"Training in Citizenship": Tax Compliance and Modernity

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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 taxpayers. 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 twentieth-century tax compliance generally and more specifically the history of judicial attempts to tackle tax evasion and tax avoidance.

INTRODUCTION: LUNATIC TAX EVADERS

The last decade has witnessed the rise of a large corporate tax shelter industry, employing lawyers, accountants, and bankers. The deeds of this industry have scandalized public opinion and led to major Senate and Department of Justice investigations (U.S. Senate 2005; Bankman 1998, 2004; Southern Methodist University Law Review 2001; Tax Law Review 2002; Morse 2006). The appearance of this industry has also prompted lawmakers and scholars to suggest various nontraditional remedies to deal with the problem including publicity and shaming provisions (Posner 2000; Kirsch 2004; Kornhauser 2005).

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While the corporate tax shelter industry is a relatively new phenomenon, the bigger problem of which it is a part—tax compliance—is not new. Noncompliance (in the form of criminal tax evasion as well as the milder, non-criminal form of tax avoidance, which is based on abusing loopholes in the tax law), has existed ever since taxes were first imposed. However, the methods of tackling noncompliance have evolved over time. The question that this article seeks to answer is how do the attempts of modern states to reduce noncompliance reflect more general attributes of modernity. This question is asked both in order to gain a better understanding of the history of official attitudes to noncompliance and also in order to gain a better understanding of the normative issues that underlie contemporary debates about compliance.

This article emerged out of a larger comparative project on courts and tax avoidance. Courts play a major role in fighting avoidance. But the scope of judicial intervention in tax avoidance schemes varies across space and time. Some courts (for example, the English House of Lords during most of the twentieth century) adopt a more passive, formalist, and protaxpayer attitude to tax avoidance. Other courts (for example, American courts since the mid-1930s) pursue a more active, substantive progovernment approach. Why do courts in different countries (or the same court in different periods) adopt different attitudes? What political, institutional, economic, and cultural factors determine the shape and scope of antiavoidance doctrines? This is the question that the comparative project seeks to answer (Likhovski 2004a, 2004b, 2007).

The academic literature of tax avoidance is often based on a Whiggish approach. Such an approach traces, and also celebrates, a progressive development from a formalist to a substantive judicial attitude to avoidance (Stevens 1978; Johnston 2003; but see Katz 1996). However as my comparative project developed, I came to realize that the Whiggish approach may be problematic. One of the factors that led to this realization was a social-scientific study of noncompliance that I discovered while working on the history of courts and tax avoidance schemes—a book entitled Evasion in Taxation, written by Victor Tranter, a University of London economist and published in 1929.

Tranter's book described various methods of evasion and avoidance 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; by educating them in the basics of "civics"; by initiating public relations campaigns; by

1. 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 offense. Instead, tax avoiders achieve their goal by abusing gaps or loopholes in the law without directly breaching specific statutory provisions (Thuronyi 1996, 44–45).
utilizing the services of teachers, accountants, and the clergy; and by declaring tax amnesties (Tranter 1929, 153–61).

As for “incurable” tax evaders, Tranter had the following suggestion:

So far 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. (162–63)

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 fraud should be treated exceptionally” (ibid.). 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” (170).

Tranter’s interest in using a variety of nonlegal techniques and institutions to normalize tax evaders, his desire for “scientific investigation” (ibid.) of the problem and, most of all, his bizarre 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 nonstate 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, model 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 used to normalize deviant individuals (Foucault 1989, 1995, 2003). In his later work he moved on to analyze the rise of an early modern and modern “science of police” created to improve and normalize entire populations (Foucault 1990, 1991; Pasquino 1991, 109–10; Gordon 1991, 9–11; Tomlins 1993, 41, 2006).2

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 (2000) suggested that modern Western states and modern Western individuals were both the product of a long-term “civilizing process” that, over many centuries, has succeeded in burying human violence, sexuality,

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2. For critiques of Foucault’s historical arguments, see, e.g., Spierenburg (1984); Higgs (2004); Engelstein (1993).
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 (1998) examined several case studies of state projects of standardization and legibility, showing how officials and nonstate experts (such as architects) employed various techniques and scientific practices in order to simplify and homogenize the resources and population under their control with the aim of better managing and manipulating it. Each of these critical descriptions of modernity focuses on different aspects of modern states and societies. 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 psychiatry, psychology, criminology, industrial organizations, and even accounting (Stewart 1992; Hoskin 1986; 1994, 73–74; Armstrong, 1994, 30–32) both in Western and in colonial societies (Álvarez-Dardet Espejo 2002; Kalpagam 2000a, 2000b; Mitchell 2002; Leibler 2004). How exactly is the critical description of modernity related to tax compliance?

Victor Tranter’s bizarre proposal—the creation of lunatic asylums for tax evaders—has not been implemented, but in the three-quarters of a century that have passed since he wrote his book, Tranter’s desire for the “scientific investigation of the whole question of evasion” (1929, 170)—has been fulfilled. There has been a tremendous growth in the number of social-scientific studies measuring tax compliance and suggesting various cures for noncompliance. One recent bibliography of works on the subject has listed about five hundred articles and more than twenty books (Ahmed 2003). 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.

3. Thus, for example, while Foucault’s work analyzes the use of scientific discourses and the disciplines to create the modern individual or the “modern” national population, Elias’s 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 megaprojects of high modernism. For a detailed comparison of Elias’s and Foucault’s works, see Spierenburg (2004) and Smith (1999).

4. There are very few works that use critical insights to examine the history of taxation generally and tax compliance in particular, although there are some critical studies of borderline areas between taxation and accounting. See Lemarchand (1999) and Preston (1989). Other works briefly mention Foucault’s relevance to the history of tax administration without exploring it in detail (see Colley 2001, 596, note; see also 2003, 93–95).

5. Among the many examples are the IRS Tax Compliance Measurement Project (TCMP) that began in the 1960s, the panel on tax compliance established by the American Academy of Science in the 1980s, and the research partnership between the Australian Taxation Office and the Australian National University established in 1999. See generally Roth, Scholz, and Witte (1989); Slemrod 1992; Braithwaite (2003).
A major puzzle that the social-science literature on compliance has sought to resolve is why most people pay their taxes, given the low rates of discovery of noncompliance and the low penalties imposed on tax evaders. The classic 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 taxes, despite the seeming irrationality of this behavior (Roth, Scholz, and Witte 1989; Webley 1991; Posner 2000). Most of these studies are based on universalist and a-historical assumptions. There are some studies that discuss differences in compliance between different “tax cultures” (Nerre 2002; Mumford 2002; Livingston 2005). However, there are very few works on tax compliance that use a historical methodology (but see Jones 1996). Even the few historical studies that do exist do not link the story of compliance to wider attributes of modernity.

Using a critical and historical approach to the problem of compliance, and shifting the focus from individual taxpayers to the state, allows us to ask new questions about the problem of compliance. For example, one can ask how did modern states create tax compliance cultures? What mechanisms did the state and nonstate institutions use to manufacture model taxpaying citizens? What techniques, discourses, and bodies of knowledge were employed? 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 the broader history of modernity.

This article does not attempt to provide a full account of the history of the creation of modern tax compliance cultures. Its aim is far more modest. It seeks to analyze one specific case that illustrates the link between tax compliance and some 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, created in 1948, was established amid wars that have continued ever since. Israel’s initial population numbered approximately eight hundred thousand persons, 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 culture 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 the 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 the Israel of the 1950s there was no powerful commercial and business elite that had an influence on the tax
administration. Finally, the birth of a tax compliance culture in Israel has been described in great detail by two acute observers, Arye Lapidoth (1966) and Harold Wilkenfeld (1973). Their works provide insiders’ perspectives that facilitate the reconstruction of the process.

Why link the history of compliance and modernity? The aim of the article is not to suggest new ways to improve compliance. It is not part of the social-science tradition of studying compliance in order to socially engineer better taxpayers. Instead, this article offers a critical perspective that seeks to uncover the darker side of compliance, not merely to celebrate its creation. By critically analyzing the history of one specific case, I seek to enrich the social-scientific literature, providing a more nuanced description of reality.

By linking compliance to more general aspects of modernity, such as the desire of state officials to normalize the population, the article also strives to enrich normative debates about the problems of tax evasion and tax avoidance, highlighting some of the problems that are inherent in trying to create compliance (which is usually perceived in the social-scientific literature as a totally unproblematic, positive phenomenon).

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 enrich existing accounts of the history of judicial attempts to tackle tax evasion and avoidance.

**TAX COMPLIANCE IN ISRAEL: 1930s–1960s**

1930s to 1954

Accounts of the history of Israeli taxation in the middle of the twentieth century divide this history 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 postwar struggle for Israeli independence in 1948 and the immediate period following the war. The second period, from 1951 to 1954, was a period of crisis and breakdown in compliance levels culminating in 1954, with the publication of the first reports on tax evasion.

in widespread tax revolts in 1954. 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 (Wilkenfeld 1973, 3).

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, the evasion of government-imposed taxes was socially encouraged in the Jewish community (3–4). This 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” (Anderson 1956, 1).7

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 the face of 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 Kafer 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 (Berger 1964, 1970).8

In addition to the external security threat, which was an important factor in fostering compliance, 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 their taxes. Social ostracism of those who did not comply was also utilized. Evaders were prevented from using the services of Jewish community institutions (which provided health, housing, and employment benefits) (Berger 1964, 33–34; 1970, 79–81, 94–96; Wilkenfeld 1973, 110–11). Simultaneously, evasion of official British taxes was encouraged (Wilkenfeld 1973, 4).

When the state of Israel was established in 1948, there was some expectation that Israelis would continue to pay their taxes, especially given the precarious security situation and the threat of annihilation that they faced (Wilkenfeld 1973, 4; see generally Segev 1984; Morris 1993). 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

7. Seventy-five percent of the income tax payers in Palestine in 1945 were Jews, despite the fact that the Jews constituted only 30 percent of the population (Mandel 1968, 4; Jerusalem Post 1948). For a pre-1940s argument about the relative distribution of the tax burden between the Arab and Jewish communities in Palestine, see Granowsky (1933, 359–61, 371–72).

8. For other examples of the relationship between compliance and external security threats, see, e.g., Daunton (2001, 2, 22; 2002, 65).
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. (Knesset Proceedings 1950a)

During the first months after independence, the desire to pay taxes to the new state may indeed have been strong. One tax official recalled that even though the citizens of the new state knew that after independence that 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. (Cohen 1958, 5, 9)

Soon, however, the early idealism waned. One factor that caused this, perhaps, was the improvement in Israel’s security. An additional factor leading to a decline in compliance was the government-imposed austerity measures that eroded the living standards of the population and extracted more and more money from the new citizens through a series of compulsory loans (Wilkenfeld 1973, 4-5, 54, 213-14; Mandel 1968, 78-103; Rozin 2002; Segev 1984, 280–305; see generally Shprinzak 1986). 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.9 In late 1953, an article published in the newspaper of the ruling Labor party claimed 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 (Agaf Mas Hakhnasa: Yedion Primi 1953c, 60; see also Ben-Amotai 1954, 65). Another estimate published in 1956 claimed that while employees were paying approximately 90 percent of their tax liability, the self-employed were paying roughly 50-65 percent (Anderson 1956, 5). 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 (Wilkenfeld 1973, 3; Cohn 1957, 3, 8).

9. For example, in 1949, Knesset Finance Committee Chairman Penkas declared that there were 122,000 income taxpayers but “tens of thousands of eligible payers do not pay the tax” (Knesset Proceedings 1949). In 1950, Finance Minister Kaplan complained that tax evasion is a “national sport” (Knesset Proceedings 1950b). In 1953, a tax official declared that “the plague of tax evasion has engulfed all classes of the public” (Shitark 1953, 50, 52). In 1954, Finance Minister Eshkol stated that tax evasion is widespread (Knesset Proceedings 1954). In 1955, a newspaper article 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” (Agaf Mas Hakhnasa: Yedion Primi 1955, 8; see also Brosh 1956a, 3). There were isolated, unconvincing remarks to the contrary. Thus, in 1953, the Income Tax Commissioner stated that the number of tax evaders is not large (Agaf Mas Hakhnasa: Yedion Primi 1953b, 58).
Initially, the government reacted to the problem through arbitrary assessment and collection methods. This, however, only made the crisis worse and led to a breakdown in the relationship between the public and the administration (Wilkenfeld 1973, 90). 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 (Wilkenfeld 1973, 8–13; Jerusalem Post 1954e, 1954f, 1954g, 1954h; Ha-Aretz 1954a, 1954b).10

"Training in Citizenship": Creating a Tax Compliance Culture in the Late 1950s

The Israeli Ministry of Finance was aware of the problem of evasion. However, many Revenue officials began their careers in the autonomous and voluntary Jewish tax system established during the period of the British Mandate. These officials often assumed that the high compliance levels they experienced in the 1940s would not decline, an assumption that proved to be unrealistic (Wilkenfeld 1973, 55, 56, 117). Ultimately, tax officials came to realize that a major overhaul was needed, and a series of measures were taken in order to increase compliance. Some of these measures were based on similar ones used during the 1940s. Others were based on advice supplied to the Israeli Ministry of Finance by foreign advisers affiliated with the U.N. technical assistance program, the U.S. Agency for International Development, and the International Monetary Fund (IMF) (7–8, 121, 123).

Criminal Prosecution

One obvious method of tackling evasion is criminal prosecutions. Prosecutions were initially ineffective because the income tax ordinance did not provide sufficient penalties for evasion. In 1954 the Income Tax Act was amended to increase penalties for tax evasion, and a policy of vigorous enforcement was adopted. In the mid-1950s judges still tended to impose

10. Tax strikes were common in 1954. The year began with another strike by small businessmen and artisans (Jerusalem Post 1954a, 1954b).
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 (Wilkenfeld 1973, 209–51; Likhovski 2004a, 370; Knesset Proceedings 1954; Lapidoth 1966, 121; Ro’eh ha-Heshbon 1960, 141). But legal sanctions were not the only means used to fight avoidance. The Revenue experimented with various nonlegal techniques for creating compliance. These methods can be divided into three categories: improving data collection, reducing friction, and education.

Data Collection, Calculability, Scientization

A major aspect of the 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 (Jerusalem Post 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 that might be relevant to the assessment of specific taxpayers. It was also charged with conducting undercover investigations of taxpayers suspected of evasion (Wilkenfeld 1973, 219–20; Birkenfeld 1959, 56).

One more method with which the Revenue experimented in the 1950s in order to collect data and 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 the register no later than a year after the close of each tax year (Hatsa’at Hok le-Tikun Pkudat Mas Hakhnasa, 1951 [Income Tax Amendment Proposal, 1951]; Hok le-Tikun Pkudat Mas Hakhnasa, 1952 [Income Tax Amendment Act, 1952]; see also Wilkenfeld 1973, 104–105, 130–32; Lapidoth 1966, 64–65).12

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 acquaintances and be subject to community censure (see Jerusalem Post 1955; Agaf Mas Hakhnasa: Yedion Pnimi 1955a, 8; Wilkenfeld 1973, 104–05,

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11. It should be noted that sometimes there are adverse effects to increasing criminal prosecutions, leading to a decrease rather than an increase in compliance. See generally Sheffrin and Triest (1992, 193).

12. For the use of similar measures in other countries, see Wilkenfeld (1973, xiv) comparing the Israeli experience and that of Japan and Sweden; Jones (1988, 689–90); Kornhauser (2005).
methods. Another more.

The first register, containing four volumes and pertaining to the 1952/1953 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 percent of their income from sources other than wages (Wilkenfeld 1973, 131). The register was published as a book and sold to the public for a small fee (Lapidoth 1966, 64–65). 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 (Wilkenfeld 1973, 130–31). 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 (see Jerusalem Post 1957a; see also Lapidoth 1966, 64–65).

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 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” (Wilkenfeld 1973, 104–05).

Extensive activities were also undertaken in order to encourage the keeping of account books (Anderson 1956, 7–12; Lapidoth 1966, 81). The original Palestine Income Tax Ordinance of 1941 did not contain provisions demanding bookkeeping. It was only in 1952 that the Ordinance was amended and a section empowering the Tax Commissioner to require bookkeeping was enacted (Hok le-Tikun Pkudat Mas Hakhnasa 1952; Lapidoth 1966, 83). The first regulations requiring bookkeeping were issued in 1953 (Hora’ot bi-Dvar Nihul Heshbonot shel Ba’ale Mikts’ot Hofshiyim Mesuyamim 1953). They did not impose a universal bookkeeping requirement but instead dealt only with certain professions, such as doctors, lawyers, and engineers (Wilkenfeld 1973, 155). In 1955 the regulations extended the requirements to artisans and traders (Hora’ot bi-Dvar Nihul Heshbonot shel Sitona’im ve-Kim’on’im 1955). 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 (Anderson 1956, 11). Still, by the end of the 1950s, only about 12 percent of the self-employed were formally required to keep books (Loewenberg 1961, 6).

Because many returns filed in the early 1950s were unreliable and because bookkeeping requirements were initially imposed only on a small
group of taxpayers, 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 because officials viewed farmers as “resentful of authority and very difficult to assess” (Wilkenfeld 1973, 145). Many were Arab, and the guides were therefore also seen as “a great help in bringing the Arab farmers into the tax network on a fair and scientific basis” (ibid.). 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 (Lapidoth 1966, 79–81; Wilkenfeld 1973, 144–45).

The use of these standard guides was seen as a temporary measure until bookkeeping would become more prevalent. It was also perceived as 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 advisers 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 (Anderson 1956, 20–21).

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 two thousand taxpayers in order to gauge taxpayer attitudes. Other taxpayer surveys were carried out in subsequent years (Wilkenfeld 1973, 96; Artzi 1957, 21, 23; Bar-Haim 1974). In 1962 the Revenue also hired a sociologist to advise the Revenue on increasing tax compliance (Wilkenfeld 1973, 114–15).13

The surveys conducted by the Revenue in the 1950s and 1960s were not published. However, in 1974 the Revenue began participating in a general weekly public opinion survey conducted by the Hebrew University of Jerusalem. Some of the weekly surveys contained questions designed to determine the scope of noncompliance, asking respondents whether they believed

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13. 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 Dror 1976, 418, 420–21).
taxpayers generally were complying with the income tax laws. About 20 percent of the respondents replied that they believed that the majority of taxpayers were not complying (Bar-Haim 1974).

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 (Wilkenfeld 15, 95–96). 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 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” (Wilkenfeld 1973, 96, 98–99; Brosh 1957, 30).

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” (Wilkenfeld 1973, 97). The redesign of office space was carried out based on advice given by two special advisers sent to Israel by the American government. These advisers 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 (Wilkenfeld 1973, 95; Anderson 1956, 19). 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 (Artzi 1957, 21).

Filing technology played an important role in the effort to improve service and reduce friction. This is not surprising. Files were perhaps the most important material object of precomputer tax administration. Their importance is illustrated by the fact that 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 that 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 (Wilkenfeld 1973, 72).

Filing technology became a major part of mid-1950s tax reform efforts. One “important achievement” of the American technical advisers' mission
to Israel, as Anderson (1956) writes, was “the installation of file cabinets and two types of patented files” (18) in the model income tax office that 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” (18–19). 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” (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 (Wilkenfeld 1973, 127–34).

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 two hundred 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 (Jerusalem Post 1957b).

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 officers14 (see, e.g., Williamowsky 1953a, 1953b; M. Y. 1954; Uriel 1955). To this end, the Revenue set up advisory committees that included members of the public and assisted the authorities in the process of assessments. 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 (Lapidoth 1966, 90; Wilkenfeld 1973, 14–15, 182–95).

**Education**

Another important method for creating compliance was tax education and propaganda, which was used to convince Israelis that when they paid taxes, they were paying themselves15 (see Jerusalem Post 1952b). Newspaper ads, explanatory pamphlets, public meetings with taxpayers, and organized tours of tax offices were employed (Wilkenfeld 1973, 91, 100–01, 104). School materials were created seeking to familiarize secondary school students

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15. For similar methods elsewhere, see, e.g., Jones (1988, 1996).
with the notion of taxation and instill compliance (Anderson 1956, 22; see also Jerusalem Post 1956a; Artzi 1957, 21; Wilkenfeld 1973, 108–09; Aloni 1968; Riv'on Yisraeli le-Misim 1969, 346). It was also suggested that lessons in taxation would be taught in the armed forces, which, said one American adviser, were “Israel’s most important institution for training in citizenship” (Anderson 1956, 22).

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” (Sherut 1964b, 3) and of the relationship between proper taxpaying and good citizenship. Visitors’ reactions were 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” (3). 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 (Wilkenfeld 1973, 102–03; Sherut 1964a).

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” (Anderson 1956, 24) were overcome. The Government Information Administration commissioned a local studio to produce a twelve-minute film, called The Tsippori Affair. This film told the “amusing and enlightening” (24–25) tale of a tax resister who 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. The school is closed and anarchy reigns: children are sitting outside the closed front door of the school playing cards, drinking wine, and smoking cigarettes. A young girl—horror of horrors—puts on lipstick (see Figure 1).

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. He then realizes that taxes are necessary and decides to pay his taxes.

Reviews of the film were enthusiastic. It was described as “among the best [civic education movies] so far produced in Israel and certainly the most entertaining” (25). One report stated that “audience response was favorable everywhere and the movie even drew applause at many showings” (ibid.). 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 revise or delete some of the scenes.

16. A copy of the movie is deposited at the Israel Film Service in Jerusalem.
Figure 1. A Scene from The Tsippori Affair: The primary school is closed. A young girl puts on lipstick.

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 element was deleted, perhaps because it was considered too shocking.17

1960s: Success and Export

It seems that the reforms carried out in the mid-1950s were successful. Certainly, there are indications that 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, their wives 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. (Gafni 1962, 26; see also Talmi 1960, 13; Avidar 1964, 8)

17. Letter from Yigal Efrati to the Director of Information Administration, June 30, 1955 [Tsippori Affair file, Israel Film Service, Jerusalem].
The change in public perceptions was one factor that 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 that 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 percent between 1950 and 1965) and the simultaneous reduction of the tax burden (Mandel 1968, 6, 73). Finally, the change may also have been the result of increased criminal enforcement. Thus, by 1960 the number of prosecutions for offenses connected with tax evasion stabilized at around three hundred cases per annum (Wilkenfeld 1973, 241–42; Lapidoth 1966, 122–23; Sharef 1959/60, 140–41).

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, referring to the fact that tax evasion was widespread as a mitigating circumstance, in the early 1960s imprisonment became more common (Wilkenfeld 1973, 242). Perhaps another manifestation of the success of the antievasion campaign was that the newsletter of the Revenue contained fewer discussions of evasion. In addition, one can point to the growing reach of the tax authorities. When the British Mandate ended in 1948, there were ninety thousand income taxpayers. In 1962–63 the number of taxpayers increased by a factor of seven to six hundred thousand taxpayers, while the population of Israel only doubled during the same period (Mandel 1968, 21, 51). 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 (Weigert 1960). One final mark of the maturity of the system was the public reactions to tax-related suicides. In 1954 the suicide of the 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 that said "pay to the order of

18. Whether the increase in compliance was indeed due to the measures taken by the government or whether external factors were more important is an interesting question. However, for the purpose of this article, this question is less relevant, since my aim is not to provide a list of effective measures that can increase compliance but to show how some of the measures actually used were related to broader attributes of modernity.

19. These events led not only to a rise in compliance but also to the reappearance of an official system of voluntary contributions reminiscent of the 1940s. For an extensive discussion, see Wilkenfeld (1973, 111, 214); Berger (1968).

20. See also Criminal Appeal (Tel Aviv) 297/61 K.B. Ltd., v. Attorney General and Criminal Appeal 96/64 Attorney General v. Boneh Yotser (cases stating that imprisonment should be the proper punishment for tax evaders).
the Angel of Death—the Income Tax [official]: the sum of my whole life” went almost unnoticed21 (Jerusalem Post 1966).

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 two hundred experts who were sent to Israel under the sponsorship of the U.S. Operations Mission to Israel (USOM). Many of these experts were involved in increasing industrial productivity (Frenkel and Shenhav 2003). The tax administration advisers can be viewed as the counterparts of the industrial productivity experts, bent on increasing the “productivity” and “efficiency” of the tax system (see generally Jones 1996, 144–46).

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.22 Israeli experts were sent to African countries, such as Ghana and Uganda, helping these countries reform their tax administration methods (Lapidoth 1966, 9; Lahav 1967; Peleg 1969; Wilkenfeld 1973, 87).

COMPLIANCE AND MODERNITY

Many (although not all) of the measures, devices, and techniques used by the Israeli Revenue in the 1950s to create compliance can be analyzed using the critical framework about the nature of modernity, linking these

21. The fact that the system matured does not mean that evasion ceased to be a problem. See Lapidoth (1966), 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” (189). The rise in the level of income tax compliance in the 1960s was accompanied by a movement from income taxation to VAT. In the middle of the 1960s the Revenue began examining the possibility of introducing a VAT. In 1972, a public committee recommended that VAT be introduced. The tax was finally enacted in 1975, and has served as a major source of revenue ever since (Gabay 1982; Dinur 1988). One of the factors that led to the introduction of VAT was its perceived contribution to increasing compliance, but 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. 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/ (accessed October 8, 2006). On the effect of VAT on compliance, see Bird and Zolt (2005, 1647).

22. The Israeli case was only one example of the export of tax administration expertise by American advisers. Another instructive example, which clearly illustrates 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 1965, 28–30, 151). For a general (and critical) analysis of this phenomenon, see Stewart (2003).
measures, devices, and techniques to wider attributes of modern states and modern nonstate institutions. This part of the article will focus on three such attributes: the creation of self-policing individuals and officials, normalization, and individualization.

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, the census, the map were all tools meant to facilitate the creation of the modern surveillance state (or the “state of legibility” to use James C. Scott’s term) (Scott 1998, 2–3; Foucault 1980, 74; Anderson 1991, 163–85).

Many of the devices used by the Israeli Revenue can be linked to this desire to allow the state to accurately see and know its subjects: the taxpayer census, the intelligence unit, the tax register, the tax surveys, the bookkeeping provisions, the maps of farm inventories were all meant to aid the Revenue in this task. Even the standard assessment guides (tahshivim) can be viewed as part of this category of measures, because they created a “calculus of organizational activity” (Preston 1989) that would enable the Revenue to monitor individuals, firms, and indeed the entire economy more easily and efficiently and discover deviations from predetermined norms.

The use of architecture to foster compliance, manifested in the interest in creating efficient tax offices and the enlistment of institutions, such as schools and the army, to instill compliance also have obvious Foucauldian implications. Thus, the redesigning of tax offices in order to allow officials to smoothly “process” isolated taxpayers more accurately and efficiently echoes some of the cell-like architectural devices that Foucault discussed in Discipline and Punish (1995), most notably the Panopticon.

Surveillance is related to self-policing, which lessens the need of the state (and nonstate 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 tsofiyah) 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). (Williamovsky 1953b, 15–16)

Propaganda was not the only means to create self-policing subjects. The failed attempts to create an annual income taxpayers’ register were, obviously,
TABLE 1

<table>
<thead>
<tr>
<th>Right</th>
<th>Wrong</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. [Official] present when the invitee arrives</td>
<td>1. Is not present</td>
</tr>
<tr>
<td>2. Says &quot;hello&quot;</td>
<td>2. Does not say &quot;hello&quot;</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 cigarette</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Does not read the newspaper in front of the invitee</td>
<td>16. Obstinately continues reading the newspaper</td>
</tr>
</tbody>
</table>

another method designed to discipline taxpayers. Taxpayers, it was hoped, would comply not because of a fear of criminal sanctions (a fear that requires the existence of an efficient state prosecution apparatus) but instead would police themselves and their neighbors driven by their fear of social shaming that the register would create.

One should also note, however, that in the Israeli case, the desire to create self-policing subjects was accompanied by a desire to create self-policing 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" (Gordon 1991, 27). The management of the Revenue was accordingly obsessed 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" (Uriel 1955, 6). 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 examples shown in Table 1 (Agaf Mas Hakhnasa: Yedioth Primi 1955b).

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

23. One factor that 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 machinery.
to behave properly, with patience, fairness and courtesy, the general public will also get used to treating us in a civilized way. (Wild 1956, 15–16)

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]” (Josephberg 1956, 17).

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 [crev ra] 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. (Ben-Gurion 1951, 7, 15)

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 (Shtark 1953) 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” (51) 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 (ibid.).

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 levan tinism, God forbid. If this continues, we will no longer be a foreign body (as our enemies claim) in the Middle East” (Williamovsky 1953a, 20–21; see also M. Y. 1954).
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" (Anderson 1956, 2–3), coming from countries where the tax authorities were seen as corrupt or were nonexistent. 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." (2–3)24

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" (Wilkenfeld 1973, 250). 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" (5). Israel, he later observed, was a country with a "developing citizenry" (preface, 5–6; see also Sela (1957); Rosen (1960)). 25

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

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24. On the identification between German-Jewish ethnic origin and tax compliance, see also Cohn (1957, 3, 8). 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" (Lapidoth 1966, 42). It seems, however, that some of the stereotypes persisted. See Kaminski (1988), 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 country in the negative sense of the word, with a problematic, disgruntled and undisciplined population" (362).

I could not find statistical data 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 1974, 77, 79). For general discussions of the link between compliance and ethnic heterogeneity, see Roth, Scholz, and Witte (1989, 136–37); Beron, Tauchen, and Witte (1992, 81–82); Taylor (1992).

25. These insights can also apply to transition economies, such as those of Eastern Europe or the former Soviet Union (see Torgler 2003). Another interesting comparison would be to postapartheid South Africa (see Lieberman 2002).
Britain and Israel, Simha Gafni, the Director of the State Revenue Administration, noted that the book "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" (Lapidoth 1966, 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" (13, 15). Lapidoth mentioned several factors that 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 (41, 200–01).

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 advisers who are needed for tax planning and indeed the methods of tax evasion that reached the Israeli courts ... were not artistic masterpieces. (Witkon 1965/6, 523)

Sometimes evasion was identified as the mark of Diaspora Jews, the "Other" of 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" (Ben-Amitai 1954, 65, 66). 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 that do not have even the most elementary notions about the nature of government and its role and the rights and duties of citizens" (Uriel 1955, 5). 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. (Moravchik 1955, 23, 24)
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 other things, to "the Jewish temperament" (Brosh 1956a). 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" (Josephberg 1956). 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" (Cohn 1957, 5). 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 (Ha-Praklit 1958; see generally Likhovski 2003).

The notion that the Israeli population could be broken down into subgroups, 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 (Jerusalem Post 1952a). Tax officials therefore sought to "familiarize the Arab population with the idea of income taxation" (Agaf Mas Hakhnasa: Yedion Pnimi 1953a, 59). But the effort initially met with failure (Jerusalem Post 1954c, 1954d). 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 assessments (Weigert 1955; Jerusalem Post 1956b; Elfandari 1956). Problems were compounded by differences between Arabs and Jews in social perceptions, consumption patterns, types of investments, and literacy rate. Arab resistance to income tax collection led to a desire to tax Arabs "on a fair and scientific basis" (Wilkenfeld 1973, 145). Officials also sought to increase Arab trust in government by including Arab citizens in the system of public participation in the assessment process (Wilkenfeld 1973, 144, 145, 189; Elfandari 1956, 9; Sa'ad 1957, 1958; Ben-Zvi 1959; al-'Abdallah 1960). However, Arab opposition to the tax collectors continued well into the 1960s.26

The official perceptions of Jewish immigrants and Arab citizens can be viewed as part of a wider characteristic of modernization. Foucault (1995) described modern disciplinary practices as an "anti-nomadic technique" (218), 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 origin) in order to

26. Thus, an Arab Knesset member charged that "tax officials were making the lives of Arab farmers 'an intolerable hell'" (Jerusalem Post 1960).
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" (Scott 1998, 8). They believed that the major challenge facing the Israeli state was the creation of a homogenous, "normal" Western society (Leibler 2004, 141–42). 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 and 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. Said one official,

Not all taxpayers have similar characters 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. (Sherut 1956, 5)27

Individualization

An important aspect of modern governmental practices 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" that is directed at regulating, remolding, and "curing" each specific individual subject (Gordon 1991, 8–10).

Another related aspect of individualization is the state's attempt to break down barriers between the state and individuals. James C. Scott observed that the modern use of standardization and simplification was 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" (Scott 1998, 365, note 61). 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 (Wilkenfeld 1973, 88–89).

An instructive example of such an attempt is the story of the bookkeeping regulations that were enacted in 1955. Income tax officials negotiated

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27. For a similar argument about the complexity of 1950s Israeli medical discourse, see Stoler-Liss and Shvarts (2004).
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 their obligations under the regulations, thus undercutting the power of trade unions and Chambers of Commerce that opposed them (Anderson 1956, 11–12).

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]” (20–21).

Attempts to break up individual resistance were also present in specific physical encounters between taxpayers and tax officials. A public relations official working for the Revenue said,

The waiting room in the tax official’s office 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 (Artzi 1957, 24).

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 were placed in another location within the office, one that would guarantee the secrecy of dealings with individual taxpayers (25).

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 (Jerusalem Post 1958).

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 noncompliance by the new citizens of Israel, the state utilized various techniques, practices, and discourses to "train" its citizens to pay their taxes. 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, one 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 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? These are all interesting questions that are beyond the scope of the present article. Instead of answering them, I would like to conclude the article by pointing to the relevance of the story told here to normative debates about tax avoidance, arguing that it can enrich our understanding of the history of official attitudes toward tax avoidance (and its most recent manifestation, the corporate tax shelter problem).

One of the major problems for tax administrators in the twentieth century (and indeed today) has been the growth in tax avoidance, as tax administrations became more capable of tackling tax evasion. Tax avoidance may be seen as one example of a larger set of quasi-analogous problems: the control of infralegal behavior—forms of behavior that are not explicitly prohibited by the law (or at least not by a literal interpretation of it) but that some modern states do seek to regulate (Foucault 1995, 178–79).

In the history of twentieth-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), thus 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 recharacterization 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 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 (Marcuse 1938–1939, 553–59; see also Vanistendael 1997, 38–39). 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 world view and that tax avoidance was an offense against “the loyalty the citizens owe to one another and to the country” (Blumenthal 1935; see also Voit 1935; The Times 1938; U.K. Parliament 1936). The opposite approach to tax avoidance is a formalist (some would say liberal) approach, which has characterized English law during most of the twentieth century. The American approach to tax avoidance for most of the twentieth century was placed somewhere between these two extremes (Likhovski 2004b, 2007). 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 framework that celebrates the rise of the substantive judicial attitude to tax avoidance. Wealthy taxpayers who avoid paying their fair share of taxes using a variety of sophisticated means unfairly place the burden of taxation on the shoulders of their less sophisticated (and often less wealthy) fellow citizens. Judicial attempts to prevent this, using a substantive approach, are therefore praised.28

But while there are positive aspects to the substantive approach, and more generally to the attempts of modern states to foster tax compliance, the substantive approach also has a darker side. Such an approach (certainly when it was taken to its totalitarian extreme, as was the case in Germany in the 1930s) can be seen as part of the modern state’s desire to delve ever deeper into the minds of its taxpayers. It is an approach that 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.

28. Such an approach is often found in both scholarly and popular American tax discourse (see, e.g., Johnston 2003). Its roots are found in the contingent, historically specific, American context of the Progressive and New Deal eras. This approach views the state as benign and sees individuals (certainly wealthy ones) as selfish actors in need of governmental regulation. Obviously, such a characterization of the state is inapplicable to some non-American contexts (both totalitarian and democratic) where the state is far stronger than it is in the United States.
Most of us do want our fellow citizens to comply with the letter and spirit of the tax law, but the desire to create model taxpaying citizens may, in certain times and in places, have dangerous consequences. This desire may lead the state to put its subjects under close surveillance. It may encourage officials to attempt to normalize and homogenize the population under their control, enticing them to use ethnic stereotypes about tax compliance, targeting certain groups, and seeking to “cure” these groups of their perceived tendency not to comply. A sophisticated and complex understanding of tax compliance (and the governmental apparatus that is required to create it) would not see it as a universally positive phenomenon. Instead, such an understanding would be based on an awareness of the problems that may be associated with trying to create too much compliance.

The link that can be made between a substantive approach to tax avoidance (by tax officials generally and courts in particular) and the history of attempts by states to normalize their citizens can thus enrich and deepen the debate about the relative merits of the formalist and substantive approaches to tax avoidance and assist us in striking a better balance between these two approaches. Ultimately, one might still conclude that a substantive, interventionist approach to tax avoidance (such as the one used by American courts ever since the 1930s) is preferable. One might 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 benefits as well as the dangers inherent in such an endeavor. In this way, the critical insights used in this article can also have indirect normative implications that are relevant not just to tax historians and students 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.

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