A mighty debate is brewing in America over the taxation of sales made through the internet. Presently, if you buy something from an internet retailer located in a different state, you are not charged for the sales tax that would be imposed if you bought the item in a retail store located in your state. The primary exception arises if the vendor happens to have retail outlets in your state. It is understandable that this situation has created intense controversy. Many retailers have called for the taxation of internet sales, claiming that this is necessary to create a level playing field between themselves and the internet retailers. Many governments have joined the More Tax Chorus, for it takes a strong-willed politician to turn his back on increased taxes. The federal Congress has imposed a moratorium on the taxation of internet sales until 2001. The debate is now getting hot.

The calls that are advanced in favor of internet taxation take for granted that present forms of sales taxation by states represent the best means of financing state governments. Whatever transactions escape the tax collector are thus deviations from this ideal base. But why are sales taxes such a perfect instrument of taxation. Once upon a time, sales taxes were a convenient tax for governments to impose. Roads were poor, cars were slow, and there was no alternative to the nationalized postal service. If you made a retail purchase, it would be in a local store. A government could tax those sales and not worry that shoppers would take their business elsewhere.
But times have changed, and in many ways. Roads are better. Cars are faster. And there are now several ways that people can ship parcels to us. We don’t even have to visit retail outlets anymore. We can sit at home, browse on our computers, make our purchases, and soon our merchandise arrives. And when we look at our invoice, we find most often that we have paid no sales tax.

What are we to make of all this? Those who think that sales taxes are the perfect instrument of government finance declare this situation to be an abomination. These people yearn for former, slower times. But those times are not our times. We are all vastly more mobile now than we were then. Is it not time for our governments to move forward as well? Taxes on mobile objects and transactions are a thing of the past, a relic for a museum of tax history. Such taxes will doubtless be with us for some time yet. After all, it took a while for computers to replace typewriters. Even now, one can still see a typewriter every so often.

One of the notable features of government is that they lag and do not lead in things creative. In the case of taxation they will stick for quite some time to a pre-electronic, pre-jet mentality, which means that mobility is going to cause increasing problems when it confronts the voracious tax appetites of modern governments. Eventually, those appetites will be scaled back, but that scaling back will be rendered more traumatic, contested, and difficult so long as governments continue to think of themselves as having an inherent right to tax whatever they wish to tax, as if current conditions of mobility did not exit.
Think for a moment about your last visit to a hotel. That hotel might have been quite plain, or it could have been relatively fancy. In either case it surely had an elevator. What is an elevator but a subway that runs vertically, a form of public transportation? The hotel provided security services as well as refuse collection. It probably provided recreational facilities as well. Perhaps an exercise room, maybe a swimming pool, or perhaps even both, and possibly even more recreational options.

This hotel, in other words, provided most or all of the services that you commonly associate with the city where you live. Yet you didn’t pay anything that looked like a tax. Your room charge paid not only for your room but also for various public-like services. A hotel is like a city. People conduct various personal or private activities there, and at the same time are able to enjoy a range of publicly available services. A hotel, however, does not try to finance its activities by taxing highly mobile activities and people. It provides services that people value, and which makes people willing to pay the room charges, charges that are sufficient to cover the cost of those public-like services as well as the cost of the rooms.

A hotel is, of course, operated as a business. This is to say that it seeks to provide services that people are willing to buy. To the extent it does so, people support it and the hotel flourishes. A hotel exists in a world of open mobility. People can take their meals inside the hotel or out. They can have their drinks inside the hotel or out. A hotel must attract residents, it cannot force them to stay and support the hotel. This is a lesson that governments must
come to learn. They must seek increasingly to attract support. Their ability to
demand and compel support will continue to weaken. To start taxing internet
sales will only slow down what is inevitable in a highly mobile, service-dominated
age. To leave internet sales free of tax would provide a useful prod to goad our
governments into thinking of themselves as service-providing enterprises that
must compete for our custom along with everyone else who seeks it.