

Slavisa Tasic
Free Market Center
Belgrade, June 2002

Tax collecting campaign

Ministry of Finance and Economy of the Republic of Serbia has initiated a campaign in the end of May 2002, aiming to improve tax collecting. This is an advertising type of campaign, consisted of producing and disseminating T-shirts and teacups with slogans: *I want modern clinics; I want new highways; I want domestic movies; I want my national team to win football matches; First, to pay my taxes;* There are a number of billboards across Serbia with the same point.

One can derive important conclusions regarding campaign initiator from the slogan, which seems benign at the glance. The first one is that the initiator does not understand a public sector functioning. The second one is that his apprehension of the government expenditures is closer to communist than to capitalist idea of state and its functions.

Besides the violence preventing, tax collection is only thing that government should perform by coercion. The purpose of tax collection is to provide funds for financing public goods such as judiciary system, security, state administration etc. Although everybody benefits from such goods, no individual is interested in financing them voluntarily because of awareness that neither existing nor functioning of public goods depends on his own small contribution. Since costs are individual and benefits are collective, the best solution for every individual is not to pay tax while everybody else does it. Such absence of incentives for public goods financing is known as the free-rider effect. Because of the free-rider effect, taxes are to be collected under the threat of coercion.

The Ministry of Finance and Economy campaign appeals on people to pay their taxes voluntarily. That is, the campaign is conceived to battle free-rider effect. Since free-rider effect is only the logical consequence of individual rationality, it follows that the campaign is aimed to call the people not to be rational. It is obvious that such attempt cannot succeed¹.

Another important issue of the slogan is that campaign initiator has wrong impression of the government's role. Taxation is legitimate only if the goods of common use are the subject of government expenditures. The slogan says that government intends to spend funds on health system and highways. Though highways could be built by private concession, and private clinics function better than public ones, it is generally normal to finance public institutions. However, one can also notice that campaign initiator pleads for financing both domestic movies and national soccer selection. Such claim presents great misapprehension of the very sense of state. The state should not have moral function at all. If government bureaucrats are allowed to spend citizen's money on financing movies and football, it seems closer to totalitarian conception of common consumption than to free society consisted of individuals with their own preferences, and

¹ The same thing are calls for electricity saving. Every individual know that his small reduction cannot contribute much in achieving the system stability. Since everybody follows the same logic, these calls are completely ineffective.

with right to decide how to spend their own incomes. Furthermore, this implies the existence of the arbitrary power that should make decisions on income distribution - whether to grant it to one or another film director, football association or maybe to angler's society.

If so, how can government cope with tax evasion? Enormous taxes are the main incentive for tax evasion. Because tax rates in Serbia are too high, and for one part of economy even prohibitive, tax evasion is a predictable attitude. If tax rates are reduced at appropriate level, efficiency of tax collection should be achieved by obeying the rules, that is, by stringent and efficient collection mechanism based on credible threat. Revenues collected in such way should be spent on financing public goods of common interest if there is no individual financier. Culture, art and sports are certainly not within the group of public goods. Besides, these campaigns cost more than they bring.