anderson, \textit{Income Tax Administration}, 18-19.} Filing technology was augmented by the mechanization of operations, first by using adding machines and creating a central card index of taxpayers, and later, in the mid-1960s, by computerization.\footnote{Wilkenfeld, \textit{Taxes}, 127-134.}

Since files were an important component of the tax collection machinery, they also became the symbolic victims of tax protests. Thus in one 1957 incident, a taxpayer burned 200 files in a Tel Aviv income tax office after his request to postpone payment of tax arrears was refused (unfortunately for him, his personal file escaped the fire).\footnote{“Tax Defaulter Burns Files, But His Escapes,” \textit{J.P.}, 16/10/1957.}
Another important factor in reducing taxpayer friction was the creation of public trust in the Revenue by increasing public participation in the tax assessment process and by reducing the discretion of the assessing officers.\(^75\) To this end, the Revenue set up advisory committees which included members of the public and assisted the authorities in the process of assessments.\(^76\) Each committee was composed of two local business people familiar with the line of business of the assessed taxpayer. These committees were called to hear objections to assessments made by the assessing office, and authorized to approve the assessment or recommend its revision.\(^77\)

**D. Education:** Another important method for creating compliance was tax education and propaganda, used to convince Israelis that when they paid taxes, they were paying themselves.\(^78\) Newspaper ads, explanatory pamphlets, public meetings with taxpayers and organized tours of tax offices were employed.\(^79\) Courses were designed to familiarize secondary school students with the notion of taxation and instill compliance.\(^80\) It was also suggested that lessons in taxation would be taught in the

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\(^77\) Wilkenfeld, *Taxes*, 182-95.


armed forces, which, said one American observer, were “Israel’s most important institution for training in citizenship.”

The Revenue established a museum of taxes in 1964. The museum was designed “to develop among the general public a better understanding of the role of the tax system and of the relationship between proper taxpaying and good citizenship.” Visitors’ reaction was enthusiastic. “I did not believe that one can find such a subject, that is really so dry, exciting,” wrote one visitor in the guestbook, but “I did.” The American Commissioner of Internal Revenue visited the museum after its inauguration and this visit apparently led to the installation of a permanent tax exhibit in the main lobby of the Internal Revenue Service building in Washington, DC.

The cinema was also used. In 1955, the American advisers to the Revenue prodded Israeli officials to produce an income tax movie. Initial fears that the movie would become “the subject of ridicule” were overcome. The Government Information Administration commissioned a local studio to produce a 12-minute film, called *The Tsippori Affair*. This film told the “amusing and enlightening” tale of a tax resister who

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80 Anderson, *Income Tax Administration*, 22 (reporting a proposal “to assist the Ministry of Education in the development of lessons on taxation to be taught in the secondary schools”); “School Students to Study Tax System,” *J.P.* 14/12/1956; Artzi, “Yahase Tsibur be-Minhal ha-Hachnasot,” 23 (reporting a seminar for history and civics teachers in high schools on tax matters). The initial attempts to create such courses were not very successful. See Wilkenfeld, *Taxes*, 108-109. However, they were more successful in the 1960s. See Shulamit Aloni, “Al ha-Hinukh le-Toda’at ha-Masheke-Korakh Tzodek” (On Education on Taxation as a Just Duty), 3 *R.Y.M.* (1968) 205 (a Knesset member calling for the institution of a special course on taxation in schools); “Ma’arekhet ha-Misim be-Yisrael: Homer ‘Ezer la-More be-Nos’e ha-Misim” (Book Review: The Tax System in Israel: Materials for Teachers Teaching Taxation), 4 *R.Y.M.* 346 (1969).


83 See “Ha-Museon le-Misim – Pone Elecha” (The Tax Museum Calls You) 20 *Sherut* 3 (September 1964); Wilkenfeld, *Taxes*, 102-103.
organizes protests against the income tax only to discover that all government services
had been shut down for lack of funding: He visits a hospital and a welfare office and
discovers that they are closed because of the non-payment of income taxes. He goes to a
primary school and meets children who are sitting outside the front door, playing cards,
drinking wine and smoking cigarettes. A small girl puts on lipstick (see fig. 1).

Fig. 1: A Scene from "the Tsippori Affair": The primary school is closed. A young girl puts on lipstick.

Tsippori sees a half-finished road and bridge. Workers are sitting idly next to their
earth-moving equipment. Two thieves attack him and take his money, but the police
station and the courts are closed. Finally he is pursued by three Arab soldiers. He flees
to an army base but discovers that it too is closed.⑧ Reviews of the film were
enthusiastic. It was described as “among the best [civic education films] so far produced

⑧ The Tsippori Affair; a copy of the movie can be found in the Israel Film Service.
in Israel and certainly the most entertaining.” One report stated that “audience response was favorable everywhere and the movie even drew applause at many showings.”

Government officials were closely involved with the production of the movie. The script was vetted and revised by the Minister of Education and Culture, Zalman Aran, who asked the producers to delete some of the scenes. One of the scenes revised was the school scene. Initially, this scene showed the idle children sitting outside the front door of the school playing cards, smoking cigarettes and drinking vodka. The vodka-drinking was deleted, perhaps because it was considered too shocking.

3. Aftermath: Success and Export

Reforms carried out in the mid-1950s proved successful. Social perception of taxation changed. While in the late 1950s one could still find letters to the press complaining about arbitrary income tax assessments and harsh treatment by tax officials, by the 1960s these complaints were replaced by admiring reports. One women’s magazine informed its readers that “six or seven years ago the customs office in the port of Haifa looked like a scene from Dante’s Inferno: Red-faced or pale travelers shivering while they argued with the customs officers as their wives were crying or screaming hysterically… as new Parisian dresses became wrinkled rags during customs inspection. Today things are completely different. Everyone… gets rapid and courteous treatment.”

85 Anderson, Income Tax Administration, 7, 24-25 (describing how the income tax movie was made based on sample movies sent to Israel by the Kentucky Department of Revenue). For an interesting analogy see Jones, “Class Tax,” 716-17 (discussing a World War II animated income tax movie starring Donald Duck).

86 Letter from Yigal Efrati to the Director of Information Administration, June 30, 1955 (Israel Film Service File).

87 Quoted in S. Gafni, “Hesegenu Mahayvim Hemshekh” (Our Achievements Require Continuity) 16 Sherut 26 (1962). See also M. Talmi, “‘Al Mizbah Mas Hachnasah” (On
The change in public perceptions was one factor which led to the growth in compliance from the mid-1950s onward. This growth was also assisted by external factors. First, the change may have been the result of an increase in acts of terrorism against Israelis and the threat of the Egyptian armament project of 1955 which ultimately led to the Suez crisis and the second Arab-Israeli war of 1956. Second, the change in the level of compliance may also have been the result of continuous rise in the real income per person (real income grew by an annual average of 6% between 1950 and 1965), and the simultaneous reduction of the tax burden (see fig. 2).

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88 These events led not only to a rise in compliance but also to the re-appearance of an official system of voluntary contributions reminiscent of the 1940s. For an extensive discussion see Wilkenfeld, *Taxes*, 111, 214; Mordechai Berger, *Neshek le-Yisrael* (Arms for Israel) (Jerusalem: Tax Museum, 1968).

Figure 2: Effective tax rate for a married employee with two children (tax as percentage of income for three sample annual incomes) 1948-1965.

Source Mandel, *Hitpatkhut*, p. 73, table 34.
Finally, the change may also have been the result of increased criminal enforcement. Thus, by 1960, the number of prosecutions for offences connected with tax evasion stabilized at around 300 cases per annum.\textsuperscript{90}

By the mid 1960s, one could see many indications of the change in compliance. One indication of this was that judges were now more willing to impose jail sentences on tax offenders. Thus, while judges in the 1950s imposed only light fines using the fact that tax evasion was widespread as a mitigating circumstance, in the early 1960s, imprisonment became more common.\textsuperscript{91} Perhaps another manifestation of the success of the anti-evasion campaign was that the newsletter of the Revenue contained fewer discussions of evasion. Another indicator is the growing reach of the tax authorities. When the British Mandate ended in 1948, there were 90,000 income tax payers. In 1962-63, the number of taxpayers increased by a factor of 7 to 600,000 taxpayers (while the population of Israel only doubled during the same period).\textsuperscript{92} Part of this growth was due to an expansion of the income tax in the 1950s to low-income taxpayers, but it was also the result of the fact that tax collectors were now reaching sectors of the population that were previously untaxed, such as Israeli-Arabs.\textsuperscript{93} One final mark of the maturity of the system was the public reaction to tax-related suicides. In 1954, the suicide of the

\textsuperscript{90} Reaching a point in which Israel had more per-capita criminal prosecutions for tax evasion than United Kingdom and the United States. See Wilkenfeld, \textit{Taxes}, 241-2; Lapidoth, \textit{Evasion}, 122-3; Ze’ev Sharef, “Hartza‘at Mar Ze’ev Sharef” (Lecture at a meeting of the Tax Authorities with members of the Accountants Association), 10 \textit{R.H.}, 135, 140-1 (1959/60).

\textsuperscript{91} Wilkenfeld, \textit{Taxes}, 242. See, e.g., Criminal Appeal (Tel Aviv) 297/61 \textit{K.B. Ltd., v. Attorney General}, 12 \textit{R.H.} 216-17 (1962); Criminal Appeal 96/64 \textit{Attorney General v. Boneh Yotser}, 14 \textit{R.H.} 482 (1964) (cases stating that imprisonment should be the proper punishment for tax evaders and that there is a need to use this punishment in order to publicly express the Court’s view on the matter).

\textsuperscript{92} Mandel, \textit{Hitpatkhut ha-Misim be-Eretz Yisrael}, 21, 51.

\textsuperscript{93} Gideon Winegart, “Mas Hachnasa be-Kerev ha-Mi‘utim” (Income Tax and the Minorities), \textit{Haaretz} 14/9/1960 (reprinted in 14 \textit{Sherut} 31 (December 1960)).
Jerusalem confectioner and alleged tax evader, Israel Sinai, led to a major political crisis. In 1966, on the other hand, a similar suicide of a factory owner who leapt to his death leaving a note which said “pay to the order of the Angel of Death – the Income Tax [official]: the sum of my whole life” went almost unnoticed.  

The rise in the level of voluntary compliance in the 1960s was accompanied by a desire on the part the Israeli Revenue to increase compliance using other, simpler and more efficient taxes. In the middle of the 1960s, the Revenue began examining the possibility of introducing a VAT. A public committee established in 1971 recommended that VAT based on the European model be introduced. The tax was finally enacted in 1975, and has served as a major source of revenue ever since.  

While its contribution to increasing compliance was certainly one of the factors that led to the introduction of VAT, it seems that other considerations were more important. The committees which suggested the tax viewed VAT as more neutral and therefore more efficient than the income tax. In any event, income taxation has not been totally replaced by indirect taxes in Israel and even today, the income tax still accounts for about half of the Israeli tax revenues.  

\[94\] See “To the Angel of Death – The Income Tax,” J.P. 4/11/1966. Another income tax-related suicide (the ‘Olamit case) which occurred in 1959 is described in Wilkenfeld, Taxes, 237. The fact that the system matured does not mean that evasion ceased to be a problem. See Lapidoth, Evasion, 189 (noting in 1966 that “in spite of the extensive measures against evasion… [it has] remained much more common than it is in the United Kingdom.”)  


\[96\] For annual data on the structure of the Israeli tax system and the relative and absolute yield of various taxes see the annual reports of the Israeli State Revenue Administration at http://www.mof.gov.il/hachnasot/. On the effect of VAT on compliance see e.g. Richard M. Bird & Eric M. Zolt, "Redistribution Via Taxation: The Limited Role of the
Israel’s tax administration machinery was reformed in the 1950s using technical assistance provided by the United Nations, the IMF and the United States. The process of tax administration reform was part of a larger project involving more than 200 experts who were sent to Israel under the sponsorship of the United States Operations Mission to Israel (USOM). Many of these experts were involved in increasing industrial productivity. The tax administration advisers can be viewed as the counterparts of the industrial productivity experts, bent on increasing administrative “productivity” and “efficiency,” terms which played a central role in American tax administration discourse at the time.

Following the massive influx of American technical assistance, Israel came to serve in the 1960s as a minor hub in the global network of knowledge on tackling evasion and avoidance. Israeli experts were sent to African countries such as Ghana and Uganda, helping these countries reform their tax collection methods.

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98 On the rise of “efficiency,” and “management techniques” discourse in the late 1940s American tax administration discourse, see generally Jones, “Mass-Based Income Taxation,” 144-6.

99 The Israeli case was only one example of the export of tax administration expertise by American advisors. Another instructive example, which clearly illustrates the connection between “Empire” and “colony” in this context, as well as the security-related implications of the export of tax administration technology, is found in a booklet summarizing a symposium on tax administration held by CENTO (the Central Treaty Organization) in 1965 in Iran. See CENTO, “Symposium on Tax Administration (held in Tehran, Iran March 6-12, 1965), 28-30, 151 [a copy is available in the NYU Law
III. Compliance and Modernity

The history of the creation of a tax compliance culture in Israel of the 1950s can be linked to critical discussions of modernity in a number of ways. The following section will discuss three such links: the creation of self-policing subjects and officials; normalization and individualization.

1. Self-Policing Individuals

Foucault identified modernity with the idea of constant surveillance by the gaze of disciplinary power. For him, as for other critical theorists of modernity, the inventory and map were important manifestations of the modern surveillance state (or the "state of legibility" to use James C. Scott's term). The Israeli manifestations of this aspect of modernity were the maps of farm inventories created to facilitate the Israeli Revenue’s gaze and the standard assessment guides (tahshivim) that created a “calculus of organizational activities” which would enable the Revenue to monitor individuals, firms

School Library]. One might also compare the Israeli story to that of the tax reforms carried out in late 1940s Japan. On these reforms see e.g. Birger Nerré, "The Japanese Post-War Tax Culture Shock Reconsidered [unpublished manuscript on file with author]; W. Elliott Brownlee, "The Shoup Mission and the 'Reverse Course' of Occupation of Japan," [unpublished manuscript on file with author]. For a critical analysis of this phenomenon generally see e.g. Miranda Stewart, " Global Trajectories of Tax Reform: The Discourse of Tax Reform in Developing and Transition Countries," Harvard International Law Journal 44 (2003): 139.

100 See Meir Lahav, “Agaf Mas Hakhnasa be-Ghana” (The Income Tax Department in Ghana), 2 R.Y.M. 372; Yehuda Peleg, “Kakh Hunhag Mas ha-Kniya be-Uganda” (How Uganda Adopted the Purchase Tax), 4 R.Y.M. 104 (1969); Wilkenfeld, Taxes, 87; Wilkenfeld, Taxes, 87; Lapidoth, Evasion, 9.

and indeed the entire economy.\textsuperscript{102} The use of architecture to foster compliance in redesigning tax offices, and the enlistment of institutions such as schools and the army to instill compliance also have obvious Foucauldian implications.

Surveillance is related to self-policing, which lessens the need of the state or non-state institutions to constantly monitor their subjects. It is not surprising that self-policing was an important goal of Israeli tax officials in the 1950s. Law, remarked one Israeli official in 1953, “usually constitutes an outside force whose influence on the soul is weak. [Law] is a gazing eye (‘ayin tsodiyyah) or a punishing hand, but it is an eye that cannot gaze into the distance and a hand, although it may be strong, that cannot enter nooks and crannies…willingness [to pay taxes] can only be awakened by education…we will not be able to fulfill our role as long as we do not engage in proper propaganda (hasbarah).”\textsuperscript{103}

The disciplinarization of society was accompanied by a disciplinarization of officials. As Colin Gordon, following Polyani, observed, “Bentham’s Panoptic principle of ‘inspectability’ had its applications not only to prisons and convicts, but also to ministries and civil servants.”\textsuperscript{104} The management of the Revenue was accordingly obsessed in the 1950s with controlling, reforming and "civilizing" the behavior of tax officials. “The education of the official,” said one tax official in 1955, “should precede the education of the public…. A progressive and intelligent government does not treat the public passively, merely forbidding certain things… no institution can be efficient if it cannot work in an atmosphere of goodwill and honor from the public which elected

\begin{flushleft}
\textsuperscript{102} See generally, Preston, “The Taxman Cometh.”

\textsuperscript{103} H. Williamovsky, “Yahase Tsibur” (Public Relations), Y.P. (June-July 1953), 15-16.

\textsuperscript{104} Gordon, “Governmental Rationality,” 27. One factor which may have led to such a desire may have been fear of corruption. However, at least in the case of 1950s Israel, corruption did not seem to be a major concern. Instead, the disciplining of officials was seen primarily as a way to create public trust in the tax collection machinery.
\end{flushleft}
It is no wonder that the internal newsletter of the Revenue (which was one of the major tools in the campaign to "civilize" tax officials) was full of articles instructing tax officials how to behave properly. For example, a table entitled “Correct and incorrect ways of treating the public” contained the following examples:

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<table>
<thead>
<tr>
<th>Right</th>
<th>Wrong</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. [Official] present when the invitee</td>
<td>1. Is not present</td>
</tr>
<tr>
<td>arrives</td>
<td></td>
</tr>
<tr>
<td>2. Says “hello”</td>
<td>2. Does not say “hello”</td>
</tr>
<tr>
<td>3. Sits up straight</td>
<td>3. Slumps on his table</td>
</tr>
<tr>
<td>4. Offers a cigarette</td>
<td>4. Smokes alone and does not offer a</td>
</tr>
<tr>
<td></td>
<td>cigarette</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Does not read the newspaper in front</td>
<td>16. Obstinately continues reading the</td>
</tr>
<tr>
<td>of the invitee</td>
<td>newspaper</td>
</tr>
</tbody>
</table>

The Revenue appointed a special assistant to deal with public relations whose role was to instruct the officials in dealing fairly with taxpayers. This assistant warned tax officials: “The development of economic, social and cultural life means that people are no longer willing to remain passive in social and political life, they are no longer cogs in a machine. People want to know and learn, and this is the source of the demand from the citizen to explain our actions and decisions, and we must get used to this situation…. If we continue to behave properly, with patience, fairness and courtesy, the general public will also get used to treating us in a civilized way.”

The assessing officer, said another official in 1956, “should reach a stage in which the citizen will leave his office satisfied and will pay [his taxes].”

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2. Normalization

Israeli officials in the 1950s believed that the major challenge facing them was to turn a hodgepodge population of Jewish refugees from Europe and the Middle East who flooded the country after 1948 into “normal” Israelis. The first Israeli Prime Minister, David Ben Gurion, said in 1951 that “the overwhelming majority of [the new immigrants] are destitute in every way. Their property was taken from them [by the Nazis and Arabs] and they did not receive education and culture. The diasporic Jewish communities which are now gathering in Israel do not constitute a nation yet, but are rather a mixed multitude ['erev rav] and human dust [avak adam] without a language, without education, without roots and without drawing on the tradition and vision of the nation….Transforming this human dust into a civilized, creative independent nation with a vision - is no mean task. It requires a huge moral and educational effort.”

The same view was shared by many Israeli tax officials. These officials believed that one of the major obstacles to creating a tax compliance culture was the heterogeneity of the population. Various statements made in the 1950s show that normalization of the taxpayer population was foremost in the minds of tax officials. In 1953, for example, one official wrote in the Revenue newsletter that there are differences in the “civic maturity” of various immigrants. Those who come from “enlightened” countries are willing to pay taxes; those who come from “primitive” and “backward” countries try to evade them; and those who come from countries where Jews were legally persecuted have turned their habit of not paying taxes to the government into second nature. We must remember, concluded this official, “that we are not merely building a homeland, we are also building a people, and we have a duty to educate the citizen” that taxation is a necessity.

109 David Ben Gurion, ”Yihud vi-Ye'ud” (Uniqueness and Destiny) in Shanton Ha-Memshala (State Yearbook) (1951), 7, 15.

110 A. Stark, “Od ‘al Yahase Tsibur” (More on Public Relations), Y.P. (October November 1953), 51. On the
Another official complained several months later that following the 1948 war and the subsequent economic crisis caused by the war, Israel has reached an emergency situation in which “manners, integrity and morality are rare… and we are slowly sinking in levantinism, God forbid. If this continues, we will no longer be a foreign body (as our enemies claim) in the Middle East.”

In a 1956 report written by Wayne Anderson, an American adviser on tax administration, it was argued that one of the major reasons for the problems in tax collection in Israel was the heterogeneity of the population - a “new and divergent population that represented a tremendous education challenge,” coming from countries where the tax authorities were seen as corrupt or were non-existent. The Israeli population, Anderson wrote, includes the “widest possible range of taxpayer attitudes. It had, and has, everything from the German-Jew or English-Jew, who came to Israel as a disciplined taxpayer, through the Romanian-Jew, who had only known an ineffective and corrupt tax system, to the Oriental-Jew, who had never been exposed to income taxation at all…. Immigrants, for the most part, had little or no knowledge of the national language, and the vast majority… brought with them a deeply ingrained attitude to the effect that ‘the Government is our enemy’.”


112 Anderson, Income Tax Administration, 2-3. On the identification between German-Jewish ethnic origin and tax compliance, see also H. Cohn, “Shiput ve-Hamarat Mishpat be-Kofer Kesef” (Judgment and Monetary Penalties), 5 Sherut 3, 8 (1957). An Israeli tax official, Arye Lapidoth, who quoted this passage thirteen years later, noted uneasily that “the statement contains a correct description of the differences in the attitudes to tax of the various groups … [but] the generalization concerning the influence of the country of origin on the different types of behavior cannot, of course, be more accurate than any generalization of that kind.” See Lapidoth, Évasion, 42. It seems, however, that some of the stereotypes persisted. See Azriel Kaminski, “Ha’alamat Misim ve-Kalkala Shkhora” (Tax Evasion and the Black Economy), 16 R.Y.M. 359 (1987) (quoting an economic study published in 1986 which argued that the level of tax evasion in Israel was among the highest in the West and attributing this to the fact that “Israel is a Mediterranean
Harold Wilkenfeld, another American expert, also noted that in Israel, evasion was an acute problem "because of the cultural diversity of its population. The adult population is still largely non-native born with diverse and frequently negative attitudes toward taxation."\(^{113}\) Because the immigrants of the 1950s "came almost entirely from the concentration camps of Europe or from the developing societies of the Middle East, few of them had had any experience of living as free citizens in a democratic society, and the sophisticated concepts of an income tax were a mystery to them."\(^{114}\) Israel, he later observed, was a country with a "developing citizenry."\(^{115}\)

Somewhat similar views were also expressed in the 1960s. In his preface to Arye Lapidoth’s 1966 comparative study of tax avoidance and evasion in Britain and Israel, Simha Gafni, the Director of the State Revenue Administration, noted that the book country in the negative sense of the word, with a problematic, disgruntled and undisciplined population"). I could not find statistical date from the 1950s or 1960s on differences in compliance between various ethnic groups. Public opinion surveys conducted in the middle of the 1970s found slight differences in beliefs about compliance between native-born Israelis and Israelis who were born in Middle-Eastern countries. See Bar Haim, “Sikrey Da’at Kahal,” 77, 79. For a general discussion of the link between compliance and ethnic heterogeneity Roth, *Taxpayer Compliance*, 136-7; K. J. Beron et al. "The Effects of Audits and Socioeconomic Variables on Compliance." in *Why People Pay Taxes: Tax Compliance and Enforcement* (J. Slemrod ed., Ann Arbor: University of Michigan Press, 1992), 67, 81-2; Natalie Taylor, "Understanding Taxpayer Attitudes Through Understanding Taxpayer Identities," in *Taxing Democracy* (Braithwaite ed.), 71.

\(^{113}\) Wilkenfeld, *Taxes*, 250.

\(^{114}\) Id., 5-6.

\(^{115}\) Id., preface. See also A. Sela, “Yakhase Tsibur be-Minhal ha-Hachnasot” (Public Relations in the State Revenue Division), 4 *Sherut* 29 (April 1957); P. Rosen, “Hochaha Muhashit le-Shilton Demokrati,” 13 *Sherut* 10 (1960). These insights can also apply to transition economies such as those of Eastern Europe or the former Soviet Union. See e.g. Benno Torgler, "Tax Morale in Transition Economies," *Post-Communist Economies* 15 (2003): 357. Another interesting comparison would be to post-Apartheid South Africa. See Evans S. Lieberman, "How South African Citizens Evaluate their Economic Obligations to the State," *Journal of Development Studies* 38(3) (2002): 37.
“should be especially valuable to new countries whose officials may be lacking experience in taxation matters and whose population has not yet reach the required moral standards in respect to the payment of taxes.”\footnote{Lapidoth, \textit{Evasion}, 9.} Lapidoth himself noted in the introduction to the book that “taxpayers in Israel, unlike those in England, are still much more inclined to evade the tax than to resort to devices of avoidance.”\footnote{Id., 13, 15.} Lapidoth mentioned several factors which explained the difference. One of them was that the population of Israel was not homogeneous like that of England and consequently had a relatively low standard of tax morality.\footnote{Id., 41, 200-1.}

Israeli Supreme Court Justice, Alfred Witkon, in a review of Lapidoth’s book, accepted this proposition. The difference between Britain and Israel, he said, is that there is a “basic difference between an established and developed country and a new country. In a developed country, there is usually… a great degree of obedience to law on one hand and of sophistication on the other. In such a country the resistance to tax will find expression in ways of avoidance which will gradually become more refined. The opposite is true of a new country. Here the etatist sense and the sense of civic duty have not yet penetrated the consciousness of the heterogeneous citizenry, and so the emotional-moral force of the law is weak. Therefore there is no need for a cerebral effort and the advice of expensive advisors who are needed for tax planning and indeed the methods of tax evasion that reached the Israeli courts… were not artistic masterpieces.”\footnote{Witkon, “[Bikoret Sfarim]: ‘Al Hithamkut ve-Himan’ut me-Mas Hachnasah,” (Book Review: Evasion and Avoidance of Income Tax) 523.}

Sometimes evasion was identified as the mark of Diaspora Jews, the “Other” of secular Zionist Israelis. Unwillingness to pay taxes, argued one official, “is so
developed among us Jews... that we cannot change this using the English gentlemanly approach.... We must find a specifically Jewish method to fight the Jewish evasion and avoidance which are the legacy of [the Jewish] Diaspora.” Another official said that “as we know [in Israel] there is a tradition whose sources are found in the Diaspora of a hostile attitude toward any government and there some parts of the Israeli population do not that do not have even the most elementary notions about the nature of government and its role and the rights and duties of citizens.”

A satirical dialogue published in the Revenue newsletter in 1955 quoted a tax official telling a tax evader:

Sir, you must understand,
This is the law of the land,
By the way even in Romania and Poland,
You would not have evaded your taxes.

In a 1956 article, the Income Tax Commissioner contrasted the calm prevailing in European tax offices and the noise in Israeli ones, and attributed the difference, among


121 Gila Uriel, “Yahasey Tzibur,” 5.

other things, to “the Jewish temperament.””\(^{123}\) Another official said in the same year, “the [Israeli] citizen of today was until yesterday a wandering Jew, who did not see tax evasion as an immoral thing.”\(^{124}\) Haim Cohn, the Israeli Attorney General, said that Israelis still have a “diasporic” mentality in which “anyone who tries to circumvent the Income tax act and pays a bit less than he owes is not considered a sinner… and public opinion views him positively.”\(^{125}\) Sometimes the taxpaying public was referred to as the “generation of the desert,” a term often used in the 1950s to describe the new Jewish immigrants to Israel who, like their forefathers who wandered in the Sinai desert for forty years, were not yet fit for a life of political independence.\(^{126}\)

The notion that the Israeli population could be broken down into sub-groups, and that there was a link between ethnic origins and compliance, was echoed in discussions about compliance among Israeli Arabs. In the early 1950s the government was unable to collect taxes in the Arab sector.\(^{127}\) Tax officials therefore sought to “familiarize the Arab population with the idea of income taxation.”\(^{128}\) But the effort initially met with failure.\(^{129}\) Beginning in 1955 collection improved as the government discovered various ways of extracting taxes from Arab citizens of Israel, some of them based on arbitrary

\(^{123}\) T. Brosh, “Ba’ayot Beitsu’a Hok Mas Hachnasah,” 1 Sherut 3 (June 1956).

\(^{124}\) Josephberg, “Ha-Ezrah veha-Mefake’ah”.


\(^{126}\) “Beshule ha-Psikah” (Case Notes), Ha-Praklit 14(2) (1958): 1.


\(^{128}\) “Yom ha-‘Iyun shel Pkide ha-Shuma” (Assessing Officers’ Seminar), Y.P. (October-November 1953), 59.

assessments. Problems were compounded by differences between Arabs and Jews in social perceptions, consumption patterns, types of investments and in the literacy rate. Arab resistance to income tax collection led to a desire to tax Arabs “on a fair and scientific basis.” Officials also sought to increase Arab trust in government by including Arab citizens in the system of public participation in the assessment process. However, Arab opposition to the tax collectors continued well into the 1960s.

The attitude of tax officials to the new Jewish immigrants to Israel and to Arab citizens can be viewed as part of a wider story of modernization. Foucault described modern disciplinary practices as an “anti-nomadic technique,” used to treat social deviancy, associated with a host of unstable groups such as beggars and vagrants. Somewhat similar things can be said about the attitude of some Israeli tax officials. In creating a tax compliance culture, these officials sought to produce a social map of relative “normalcy” and “deviance” using easily identifiable markers (such as ethnic

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131 Wilkenfeld, Taxes, 144,5, 189. See also M. Elfandari, “Ye’ul ve-Shipur Darkhe ha-Gviya” (Improvement in Tax Collection Methods) 3 Sherut 8, 9 (December 1956); A. Sa’ad, “Mas Hachnasa bi-Kfare ha-Mi’utim,” 4 Sherut 53, 54 (April 1957); A. Sa’ad, “Mas Hachnasa be-Kerev ha-Mi’utim be-‘Asor le-Yisrael” (Income Tax Among the Minorities during the First Decade of Israeli Independence), 8-9 Sherut 14 (August 1958); Major Sasson Ben Zvi, “Shivte ha-Bedu’im be-Nafat Be’er Sheva” (The Bedouin Tribes in the Beer Sheba District), 10 Sherut 46 (February 1959); ‘Awad ‘Abdallah Ibrahim al-‘Abdallah, “Be-Shem ’Ekhay Netsige ha-Kfarim ha-‘Arviyim” (In the Name of my Brothers the Representatives of the Arab Villages), 13 Sherut 11 (1960).

132 “Arab MK’s Motion Divides Coalition,” J.P. 7/1/1960 (reporting that an Arab Knesset member charged that “tax officials were making the lives of Arab farmers ‘an intolerable hell’.”)

133 Foucault, Discipline and Punish, 218.
origin) in order to better understand and then cure the problem of compliance. In this they were merely replicating bigger trends. They, like many other modern administrators, sought to achieve "homogenization, uniformity, grids, heroic simplification." They believed that the major challenge facing the Israeli state was the creation of a homogenous, “normal” western society. The income tax was often viewed as a western tax. It is no wonder then that the story of creating tax compliance reflected the bigger project of westernizing Israeli society and its various components - whether Jewish immigrants from Eastern Europe or the Middle East or local Arabs.

It should be noted, however, that there was no monolithic homogenization discourse. One can also find statements that emphasized the individual nature of taxpayers. “Not all taxpayers have similar characters,” said one official “and they do not embody a single human group. This is a collection of individuals, each having his own good and bad sides; they belong to different classes; represent different cultural levels; distinct political views; non-uniform psychological reactions (courtesy and nerve; fear and cunning, etc.), and the role of the Revenue official is to adjust himself to the intellectual level of the different taxpayers, and adapt himself to their class and intelligence.”

134 Scott, Seeing Like a State, 8.


3. Individualization

An important aspect of modern governmental practice is the way they combine totality and individualization, the desire to create general laws, applicable to everyone in a given population, together with “pastoral power” which was directed at regulating, remolding and “curing” each specific individual subject, in order to obtain maximum prosperity and happiness for all.\(^\text{137}\)

Another related aspect of individualization is the state’s attempt to break down barriers between the state and individuals. James C. Scott observed that standardization of measure and simplification involved in statistics were meant to “undercut the intermediary structures between the state and the citizen and [give] the state, for the first time, direct access to its subjects.”\(^\text{138}\) In the specific case of 1950s Israel, where tax strikes were sometimes fomented by organized taxpayers’ groups, the importance of breaking the power of intermediate groups between the state and the individual was self-evident.\(^\text{139}\)

An instructive example of such an attempt is the story of the bookkeeping regulations that were enacted in 1955. Income tax officials negotiated with the representatives of various trade organizations (artisans, pharmacists, bakers, subcontractors) who were seeking various concessions from the drafters of the regulations. But they also tried to address taxpayers directly, bypassing these groups. When it became clear that there was serious resistance to the requirements of the regulations, letters were sent directly to taxpayers, telling them about the obligations under the regulation, thus undercutting the power of trade unions and Chambers of Commerce which opposed them.\(^\text{140}\)

\(^{137}\) Gordon, “Governmental Rationality,” 1, 8-10.

\(^{138}\) Scott, Seeing Like a State, 365, note 61.

\(^{139}\) Wilkenfeld, Taxes, 88-98.
Another example of the attempt to directly contact individual taxpayers can be found in the story of the farm inventory program. Jewish farmers in Israel were incorporated in political organizations that obtained various tax concessions from the government. One concession was that certain farmers would be exempt from the responsibility of filing individual tax returns. The farm inventory program was meant to undermine this concession and allow the Revenue to “deal confidently with those farmers formerly covered by agreements [exempting them from reporting].”

Attempts to break up individual resistance were also present in specific physical encounters between taxpayers and tax officials. “The waiting room in the tax official’s office,” said a public relations official working for the Revenue, “is the gathering ground of the citizen before the decisive battle [with the Revenue] and the question is to what extent we should give him additional ammunition in the last moment before the onslaught or whether we should weaken him. If the wall is not empty and if instead of two or three angry citizens waiting in the waiting room, one inciting the other as tension grows, if instead we give him reading materials, if something attractive is hanging on the wall, a tension-reducing caricature, a pleasing diagram – this will reduce tension.” Dealing with groups of people instead of isolating the taxpayer will lead to fewer taxes being collected, observed this official, recounting a visit he made to an office in which the tax collector’s desk was placed at the entrance to the office. The dialogue between the collector and a taxpayer was heard by all the other taxpayers present in the room. Since the tax collector often agreed to compromise with the taxpayer, the other taxpayers naturally demanded to be treated in the same way, thus causing a chain reaction. This problem could be prevented, noted the official, if the desk


\[141\] Id., 20-21.

were placed in another location within the office, one which would guarantee the secrecy of dealings with individual taxpayers.\textsuperscript{143}

The efforts to break down collective resistance to taxation were not always successful. In the Arab sector, where collective social structures were stronger, the Revenue often resorted to reliance on intermediaries, such as village headmen and informers. This sometimes led to backlash against these agents of the state. An instructive example is a 1958 riot involving Arab villagers in the Galilee, who stoned the house of a man suspected of being an income tax informer.\textsuperscript{144}

IV. Conclusion: The Darker Side of Compliance

This article told the story of the creation of a modern tax compliance culture in Israel of the 1950s, showing how, in reaction to massive non-compliance by the new citizens of Israel, the state utilized various techniques, practices and discourses to "train" its citizens to pay their taxes, creating compliance where none existed before. The article also argued that the story of the creation of tax compliance culture cannot be understood in isolation, but must be viewed as part of a far wider phenomenon – the attempt to produce normalized, individualized, self-policing model citizens.

The story told here can serve as a starting point for many other projects. Obviously, once possibility would be to compare the Israeli case to that of other developing countries. Was the relative success of Israel in creating a functioning tax culture due to the variety of the techniques used? Did it have to do with the small size of the country or the external security threat? Was the assistance of American tax technicians a crucial factor? Did British colonialism and the administrative apparatus it left as a legacy to the new Israeli state have a role to play?

\textsuperscript{143} Id., 25.

\textsuperscript{144} “Suspected Tax Informer Stoned,” \textit{J.P.} 21/10/1958.
These are all interesting questions that are beyond the scope of the present article. Instead of answering them here, I would like to conclude the article by pointing to its relevance to contemporary normative debates about the proper attitude to one form of non-compliance - tax avoidance. My intention is to show that the story just told can be used to enrich our understanding of the history of official attitudes tax avoidance and its most recent manifestation, the corporate tax shelter problem.\(^{145}\)

One of the major problems for tax administrators in the 20\(^{th}\) century (and indeed today) has been the growth in tax avoidance, as tax administrations became more capable of tackling evasion. Tax avoidance may be seen as one example of a larger set of quasi-analogous problems: the control of infra-legal behavior – forms of behavior which are not explicitly prohibited by the law (or at least not by a literal interpretation of it) but which some modern states and have come to see as important arenas for regulation.\(^{146}\)

In the history of 20\(^{th}\) century attempts to deal with avoidance, one can identify two opposing approaches. One approach is a substantive, interventionist approach to tax avoidance, based on the idea that the state needs to create citizens who do not only follow the letter of the law but also abide by its spirit. Tax avoidance, which is precisely the attempt to follow the letter of the law ignoring the legislator's intention (or the "spirit" of the law) becomes an important site for state regulation. The substantive approach to avoidance often leads to the examination of the intentions and motivation of the taxpayer, resulting in re-characterization of transactions that are driven by fiscal goals. One very radical example of the substantive approach can be found in the laws of Germany under the Nazi regime. German law had always been concerned with


\(^{146}\) Foucault, *Discipline and Punish*, 178-9.
avoidance and various provisions dealing with the issue were enacted by the German legislature. However, the rise of the Nazi party to power in 1933 further increased the scope of substantive intervention by the courts in tax avoidance schemes, based on the reasoning that tax avoidance methods ought to be disregarded, even without specific statutory authority, if they are “in violation of the public duty of loyalty imposed on every member of the community” in the Nazi State.\textsuperscript{147} Thus, for example, a German Supreme Fiscal Court case decided in 1935 declared that all tax laws should be interpreted according to the National-Socialist weltanschauung and that tax avoidance was an offence against “the loyalty the citizens owe to one another and to the country.”\textsuperscript{148} The opposite approach to tax avoidance is a formalist (some would say liberal) approach, which has characterized English law during most of the 20\textsuperscript{th} century. The American approach to tax avoidance can be placed somewhere between these two extremes.\textsuperscript{149} Obviously, each of these approaches represents a different conception of the proper scope of state intervention in the behavior of its citizens and a different idea about the propriety of state attempts to regulate not only the outward conduct of its citizens, but also their inner “soul.”

Accounts describing the transition from a formalist to a substantive approach to tax avoidance can be told using a whiggish narrative that only celebrates the rise of the


\textsuperscript{149} See generally Likhovski “Tax Law and Public Opinion" (discussing Britain); Likhovski, "The Duke" (discussing the United States).
substantive attitude by courts to tax avoidance.\textsuperscript{150} Wealthy taxpayers who avoid paying their fair share of taxes using a variety of sophisticated means unfairly place the burden of taxation of the shoulders of their less sophisticated (and often less wealthy) fellow citizens. Judicial attempts to prevent this, using a substantive approach are therefore praised.\textsuperscript{151}

But while there are certainly positive aspects to the substantive approach, it also has a darker side. Such an approach (certainly when it was taken to its totalitarian extremes, as was the case in Germany in the 1930s) can be seen as part of the state's desire to delve ever deeper into the minds of its taxpayers. It is an approach which does not merely seek to make taxpayers pay their taxes when the law explicitly demands that they do so. It also seeks to turn taxpayers into model citizens who behave and think properly, according to the spirit of the law.

The link that can be made between a substantive approach to tax avoidance and the history of attempts by states to normalize their citizens can enrich and deepen the debate about the relative merits of the formalist and substantive approaches to tax avoidance and thus assist us in striking a better balance between them. Ultimately, one might still conclude that a substantive, interventionist approach to tax avoidance is preferable. One might even applaud the attempt by modern states to create a culture of compliance or at least see its creation as an inevitable result of the demands of modern society. But these conclusions would be reached only after a deeper reflection on the

\textsuperscript{150} For an account of the rise of the substantive approach in American law which (at least implicitly) is informed by a narrative of progress see Likhovski, "Tax Law and Public Opinion."

benefits and well as the dangers inherent in such an endeavor, for example, the obvious
problems associated with trying to normalize individual taxpayers merely because they
belong to certain groups which are perceived as less "civilized." In this way, the critical
insights used in this article can also have indirect normative implications which are
relevant not just to tax historians and historians of modernity but also to anyone
interested in the contemporary debates about the proper attitude of courts and other
institutions toward tax evasion and avoidance.