

The Origins of Tax Systems: A French-American Comparison¹

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This article examines the origins of tax systems. Through a historical comparison of France and the United States, and analysis of several shadow cases, the article explains why the United States has relied more heavily on progressive income taxation than France, which has favored regressive sales taxes. This study traces the origins of these two tax systems to the early 20th century, arguing that decisions about tax structure were shaped by resistance to the concentration of economic power in the United States and the centralization of state power in France. In the United States, the rapid concentration of economic power in the late 19th century spurred a political movement for a tax with clear redistributive purposes. In France, resistance to the centralization of state power and concomitant fears of “fiscal inquisition” weakened the drive for an effective income tax, leaving the state to rely on consumption taxes to meet its revenue needs. These 19th-century movements of resistance to modernization shaped the foundations of contemporary political economy.

While sociologists have developed a sophisticated literature on the origins and development of the welfare state, no comparable literature exists on the origins and development of tax systems. This is surprising, as taxation is one of the central social obligations of the modern world. Particularly in the West, where states do not require religious or political fealty and where military service has become increasingly peripheral, taxation is the

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one social obligation that cannot be shaken off. Taxes implicate the rich (through property and income taxes) as well as the poor (through payroll and sales taxes). The tax code can reinforce the privilege of dominant racial and gender groups (Moran and Whitford 1996; McCaffery 1999) and is the site of active contestation for political power (Howard 1997; Wilensky 2002; Hacker and Pierson 2005; Bartels 2008; Martin 2008). Moreover, the fungible resources provided by taxation are central to the existence of the state. Without tax revenue there would be neither the redistribution and public goods that sociologists have extensively studied nor the ability of the state to defend its very existence against other states. Taxation is central to state capacity. (See Martin, Mehrotra, and Prasad [in press] for these and other thoughts on the significance of taxation to sociology.)

In this article, we examine one feature of tax systems that scholars have identified as central to comparative political economy: the reliance of the tax structure on either income or consumption taxes. Consumption taxes tend to be regressive and are correlated with greater overall regressivity of the tax structure (Prasad and Deng, in press). Lindert (2004) argues that consumption taxes are more compatible with economic growth, while Wilensky (2002) finds that income taxes generate greater political protest than do consumption taxes. For these reasons, other scholars argue, states that rely on consumption taxes have been able to develop large welfare states (Steinmo 1993) that have survived the globalization of capital investment (Hays 2003). Kato (2003) is most explicit about the possibility that the development of the welfare state hinges on the prior decision to raise revenue through regressive taxation.

These arguments suggest that studying the particular shape that tax systems take—specifically, whether they rely on income or consumption taxes—is fundamental to an understanding of contemporary political economy. If income taxes hinder economic growth, generate political protest, and limit the size of the state, then the decision to rely on income taxes helps to explain many features of the contemporary world. But what explains the reliance on income or consumption taxes?

We address this question by examining the origins of the tax system in the United States and France—two cases that differ markedly in the mix of income, sales, and other taxes upon which these states rely to finance their operations. Whereas the United States has leaned heavily on a federal income tax, France has long had one of the weakest income taxes among advanced industrialized countries, but it was the pioneer of the value-added tax, the national consumption tax that most other countries (aside from the United States) went on to imitate. As figure 1 shows, as a proportion of revenues raised, income and profits taxes are much more significant in the United States than in France. More generally, throughout

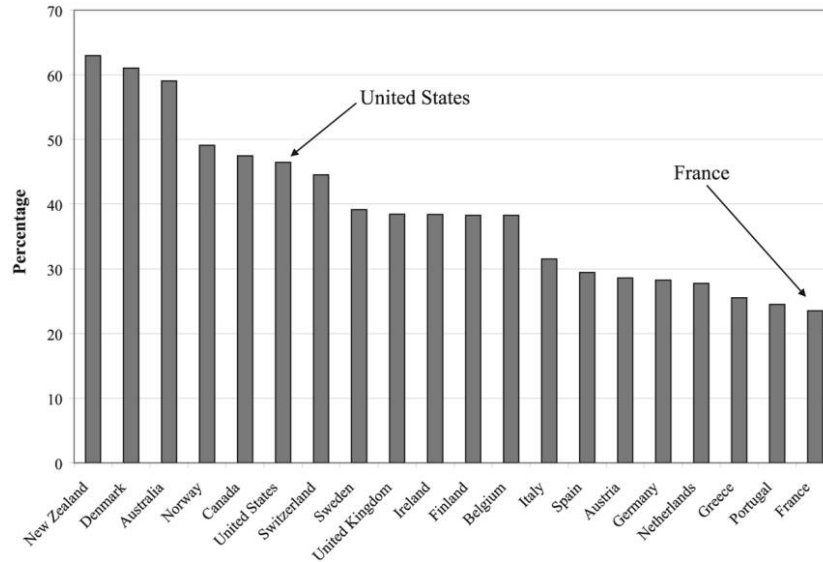


FIG. 1.—Percentage of revenues from income and profits taxes, 2005 (OECD 2007, p. 78).

much of the 20th century the United States taxed capital at higher levels than France, taxed labor at lower levels than France, and relied largely on progressive income taxes while France relied heavily on regressive consumption taxes (Steinmo 1993; Volkerink and de Haan 1999; Volkerink 2000; Genschel 2002; Wilensky 2002; Kato 2003; Lindert 2004).² The size of the American income tax relative to that of the French has declined in recent years, in part reflecting the reaction against the progressive

² The European tax structures tax labor and consumption much more heavily than the United States does (see Mendoza and Tesar 1994; Volkerink 2000; Carey and Rabesona 2002; Sørensen 2004); this is a finding that is extremely robust to alternative methods of measurement and choice of time periods. Regarding capital income taxation, comparative studies agree that until the 1970s, capital was taxed more heavily in the United States; however, some studies find lower capital income taxation in the United States after 1973 (Carey and Rabesona 2002). The best comparative study of tax progressivity is by Piketty and Saez (2007) and includes income, corporate income, payroll, and estate and gift taxes; the authors find greater progressivity in the United States in 1970 compared to France, but lower progressivity in recent years. They exclude state and local taxes (important in the United States) and consumption tax (important in France), arguing that the exclusion of the one counterbalances the exclusion of the other; this is doubtful given the large role that consumption tax plays in the European tax structure. Therefore, their study likely understates the regressivity of the European tax systems (see Prasad and Deng [in press] for a discussion of the literature on comparative tax progressivity).

income tax in the United States and lack of a similarly controversial tax system in France (Wilensky 2002; Prasad 2006). Thus, even though these tax systems have shifted a bit in recent years, tracing their origins can help us understand contemporary political dynamics around taxation.

In addition, the comparison between France and the United States puts the counterintuitive nature of the tax patterns in stark relief: how did the “exceptional” United States, the country that many see as the most important defender of the free market, the country with “an absolute and irrational attachment” to John Locke (Hartz 1955, p. 6), in which “class consciousness lies fallow” (Lipset 1963, p. 517)—how did this country come to have a tax code that is on many levels more hostile to capital accumulation than its peers? And how can a country like France, which in some opinions has “never really been won over to capitalism” (Fernand Braudel, quoted in Jefferys 2003, p. 356), have found itself in the position of taxing workers and consumers to a greater degree, while letting the wealthy, corporations, and property holders pay proportionately less tax?

We focus on the years before and immediately after World War I as the critical juncture during which the foundations of tax systems were laid. In both countries, serious political debates about income taxation began in the 1890s and culminated in the creation of a progressive income tax in 1913 (United States) and 1914 (France). While seemingly similar to the U.S. tax on its face, the French income tax was substantially weaker owing to the lack of meaningful procedures for assessing income and collecting the tax. This would undermine the French state’s ability to collect income taxes during the First World War. Faced with continuing difficulties raising revenues through income taxes during the war and the 1920s, France would ultimately create a national sales tax as a more effective way of taxing the public. The sales tax was never overturned by left governments but instead was repeatedly refined so as to iron out technical and economic problems. The resulting value-added tax (VAT) became a foundation of the French tax system, whereas the income tax remained weak. Since then, partisan shifts in government have had limited effects on the overall structure of the tax system (Tournié 1985).

By contrast, the United States relied heavily upon its income tax and other progressive forms of finance to pay for the First World War and rebuffed the drive by conservatives to create a national sales tax in the 1920s. This left in place an effective, flexible system of revenues based on progressive taxation that future governments would rely on and that even conservative presidents or congressional majorities would not seriously undermine. We can see the diverging trajectories in table 1, which shows that the period between 1900 and 1920 was the time when the United States (along with the United Kingdom, Norway, and the Netherlands) dramatically reduced its reliance on indirect taxes to levels that

TABLE 1
INDIRECT TAX AS PERCENTAGE OF TOTAL TAX, 1880–1980

Country	1880	1900	1920	1940	1960	1980
Austria	66	76	50	70	62	48
France	84	81	79	64	72	60
Germany	45	76	56	50	49	40
Italy	67	65	66	74	64	43
Netherlands	66	57	31	52	44	41
Norway	61	61	34	59	47	42
United Kingdom ...	53	45	27	36	40	30
United States	42	20	37	26	22

SOURCE.—Seebohm, cited in Alt (1983, p. 192).

remained stable for most of the following century, whereas France (along with Italy) failed to do so.³ In short, by the mid-1920s, France and the United States had embarked on distinct pathways of public finance. Later tax decisions, such as the financing of social welfare programs through payroll taxes, would largely reinforce the mix of progressive and regressive taxes in these two states.

To explain these diverging pathways, we explore the political consequences of two large-scale transformations of the late 19th and early 20th centuries—the rise of industrial capitalism and the centralization of state power (Mann 1993). By the turn of the century, industrialization was more advanced in the United States than in France, yet the growth of the central state was not. Where France had a centralized and penetrative state, the United States had a limited federal state that left most significant domestic powers to state and local governments. These differences shaped distinct political coalitions for or against income taxation.

In the United States, industrialization intensified tensions between agrarian and industrial forces and created a broad coalition in favor of progressive income taxation. American farmers were the most consistent early supporters of the income tax as an alternative to the tariffs that heavily favored the manufacturing sectors of the Northeast and raised prices on manufactured goods for farmers. Meanwhile, the increasing powers of unrestrained big business fueled a strong counterreaction among labor and the general public against monopoly capitalism, and progressive taxation became a central plank in the Democratic Party platform. Democrats were joined by a splinter set of Republican legislators from agricultural states in passing an income tax amendment and income tax leg-

³ “Indirect” taxes (e.g., consumption taxes) are taxes paid to the government by someone other than the final taxpayer; “direct” taxes (e.g., income tax) are taxes paid to the government directly by the final taxpayer.

isolation. The “farmer-laborer” movements of the first two decades of the century won victory after victory in the redistributive politics of taxation, ensuring that World War I would be financed through progressive taxes and that many of these taxes would endure in the postwar period even as revenue needs declined.

In France, industrial change also generated a leftist drive for a more progressive tax system, but this drive was weakened by two developments that differed from those in the United States. First, the pace of industrial and economic modernization was considerably slower, which preserved an antiquated and uncompetitive agrarian sector. Thus, while the intensity of the income tax campaign in the United States was helped by the determination of American farmers to use these revenues to replace tariffs, the French agrarian sector favored tariffs, and trade issues did not enter into the debate. Added to this was that French industry was still in its infancy and had not yet become the full menace to shopkeepers, peasants, and small businesses that it later would be. The drive to discipline monopoly capitalism was thus not a central theme of the French income tax debates.

The second key difference lay in the nature of the French state, which undermined the class-based push for income taxation. Unlike the United States, France had a centralized state that left little role for local government. Instead of rallying the lower and middle classes around a fight against monopoly capitalism and inequality, French income tax advocates had to assuage fears among those groups of “fiscal inquisition” by the central state. These fears also undermined the income tax laws that did pass by weakening the mechanisms for income assessment and tax collection. In the United States, by contrast, with its limited central state, such claims were notably absent from the income tax debates. Instead, an economically based coalition was unified in its drive to soak the rich through progressive taxes, and an income tax collected by the central government was seen as an alternative to the unpopular local systems of taxation that dominated direct tax collection.

The tax structures established during this critical juncture were stable for over a century. When social spending began to rise in the 1930s, revenues rose according to the template of reliance on income or sales taxation that had been established at the turn of the century. Even the great crises of total war and economic depression did not overhaul the tax structures: although tax revenues rose to massive new levels, policy makers stuck to the forms of taxation they knew best. In the United States, sales taxation was considered but always rejected. In France, although governments of the left came into power, they never overturned the reliance on sales taxes.

These findings run counter to the prevailing work on the origins of tax

systems. As we detail in the next section, the existing work on tax systems and redistributive politics tends to draw upon the usual theoretical suspects in sociological research: economic structures, cultural values, the distribution of power, or institutional differences. Below we note some specific inadequacies of these approaches, but one overarching theme concerns the limits of focusing on economic structural variables and/or their offspring—class politics—as the force behind redistributive politics. We find that, in addition to industrialization, scholars need to pay careful attention to how the rise of the modern state shaped domestic politics. Although our article focuses on the cases of France and the United States, we also explore briefly the origins of tax systems in a number of other countries and show the wider generalizability of this focus on both industrial and state development.

More careful attention to the history of taxation contributes to economic sociology and comparative-historical sociology in two ways. First, it shows that economic sociologists have ignored the multitude of ways in which the state disciplines capital. Most economic sociologists examine nonstate means of embeddedness (see, e.g., recent reviews of the subfield by Dobbin [2004], Fligstein and Dauter [2007], and Krippner and Alvarez [2007]), and scholars who do examine the ways in which the market is embedded through state action have missed the specifically punitive role that taxation has played in the United States (e.g., Block 1994). Such scholars conclude that because of its small welfare state and harsh labor regulations, the United States is a “liberal” economy in which the state does not play a major role in disciplining capital. No society is disembodied, according to these scholars: in the United States the government is heavily involved in the economy, but it is involved on the side of capital, for example, through mobilization of “the police and military to break strikes and arrest union leaders” (Block 2007, p. 5).

We show in this article that, to the contrary, the United States and other liberal states attempted to “embed” the market through progressive taxation, over the objections of capitalists and their political defenders. By ignoring taxation, economic sociologists have missed the peculiarly American or liberal way of embedding markets and of disciplining capital and have thus overlooked one of the major ways in which the state makes the market possible.

Second, our work emphasizes resistance to industrialization and to the growth of the state as a causal force. Recent work on welfare states, such as the “varieties of capitalism” or the “worlds of welfare” approaches, emphasizes industrialization and class relations as the distinguishing features of modernity. In this article, we return to the emphasis on the state that was a hallmark of comparative-historical scholarship of the 1980s, by focusing on state development in addition to industrialization. How-

ever, in distinction to the state-centered scholarship, we see resistance to the growth of the state as the key factor in our causal story in France, just as resistance to the growth of capitalism was the key element in the United States. As Mann (1993) notes, capitalism and the state grew up together, and each of these forces upended 19th-century social life in its own way. What has been less often noted is that, just as the rise of capitalism led to a resistance to capitalism, so the rise of the state led to resistance to the state. The process of state development, with its powerful disruptions of settled patterns of life, produced a backlash: 19th-century communities responded with measures that ranged from noncooperation to violence, resisting the expansion of the state in ways analogous to the much more intensively studied resistance to the expansion of mass capitalism. The resistance to industrialization and state centralization did not fade away. Rather, we show that the development of the tax system cannot be understood without attention to both types of resistance, and we elaborate a perspective on political economy that gives a central role to this resistance. We also show that our arguments about taxation may apply to other elements of political economy and to countries other than the United States and France.

THEORETICAL PERSPECTIVES ON TAXATION

There is a range of theoretical approaches one might adopt to explain cross-national differences in taxation. In accordance with analogous work on the expenditure side of the budget, research has emphasized economic reasons for reliance on different kinds of taxes, national cultures of taxation, the distribution of power, political institutions, and the role of war.

Economic

Economists have investigated the origins of the “tax mix” and concluded that it follows the general economic structure, such that as economic interests change, tax policy should shift as well (Hettich and Winer 1988; Kenny and Winer 2006). For example, some political economists have argued that different economic sectors have diverging trade interests, which shape the kinds of taxes adopted (Hansen 1990). We agree that economic structures shape the interests of different groups in taxation. In particular, one crucial difference between France and the United States was whether the agricultural sector was protectionist or whether it favored income taxes that could replace tariffs as a source of revenue. However, purely economic accounts fail to resolve several elements of our cases. In France, opposition to an income tax was broader than the agricultural

sector, and thus the agrarian stance alone cannot explain the failure to adopt a strong income tax. Moreover, in the United States, while opposition to tariffs may have been determined by the economic interests of farmers, opposition to tariffs does not dictate an embrace of income tax. The revenue forgone from tariffs could have been made up by some other tax. More generally, economic interests do not smoothly translate into political outcomes because there may be other, noneconomic sources of political ideology, as we will show below.

National Culture and Preferences for a Small State

Another school of thought on cross-national differences in taxation privileges cultural explanations. Some argue that in countries characterized by a high degree of cultural individualism, taxes are lower, whereas egalitarian or more collectively oriented cultures produce higher levels of taxes (Webber and Wildavsky 1986; Lockhart 2003). Another variant of this argument holds that cultural willingness to pay taxes shapes the tax mix. Where people distrust the state they are more likely to engage in tax evasion, which then forces states to adopt taxes levied on fewer economic units, such as sales taxes (Rose and Peters 1978).

One problem with these approaches is that the pattern of progressivity seems to go in the opposite direction from what a national culture argument would predict. The United States is widely held to be the country with the greatest cultural commitment to *laissez-faire*, and yet for most of the 20th century it was characterized by a commitment to progressive taxation. And if French culture is more accepting of the role of a strong state, why were French people so resistant to the growth of the state's taxing power early in the 20th century?

A deeper problem with national culture arguments is that on closer inspection, scholars disagree on how to characterize American and French culture. For example, some see in France a "Mediterranean" culture of antipathy toward the state and distrust of government officials that makes citizens unwilling to comply with tax laws (Shoup 1957; Peters 1991), whereas other scholars argue that French political economy is characterized by the belief in the necessity of a powerful central state that can override particularistic interests in the good of the nation as a whole (Dobbin 1994). These difficulties suggest to us that the cultures of these nations might contain multiple ideational strands. Which strand has more influence at a particular juncture is likely to be the product of political processes that mobilize some ideas over others.

Class-Based Explanations

To explain features of contemporary political economy, many scholars focus on the balance of power between labor and capital in the political system. Such approaches have been particularly significant in studies of the welfare state, and many of the reigning theories of comparative political economy privilege either labor or class-based parties (see Korpi [1983] for a classic statement of this view) or employers (Hall and Soskice 2001).

Our empirical story is in some ways congruent with this approach, in that we find tax debates in many countries to be shaped by classic left-right divisions. For example, when Democrats swept state legislatures in the United States in 1910 and 1912, this enabled the ratification of the Sixteenth Amendment, which made the income tax constitutional. The fact that Democrats held power during World War I also helped ensure that taxes would be raised in a progressive manner.

Yet a class-based explanation leads to more questions than it answers: such an approach would predict that when Republicans came back into power in the 1920s, they would repeal the progressive income tax, but they did not do so. Similarly, France has long had socialist political parties serving in Parliament and in government that opposed consumption-based taxation, but they have never overturned the regressive consumption taxes implemented after the First World War. More generally, our research challenges the idea that industrialization generated straightforward class-based interests in progressive taxation. Groups other than labor and capital were deeply involved in the debates over taxation, and we find that economic interests alone do not explain the stances taken by key social groups and their political representatives. As for the recent resurgence of interest in the role of employers in the formation of economic policy, the stories below show that employers in both countries preferred sales taxes; but only in France were they able to see those preferences translated into policy.

Political Institutions

Within political science, the importance of proportional electoral systems has been suggested as a reason for differences in the tax mix. Hays (2003) argues that consensus democracies with proportional representation and coalition governments restrain majoritarian preferences for soaking the rich, thus restricting the growth of progressive taxation. While Hays's empirical attention is focused on the question of whether globalization is leading to a "race to the bottom" in taxation, it is possible to extend this argument to claim that proportional electoral systems might have hin-

dered the development of progressive taxation at its origins. In the early 20th century, however, both France and the United States employed majoritarian electoral systems that should have functioned in the same way according to this institutionalist logic. Moreover, it appears that the defeat of a strong income tax *was* the majoritarian preference in France. Although systematic opinion polls for the period do not exist, historical sources agree that the fear of fiscal inquisition by the state was a powerful political sentiment held not only by the wealthy but shared by peasants and the petite bourgeoisie (see below).

More generally, France and the United States shared a number of institutional similarities that diminish the likelihood that institutional factors explain the adoption of different tax systems. Some have argued that the breadth of suffrage is a key determinant of progressive taxation (Levi 1988), yet both countries were democracies by the standards of the day, with universal (white) male suffrage. Programmatic parties also are often seen as drivers of redistributive legislation (Amenta, Bonastia, and Caren 2001, pp. 225–26), yet both countries lacked strong, ideologically coherent political parties due to their majoritarian electoral systems. This meant that national politics was very much rooted in local districts, with representatives highly attentive to the demands of their constituents in both places (Hanley 2002, pp. 20–21).

Institutional differences between France and the United States also cannot explain variations in their tax systems. Scholars usually argue that permeable political systems, like the United States, afford access points to well-organized business groups and the wealthy who seek to block redistributive programs (Robertson 1989; Weaver and Rockman 1993). But the large number of access points in the United States did not prevent the implementation of income tax legislation that was not in the interests of the wealthy, and this argument cannot explain how the United States has maintained income taxation as its dominant form of finance.

The Role of War

It is now well known that “wars make states” by spurring the growth of state bureaucracies and their revenue-raising capacities (Tilly 1985). Moreover, numerous scholars have argued that World War I was a watershed in the development of tax policy in the United States and Western Europe (Brownlee 1985; Witte 1985; Fujihira 2000). If tax systems are the outcomes of war, then it is possible to see them as the by-product of purely contingent factors rather than the result of deeper, more persistent forces.

We argue, however, that although the different ways in which the two countries experienced World War I were crucial elements in the elaboration of their tax structures, the war intersected with domestic political

structures and processes. World War I may have altered the nature of states, but it did so by following lines that had been set on the eve of war and that reflected the domestic coalition of forces in each country, as we explore in greater detail below.

To explain the origins of modern tax systems, then, we explore the political reverberations of two large-scale transformations—industrialization and state expansion—at a critical juncture for the development of state fiscal capacity. We argue that the degree of industrialization and state centralization on the eve of the First World War unleashed anti-monopoly or antistatist forces, shaping political cleavages and coalitions for and against particular forms of taxation. In what follows, we trace the pattern of tax politics in France and the United States in the decades before and after the First World War. We then expand this analysis to show how it can be employed to explain a wider array of cases and other domains of political economy.

THE EVE OF WAR

The Fight against Monopoly Capitalism in the United States

The drive for income taxation in the United States resulted from two factors: the arrival of large-scale industrial capitalism and the absence of a system of direct taxation at the central level. Industrialization led to concentration of wealth and power at the top of American society and sparked a political countermobilization against monopoly capitalism that reverberated into debates over progressive taxation. Moreover, the systems of direct taxes at the local level and indirect taxes at the central level were both unpopular, leading to support for the income tax (a direct tax at the central level) as an alternative that would be more uniform as well as more progressive, that would benefit the competitive agricultural sector, and that would shift the burden of taxation onto the wealthy manufacturing concerns of the Northeast. What is conspicuously absent in these debates is concern about the expansion of federal power.

Industrialization had come to the United States by the late 19th century in the form of a sprawling national network of railroads and the development of national-scale industries in oil, steel, iron, coal, silver and copper mining, and finance. These developments upset the delicate political balance that had been achieved on the issue of protective tariffs. For decades, tariffs on manufactured products had served both to raise revenue and to protect the infant industries of the Northeast. Southern and Midwestern political acquiescence was bought by selectively extending tariffs to a few key agricultural products (Seligman 1916; Sanders 1999), but this political bribe became less tenable with industrialization, as mech-

anization led to increasing agricultural productivity and farmers in the South and Midwest found themselves able to compete internationally. They also found themselves hurt by the high, protected prices of manufactured goods. Thus the sectional division of modes of production led the Western and Southern states to argue that the burden of taxation should be shifted to wealthy manufacturers in the Northeast (Bicha 1973; Bensel 2000).

Southern farmers consequently began to advocate a wholesale rejection of tariffs. Of course, opposition to tariffs does not dictate an embrace of income tax. The revenue lost by tariff reduction could have been made up by a general sales tax. But a consumption tax would have defeated the purpose of lowering tariffs, since the imported goods that were made cheaper through lower tariffs would immediately be made more expensive through the consumption tax. Thus, for farmers, the income tax represented primarily an alternative to the detested tariffs and secondarily a means by which to redistribute wealth from the manufacturing Northeast (Tunell 1895).

The agrarian drive for an income tax first took shape within the populist political movements of the late 19th century (Ratner 1942, p. 164). Farmers organized through groups such as the Grange Party, the Greenback Party, and the Southern and Northern Alliances, and in 1892 the Populist Party officially demanded an income tax in its famous Omaha Platform (Baack and Ray 1985, pp. 608–9). In the South, these farmers were represented by Democrats. But in the Midwestern states, the Republican Party machine was all powerful, and the Midwestern Republicans who represented these agrarian constituencies increasingly came to oppose the party leadership.⁴ These “insurgent Republicans” from the farm belt first began to split from the main body of the party over the issue of free silver and eventually became bold enough to challenge the leadership and side with Democrats on the tariff and progressive taxation.

The Democratic Party as a whole had not previously favored income taxation and was initially hesitant to embrace the issue of tariff reduction in part because labor unions were split on the issue, with workers in protected industries favoring tariffs (Mehrotra 2004). This changed as labor leaders came to believe that workers were bearing the costs of tariffs. Although labor was never entirely unified on the question, the leaders came to support tariff reform and the income tax (Mehrotra 2004). The Democratic Party also unified in opposition to the tariff in the late 1880s

⁴ Republican legislators from Midwestern states did not completely reject tariffs, but they did oppose the large, politically motivated tariffs of the old-guard Republicans, favoring instead “scientific” tariffs on only those industries that truly needed protection (Sanders 1999, p. 223).

because of the efforts of President Cleveland (Klinghard 2005). Democrats began to favor the income tax not only as a means to replace the revenue lost from tariff reduction but also because they began to see the electoral appeal of an income tax that would be paid for by rich industrialists. The depression of 1893 had intensified the concerns of those worried about the consequences of industrialization. This was the worst economic downturn the nation had yet experienced, generating bank failures, major railroad bankruptcies, industrial unrest, widespread economic panic, a march on Washington, and unemployment as high as 18%. The depression hit the South and West particularly hard (Burnham 1965, p. 25). Falling agricultural prices caused a wave of farm mortgages and foreclosures to sweep over the Midwest (Steeple and Whitten 1998).

The miseries of the depression were counterposed to the increasing scale and presence of big business. In the last decades of the 19th century the United States experienced tremendous economic growth underpinned by developments in railroad technology and new methods of exploiting natural resources such as oil and coal. The social manifestation of these changes was the rise of the large American corporation and of a class of capitalists with wealth on a level that the nation had never before seen. The juxtaposition of these extremes of wealth and poverty, and the government's inability to protect the losers of industrialization from this new source of power, led to a widespread dissatisfaction with the weight of capital in political and social affairs: "The sense of a sudden change in economic life, and thus in the life of the society at large, was far more intense in the United States than in Europe. What was more, this corporate-managerial revolution occurred in a society with no older tradition of feudalism, corporatism, or social and political hierarchy. Nowhere were nineteenth-century individualism and laissez-faire less challenged by opposing social values; nowhere did big business develop faster or further" (Keller 1980).

The large trusts came into conflict with small business, and they were increasingly involved in labor conflicts that rallied public opinion against them. Violent strikebreaking occurred repeatedly throughout the 1880s and 1890s, and industrial accidents exposed the large corporations' poor safety standards. These incidents were popularized in the newly developing public sphere, as investigative journalists and authors exposed the issues of corporate fraud and anticompetitive practices, child labor, sanitary and working conditions, and especially the business practices of the corporation Standard Oil, while social reformers spearheaded movements to cater to the needs of the poor (Cooper 1990; Chambers 2000; McGerr 2005).

These currents generated a broad-based Populist movement that sought to regulate monopoly capital, control the growing divisions of wealth,

make democracy more responsive to the mass of citizens, and implement legislation in the interest of workers. The income tax was folded into this broader set of concerns and was seen as the quickest route to disciplining capitalists since it would shift the burden of taxation from consumers paying tariffs to those with high incomes. An income tax was “by far the most effective weapon for use against the Plutocratic policy. . . . There is nothing which those Eastern Plutocrats dread so much as that. . . . At the present juncture I am quite sure there is nothing which could be so effectually used to put a cog in the wheels of the Plutocratic program” (C. H. Jones, quoted in Ratner 1942, p. 172). One legislator thought that income tax would “mark the dawn of a brighter day . . . with more of sunshine, more of the songs of birds, more of that sweetest music, the laughter of children well fed, well clothed, well housed” (quoted in Ellis 1940, p. 239).

Thus it was that farmers and labor came together into a broad-based movement against tariffs, and in favor of income tax, as a means of curbing excesses of wealth generated by industrialization and redistributing the burden of taxation upward. Although agrarian populists hurt by tariffs had been the initial impetus for the income tax movement, and the representatives of agrarian populists provided key votes in Congress at a pivotal moment, the income tax had become a nationwide and broadly popular issue.

Notable for its absence in these debates was concern among populist groups about the expansion of federal power that might follow from an income tax. Big business and the wealthy decried the inquisitorial nature of progressive federal taxes as the first step along the road to socialism, but these fears did not resonate with the farmer-labor coalition behind the tax, who liked the idea of redistributing the tax burden onto the wealthy Northeast. Although students of American tax history would hardly notice this “absence,” it becomes quickly apparent in comparison with the French case, where such a theme was dominant.

We explain this absence by reference to the nature of the American state. In the 19th century the American central state was far less well developed than the French state or, indeed, almost any other state in the Western world. While France had centrally appointed prefects and sub-prefects penetrating the provinces, the United States continued its traditional role of granting a great deal of autonomy to subnational governments. Functions that were centralized in France, such as education, infrastructure, and regulation, remained the prerogatives of local government (Seely 1987; Novak 1996).

Tax collection in the 19th century followed this pattern, in that the hated tax collector—the objective indicator of the central state in France, present in the midst of the provinces—was absent in the United States.

The relative weakness of the central state is seen in two key differences in the structure of tax collection that prevented the build-up of fears of fiscal inquisition: first, central government revenues were largely reliant on indirect taxes, specifically, tariffs and excise taxes;⁵ and second, direct taxes were the province of local and state governments. Both sets of taxes were unpopular. Tariffs and excise taxes were criticized for their regressivity and for raising prices on common products (Mehrotra 2004). As for the direct taxes collected by local and state governments, the bulk of revenue came from the “general property tax,” the workhorse of the 19th-century American tax system (Yearley 1970; Higgens-Evenson 2003). This was a tax on all property (meaning all assets, not only real estate), and by all accounts was universally loathed for the extreme variation in tax burdens across local and state boundaries, for the fact that industrialization was creating new forms of wealth that escaped this tax, for its regressivity, and for much else besides (Seligman 1890; Yearley 1970). These difficulties led to widespread tax evasion, to the point that a commission called the tax a “tax upon ignorance and honesty” (Seligman 1890, pp. 30–31).

In this context, the income tax was an appealing alternative because it addressed the failings of the existing system: the centralization of the income tax would even out the variation of local tax burdens and the focus on income would capture new forms of wealth, thus addressing the central weaknesses of the local and state (direct) tax system. Inquiry into the taxpayer’s ability to pay would allow the application of progressive rates, thus addressing the central weakness of the federal (indirect) tax system. There were worries over the inquisitorial character of direct taxes, but these seem to have been allayed for many by the fact that someone else would be paying this tax: because the tax was progressive it would fall largely on the wealthy manufacturing Northeast, and observers in the West and South believed that the revenue raised from a national income tax (and paid by others) would reduce the often crushing local and state tax burdens that they themselves carried (Westin 1953). This meant that the income tax was not seen as an exercise of power from the center over the provinces, as it was in France, but rather as redistribution from the (economic) center to the rest of the country. Thus, where early industrialization had led to a movement to discipline capital, absence of state centralization reinforced this movement by contributing to support for the income tax as an alternative to unpopular local methods of direct taxation.

These forces generated a 20-year battle over the income tax. In 1893

⁵ In 1880, 90% of central government revenue came from tariffs and excise taxes on alcohol and tobacco (Hansen 1990; Mehrotra 2004, p. 167).

Southern and Midwestern Democrats in the House added a federal income tax measure to a bill that reduced tariffs, but the Supreme Court declared this income tax unconstitutional. There is no clear partisan split in the voting, but all but one of the known votes divide along geographic lines, with justices from the Northeast voting against the tax and justices from the South voting in favor (Corwin 1938; Ratner 1942; Weisman 2002).

McKinley's two victories (1896 and 1900) were seen by the Republican Party as vindication of their political position on tariffs. But Midwestern voters continued to send antitariff Republicans to Congress, and support for the income tax for its redistributive effects continued to grow. Finally, in 1909, Republicans in Congress and President Taft concluded that the Democrats and Insurgent Republicans had the votes to pass an income tax. Attempting to stave off more radical proposals, they proposed a constitutional amendment enabling the income tax. They expected the amendment to fail, thus bringing the income tax issue to an end, and this was an expectation that many supporters of the measure shared (Ratner 1942, p. 279; Mehrotra 2004, p. 184).

To the shock of all involved, the amendment was overwhelmingly ratified by 1913 (Solvick 1963; Weisman 2002). The agricultural states were an important force behind the ratification of the amendment, as they supported it disproportionately (Baack and Ray 1985).⁶ But between 1909 and 1913, the elections of 1910 and 1912 had brought Democrats (and reformist Republicans) into power in many state legislatures all over the country, not just in the agricultural states (Buenker 1985). At the national level, Republicans lost control of the house in 1910, and in 1912 Democrats took control of the presidency and both chambers of Congress (Campbell 2005). The division over tariffs, rising prices, and the start of African-American voters' abandonment of the Republican Party all contributed to the defeats. The surprising electoral reversal made passage possible—indeed, in some states where the amendment had been rejected before the election, it was taken up again after the election and ratified (Buenker 1985).

Once the amendment had been ratified, the way was cleared for the Democratic Congress to pass, and the Democratic president to sign, the income tax law in 1913. The first income tax was limited in its reach,

⁶ Baack and Ray suggest that reluctant states were persuaded to support the income tax amendment through the use of military pensions; they show that military pensions and military spending are correlated with support of the income tax. But Sanders (1999) has shown that military pensions were distributed by Republicans, with the intent of protecting the tariff. In other words, there may be a correlation between pensions and income tax votes, but if so, it was because the Republicans tried and failed to target states where support for the tax was strong and did not need to spend on states where opposition to the tax was strong.

with a high exemption that relieved virtually all middle-class families from paying the tax. Brownlee (1996, pp. 56–57) estimates that only 2% of households were subject to this income tax. Thus, the 1913 law created a progressive income tax that reached only a small proportion of the population—part of the reason for its tremendous popularity.

Fear of Fiscal Inquisition in the French Tax Debates

The degrees of state centralization and industrial development were reversed in France, which had a centralized state in the decades before World War I but did not possess the large manufacturing concerns that raised populist ire in America. Tocqueville traced the penetrative French central state apparatus of the 19th century to the absolutist monarchies of the prerevolutionary period, writing in the 1850s that “then as now the administration controlled the lives of all Frenchmen” (quoted in Badie and Birnbaum 1983, p. 109). Other scholars have emphasized how the French Revolution spurred the modernization and expansion of the state apparatus that would continue over the 19th century (Badie and Birnbaum 1983; Rosanvallon 1990). The Napoleonic regime created a system of centrally appointed prefects to head every department in the country and subprefects to manage local affairs (Thomson 1940, p. 97). As Badie and Birnbaum note of the prefects, “They had complete control over all aspects of life in their *départements* and eliminated the last vestiges of local autonomy” (1983, p. 110). A national police system placed a centrally appointed police official in every town with more than 5,000 people, enabling the state to “tighten its grip on civil society” (Badie and Birnbaum 1983, p. 110).

The state developed an extensive administrative apparatus for tax collection. Starting in the early 19th century, a new representative of the central state appeared in villages across France—the *percepteur*, who coordinated the collection of taxes. By 1843, Rosanvallon (1990, p. 57) reports, there were 60,000 tax agents in the country.⁷ Unlike in much of Western Europe and the United States, the bulk of the French state’s

⁷ Interestingly, Mathias and O’Brien (1976) show that in the 18th and the early part of the 19th centuries, the French tax state was no larger than the British one and possibly smaller. In seeking to explain why agitation over taxation was greater in France than in Britain, they argue that the way these taxes were collected was critical: in Britain, direct taxes were collected by local volunteers who were representatives of those paying the taxes, whereas in France tax collection was collected by a large, centrally directed bureaucracy and private army. In addition, indirect taxes in France were concentrated on a few goods, such as salt, which made them highly visible and a source of great antipathy, whereas British indirect taxes were spread over a wider array of goods.

taxes were central rather than local government receipts (Plessis 2006, p. 32 n. 47). The state was large too: by the turn of the century, France had the highest per capita tax load in Western Europe (Ardant 1972, p. 339).

The administration of the tax system embodied a larger paradox about the French state: that the growing bureaucratic apparatus was not necessarily very effective. Rosanvallon argues that this reflected the ambivalence felt by French elites following the revolution, which had been a revolt against the abuses of the absolutist regime. Political elites were thus reluctant to develop a uniform and efficiently run administrative machine that would become an intermediary layer between them and the people, even as they sought to use their political power to exert influence across the country. The expanding state also faced local resistance, as evidenced by tax revolts (Duby, Wallon, and Agulhon 1976, pp. 151, 166–67; Agulhon 1982, chap. 3). Particularly during the first half of the 19th century, a “sneaky war” of resistance was frequently waged against tax collectors (Schnerb 1973, pp. 77–78; Weber 1976), and an 1841 revolt in the south of France was sparked by an attempt by the central government to take control of the locally run census that determined people’s tax burdens. Henceforth, national tax agents would make this determination, which spurred mass hysteria about the fiscal inquisition that would result (Caron 2002). Although overt resistance to tax collectors declined in the second part of the century, public officials and intellectual elites were well aware of the depth of antitax sentiment (Héritier 1996, p. 224).

Indicative of this hostility to the central state and its taxmen is the structure of the tax system, which was designed to limit direct contact between individuals and tax collectors (Callet 1962; Schnerb 1973, pp. 71–72). Direct taxes were assessed in a way that prevented tax collectors from nosing around in taxpayers’ private affairs, so that instead of requiring people to formally declare their incomes, formulas or external signs of wealth or income were used to determine the amount owed. Most famously, in the case of the “windows and doors tax,” tax assessors would count the doors and windows on a property as a measure of worth rather than conduct a meaningful assessment of its true value. Several of the direct taxes were apportioned, so that the state fixed a total amount to be collected that was divided up by region, *arrondissement*, *commune*, and so forth, rather than assessing taxes on individuals’ personal income (Bouvier 1973, pp. 231–32). These circuitous methods of determining tax liability failed to measure real incomes or capture regional shifts in income or wealth, which in turn limited the yield of direct taxation. They also produced inequities in the burden of taxes paid (Zeldin 1973, p. 710; Piketty 2001, p. 234). In some regions, landowners could be paying very low tax rates, while others were paying rates as high as 35% or 40% (Owen 1982, p. 63).

Lacking sufficient revenues from direct taxes and facing the threat of resistance to any change in the direct tax regime, the French state became increasingly reliant on indirect taxes—largely on consumption—during the 19th century. These taxes could be spread over a number of items, thereby diffusing their burden in a way that rendered them less visible (Haig 1929, pp. 6–7). Despite public resistance, the French fiscal state would continue to grow throughout the 19th century but would do so largely through indirect forms of taxation that fell heavily on lower-income people. In general, the wealthy escaped paying a very heavy burden of taxation, and the limited or nonexistent taxation of business profits, interest, dividends, and capital gains fostered savings and capital accumulation (Owen 1983, p. 384).

While France had a large and centralized state by the 19th century, industrial capitalism was slow to take off in France relative to the United States, Germany, or Great Britain (Chandler, Amatori, and Hikino 1997, pp. 6–7). Industrialization intensified around the turn of the century, but French firms were fewer, and smaller, than their American equivalents, and France did not experience the sudden emergence of a new class of wealthy magnates heading up massive industrial conglomerates (Mayeur 1973; Fridenson 1997). Certainly, industrialization in some areas of France was destabilizing and gave rise to a militant trade union movement. This propelled the “social question” onto the political stage, fueling the movement for income taxation, regulation of working conditions, and social welfare programs (Stone 1985; Elwitt 1986). For politicians, social reform was a way to stave off socialism, however, rather than to attack industrial monopolies and the growing concentration of wealth.

The extent of state and industrial development shaped political cleavages and coalitions around taxation in several ways. First, the slow pace of industrialization hindered social and economic modernization, preserving a large sector of peasants, artisans, and small shopkeepers (Hoffmann 1963; Zeldin 1973, pp. 171, 188). The backwardness of the agrarian sector was both cause and consequence of sluggish industrialization: as people remained in the countryside, urbanization was delayed and industry lacked access to a large reserve of labor. In turn, slow industrialization delayed adoption of more efficient farming techniques that would promote agricultural modernization (Kemp 1973).

Given the slow tempo of industrialization, many socioeconomic groups were less concerned with the rise of monopoly capitalism than they were with the existing burdens of state taxation.⁸ In the case of the petite

⁸ One exception, however, lies in growing anger among Paris shopkeepers against the rise of large department stores and calls by some for the state to tax these firms in order to reduce their competitive advantage (Nord 1986).

bourgeoisie, these small property owners hewed to an ideology of self-reliance and individualism that made them conservative on issues of social reform (Stone 1985, p. 21). Although they might favor sticking the wealthy with a greater share of the tax burden, fears of fiscal inquisition undercut their support for progressive income taxation (Owen 1982, pp. 140, 169, 436–37). Peasants shared a similar suspicion of tax collectors and cared more about reducing the burdensome land tax than about fundamental reform of the tax system (Weber 1976, pp. 44–45, 50–51).

Moreover, while the tariff question impelled agrarian demands for progressive income taxation in the United States and pitted farmers against industrialists, in France it brought together peasants and industrialists against free trade (Lebovics 1988). Given their low productivity and lack of competitiveness, French peasants opposed the influx of cheap grain from the New World and were generally protectionist (O'Rourke 1997; Hiscox 2002).⁹ Thus, although the McKinley tariff of 1890 was passed in the United States against the demands of farmers, the 1892 Méline tariff in France was the opposite—a tariff instituted against agricultural products that would protect the agrarian sector by putting the highest tariffs on food of any European country (Clough 1946, p. 96; Zeldin 1973, p. 174). One consequence was that the tariff issue played virtually no role in the discussions about income taxation in the 1890s, as there was no push to replace tariffs as a source of revenues (Owen 1982, pp. 98–99).

The views of key social groups such as the peasants and petite bourgeoisie on taxation were represented in politics by the Radicals—a left-leaning faction of republicans that was a major force in Third Republic politics. Although many Radicals espoused a commitment to social reform, their electoral base was in the small towns and rural parts of France where there was often less support for such an agenda. Thus, although Radical politicians would be the main proponents of the income tax, not all Radicals were enthusiastic about this or other social reforms and could be swayed by the views of their constituents (Fox 1964; Stone 1985).

Throughout the 1870s and 1880s, income taxation was part of Radical electoral platforms, and the drive for progressive taxes intensified after the 1893 election that brought more Radicals and Socialists to the Chamber of Deputies. In 1895, Léon Bourgeois became the first Radical prime minister and made the income tax a high priority. Yet, because he lacked the votes to pass an actual income tax, Bourgeois asked only for a vote on the principle of progressive taxation. Although the measure passed the Chamber, it was voted down by the Senate (Owen 1982, pp. 104–6), and

⁹ This was especially true in the latter half of the 19th century when they also faced a sharp drop in agriculture prices and the wine industry was devastated by the phylloxera crisis (Zeldin 1973, p. 174).

there would be no more efforts to introduce the income tax until 1907, in part because the Dreyfus affair and conflicts over religion dominated the political agenda.

In the succeeding years, the ambivalence of the Radical Party undermined the cause of income tax reform. On the one hand, the election of a large Radical majority in 1906 did enable the revival of the income tax, as Radical Georges Clemenceau's government (1906–9) vowed to make the income tax a priority. Joseph Caillaux, a former inspector of finances and advocate of income taxation, was appointed finance minister, and in 1907 he introduced a proposal that overhauled the tax system, levied proportional taxes on various sources of income, and instituted a progressive surtax on those earning over 5,000 francs per year. Given the large majority that the Radicals and Socialists had in the Chamber of Deputies, one might have expected the bill to pass quickly and be enacted in law. Instead, it took two years for a revised version of the Caillaux plan to pass in the Chamber, and it was then bottled up in the Senate for the next five years. Strong opposition to the proposal came, not surprisingly, from business and the political right who, much like their counterparts in the United States, viewed the progressive income tax as a "dangerous adventure" that portended creeping socialism (Callet 1962; Jeanneney 1982; Isaia and Spindler 1986, p. 33). These forces did not have majority control in the Chamber, however, and so we would expect they could be overcome.

The key difference from the United States, however, was that France's dominant center-left force—the Radicals—were divided over the progressive income tax. The critical issue in the 1907–9 debates over the income tax concerned the mode of assessment—the issue of greatest concern to the peasants, shopkeepers, and artisans (Jeanneney 1982; Owen 1982). Caillaux's proposal employed indirect assessment measures for income from a number of sources but required declarations to be made for professional income. In the case of wages, salaries, pensions, and securities interest, taxes would be withheld at the time of payment (Owen 1982, p. 129). Critics charged that this represented a sharp break with the French tradition of indirect modes of assessment. While clearly deployed by business and wealthy advocates of the income tax to serve their own purposes, the proposal raised fears about an invasive state that resonated strongly with farmers and small business owners. The latter joined organizations to combat the tax reform, organizations that argued that any mandatory declaration of income or revenues would lead to state intrusion in their private affairs (Le Béguec 1993; Guillaume 2006, p. 278). Thus, despite the fact that these groups stood to benefit from many elements of the reform—which would have put most of the new tax burdens on the rich or larger businesses—they were sympathetic to claims of the coming fiscal

inquisition that the new law would bring (Jeanneney 1982, pp. 29–30; Owen 1982, pp. 132–40; Isaia and Spindler 1986, p. 34; Plessis 2006, pp. 37–39).¹⁰ When the income tax bill finally passed the Chamber of Deputies in 1909, it was a watered-down version of Caillaux's original plan.

The Radical majority in the Senate also worked against the reform. Anti-income tax forces were well represented in the Senate, which was elected indirectly in a way that favored villages and medium-size towns over urban areas. Rather than vote on the Chamber's income tax bill, the Senate created a commission that delayed passage of the measure for years. However, while the Senate was clearly an obstacle, Rebérioux (1973) points out that the Chamber could have included the reform in a finance bill, which did not need the Senate's approval. That the government chose not to do this perhaps revealed that many Radicals were happy to vote for the income tax reform as long as the Senate would defeat it. As Owen (1982, pp. 167–68) concludes, Radical politicians often employed grand rhetoric favoring the principle of income taxation, but in practice many were in no hurry to see this measure enacted.

Their hesitations were evident in the renewed debates about income taxation on the eve of war in 1914. The May 1914 election had been a victory for Socialists and Radicals, and the deteriorating international situation spurred debate about the need to finally pass Caillaux's tax reform proposals. However, despite the fact that Radicals had campaigned around the income tax, many were in fact quite lukewarm about it, in part because of concerns about fiscal inquisition (Fox 1964, p. 133; Owen 1982, p. 237). As a result, only small pieces of Caillaux's tax program were enacted before the outbreak of war (Haig 1929, pp. 19–21, 23–24). Exemptions, the absence of measures to ensure effective administration, and other limitations of the income tax—and the continuing lack of strong support for it—would hamper the ability of France to raise income taxes to help pay for World War I.

WAR AND POSTWAR

Many scholars have highlighted the state-building effects of war, arguing that large-scale mobilization of resources for conflict requires and propels the growth of bureaucratic capabilities. World War I would have divergent effects on the tax state in France and the United States, however. Although it is true that the nature of the war differed in the two countries,

¹⁰ Owen (1982) notes that the consequences of Caillaux's proposal for the middle class were difficult to determine. He concludes that some would have had their tax burdens reduced significantly, whereas others could have faced increases in their taxes, largely because they had managed to avoid paying taxes in the past.

the war also intersected with different policy and political contexts. Not only had the United States created a federal income tax before entering the war, but there was also a strong domestic coalition in favor of progressive finance that would govern throughout the war. The income tax was solidified through the wartime experience and, with diminishing revenue needs in the postwar period, conservatives found ways to live with the tax rather than trying to fully abandon it. In France, by contrast, the war came before the country had instituted a meaningful system of income taxation. Prewar dithering would prove more consequential than anyone had imagined, as implementation of the income tax would prove difficult during the war, contributing to the enormous debt the French government would acquire. Fears of fiscal inquisition continued to hamper implementation of the income tax, which meant that desperate postwar revenue needs could only be met by an increasingly entrenched system of consumption taxes.

The Consolidation of the Federal Income Tax in the United States

The political strength of the Democratic Party during World War I ensured that progressive modes of finance would play a central role in paying for the war. President Wilson's Revenue Acts of 1916 and 1917 raised revenue levels considerably, but along progressive lines, with the top rate reaching the highest levels in the world (Taussig 1917; Seligman 1924, pp. 128–29; Brownlee 1985; 1996, p. 63). Legislators also extended the tax base and lowered exemptions, so that between 1917 and 1918 the number of American citizens who filed income tax returns rose from 780,000 to an estimated 6,350,000 (Roper 1918, p. 162). The commitment to progressive modes of finance would distinguish the United States from the major combatants in the First World War. All countries had to rely on debt to finance most of their war costs, but the United States relied on debt relatively less than most countries, using tax and nontax receipts to cover approximately 37% of war costs. More than half of these revenues came from income and profits taxes (Fisk 1924, p. 61).¹¹

The United States financed its war debts in a uniquely progressive manner because the political forces responsible for the passage of income taxation were still in power: indeed, the Democrats in Congress often wanted even more progressive legislation than the (Democratic) president thought advisable. The overwhelming popularity of progressive taxation,

¹¹ There are different ways to calculate what proportion of war costs were met by borrowing or taxation. All of them show that the United States paid significantly more of the cost through taxation than other countries and that France paid very little of the cost through taxation, if any (Friedman 1922; Fisk 1924).

in reaction to extremes of wealth inequality, continued throughout the war years and kept legislators on the side of income tax (according to some estimates, 1916 was the peak year of income inequality in the United States during this period; Brownlee 1985).

The end of the war opened up a critical period in the future of the income tax. As American revenue needs declined and Republicans gained control of Congress and the White House, Republicans began a drive to pass national sales tax legislation. In 1921, observers thought a sales tax was likely to pass; it was backed by well-financed interests and represented the culmination of a year of lobbying and propaganda by business groups and the political leadership of the powerful Republican Senator Reed Smoot of Utah. But, although Republicans succeeded in bringing down the steep marginal rates imposed during the war, attempts to replace the income tax with a national sales tax were repeatedly stymied.

Why did the efforts to pass a sales tax in the 1920s fail? One reason could be the opposition of state governments to a national sales tax. Today, state and local governments rely on retail sales and property tax revenue, and if this were also the case at the turn of the 20th century, then state and local governments might have resisted the push for a national sales tax because it would have cut into their revenue base. But in fact, state retail sales taxes became widespread only in the 1930s (Shoup and Haimoff 1934; Berry and Berry 1992). Although resistance from the states did become a theme in the 1930s, it was not a theme in the debate over national sales tax in the 1920s.

Another possibility is that a new doctrine of “corporate liberalism” helped bring Republicans to accept the income tax in the 1920s, on the principle that a little bit of income taxation and attendant redistribution would purchase acquiescence to capitalism. However, if the corporate liberalism argument is correct, then it should have been the defenders of capital—manufacturers and their political protectors—who resisted a sales tax and favored an income tax, as a progressive income tax would be more effective at taking the edge off of capitalism than a regressive sales tax. But the defenders of capital in fact pushed heavily for a sales tax, whereas the fight against it was led by the same Democrats and Insurgent Republicans who had been responsible for the income tax in the first place (Rader 1971; Murnane 2004). For example, manufacturers’ groups testified in favor of the sales tax proposal, and labor and farmers’ groups testified against it.¹² Among members of Congress, two failed votes

¹² “Advocates of 1% Sales Tax Open Their Barrage,” *Chicago Daily Tribune*, May 10, 1921, p. 18; “Detroit Man for 1% Turnover, New Income Tax,” *Chicago Daily Tribune*, May 15, 1921, p. A11; “Farmers Again Protest against Turnover Taxes,” *Chicago Daily Tribune*, May 19, 1921; “Sales Tax Foes Arouse Penrose to Hot Retorts,” *Chicago Daily*

on the sales tax show a similar pattern: all Democrats voted against the sales tax, and most of the Northeastern Republicans voted in favor, but the Insurgent Republicans were split, with enough of them voting against the sales tax to kill the measure.¹³ In short, the sales tax attempt failed in 1921 because of the role of the “farm labor block,” and divisions on the sales tax mapped onto those of the prewar period on tariffs and the income tax (see Henning 1921).

After the failure of the sales tax effort, and despite Republicans’ being in control of the House, Senate, and presidency, Congress neither repealed the income tax nor implemented a sales tax. Republicans did repeal the excess profits tax and reduced progressive taxes throughout the 1920s, but the continuing alliance between Democrats and Insurgent Republicans made it difficult for them to achieve more far-reaching reforms. The same coalition even forced estate tax rates up to their highest level ever and created a federal gift tax, directly contrary to the wishes of conservative Republicans and their key ally in the Coolidge administration, Treasury Secretary Andrew Mellon (Ratner 1942, pp. 415–20). This coalition would begin to falter by the mid-1920s, enabling Republicans to cut normal income and surtax rates, eliminate the gift tax, and bring down the high estate tax (Ratner 1942, pp. 424–27). Even so, Republican administrations did not get rid of the income tax. By cutting rates, they defused opposition to the progressive tax structure while preserving its progressive shape. Republicans as well as Democrats were aware of the benefits of a well-established revenue-raising structure and refrained from pushing for major changes.

This meant that when the nation found itself facing another crisis 20 years later, it was income taxes rather than sales taxes that were the default mode of revenue generation. The Great Depression and World War II are often seen as marking the beginning of a distinct tax regime (Campbell and Allen 1994, 2001; Graetz 2005). But while World War II dramatically increased revenue levels and raised the number of income tax payers, the expansion of the “class tax” into a “mass tax” (Jones 1996) occurred according to the template that had been laid during the Progressive Era

Tribune, May 20, 1921, p. 7; “Labor Hostility to ‘Sales Tax’ Called Mistake,” *Chicago Daily Tribune*, May 22, 1921, p. A9; “Labor Helps to Kill Chance of Sales Tax,” *Chicago Daily Tribune*, May 25, 1921, p. 1; “Sales Tax of 1% Seems Doomed by Fights on It,” *Chicago Daily Tribune*, May 30, 1921, p. 10; “Harding Signs Emergency Tariff,” *New York Times*, May 28, 1921, p. 2; “Divergent Views on Sales Tax Law,” *Los Angeles Times*, May 11, 1921, p. I5; “Auto Industry for Sales Tax,” *Los Angeles Times*, May 24, 1921, p. I4.

¹³ “Reject Sales Tax by 43 to 25 Vote,” *New York Times*, November 4, 1921, p. 1; “Senate Again Votes Sales Tax Down,” *New York Times*, November 5, 1921, p. 15.

and consolidated during the First World War and the 1920s. A sales tax was proposed four times in the 1940s and defeated each time.

The main conflict in the tax debate of the 1940s was not about the sales tax at all—the sales tax proposals during this period were peripheral—but rather, about exactly how progressive the income tax structure should be. The Revenue Act of 1942 represented a compromise because it was highly progressive (with a top rate of 82%), but broad-based, with revenues largely coming from wages and salaries and including loopholes for industries that profited from the war. The act extended income taxes downward, producing a fourfold increase in the number of income tax returns between 1941 and 1943. But while World War II broadened the tax base, it did not reverse the principle of progressivity, a principle established at the turn of the century that lives on as a central element of American tax policy to the present day.

The Turn toward a National Sales Tax in France

France was on the opposite side of the war finance spectrum from the United States. Instead of using domestic revenues to pay for war costs, France instead turned to foreign and domestic loans to pay for virtually the entire conflict (Gide 1919; Friedman 1922; Fisk 1924). To some extent, the failings of French fiscal policy in this period can be explained by the fact that the war destabilized all revenue collection (Gide 1919; Peel 1926, pp. 110–11; Truchy 1927; Hautcoeur 2005), and it appears that some French leaders initially believed that the war would be short and its costs could be met with loans rather than new taxes (Gide 1919; Horn 2002). By 1915, however, it was evident that the war would not be short and that France needed to be paying for the war with taxes too (Haig 1929, p. 26; Horn 2002, p. 81). The deteriorating fiscal situation eventually impelled the Chamber and Senate to adopt several tax measures (discussed below), and a more serious effort at tax administration in the last two years of the war increased tax collections (Peel 1926). While these measures proved to be too little, too late, they are nonetheless indicative that France could have paid for more of the war through taxation than it did, and they suggest that the war was partly an excuse used by long-standing opponents of income taxation.

Instead, the more fundamental problem for France was that the war came at a time when France lacked either a meaningful system of income taxation or a strong political coalition in favor of progressive taxes. The 1914 income tax was ill equipped for the challenges brought by war. In Caillaux's original plan, the income tax was a surtax to be levied atop a series of schedule taxes that would establish different sources of income, facilitating assessment of the surtax. By creating only the surtax and not

the supporting substructure, tax collectors lacked the ability to determine a person's income (Peel 1926, pp. 95, 105–6). Although taxpayers were theoretically supposed to declare their incomes to tax officials, the law stipulated that taxpayers could never be compelled to produce their financial records in cases of disputes with tax collectors (Owen 1982, pp. 497–98). In addition to this weak policy instrument, political fortunes had now shifted against the Radicals and other advocates of progressive taxation, whose best chance to pass an income tax had been in the years leading up to the First World War (Haig 1929, pp. 26–29).

The desperate need for revenue led to a war profits tax and income tax rate increases in 1916, and in 1917 the Parliament finally approved the other element of Caillaux's original plan. But concerns about fiscal inquisition continued to weaken procedures for assessing taxpayer income, which in turn diminished the capacity of these taxes to raise revenues (Haig 1929, p. 35; Owen 1982, pp. 272, 314–15).¹⁴ Given the continuing need for revenues, and the weaknesses and delayed implementation of the income and war profits taxes, French policy makers turned to taxes on consumption. In 1917, the Parliament created a stamp duty and a luxury tax and in 1918 taxes on tobacco, wine, spirits, sugar, and so forth (Due 1957, pp. 115–16). As finance professor Gaston Jèze remarked at the time, the war had brought “a real avalanche of taxes on consumption” (cited in Haig 1929, p. 41) whereas taxes on capital and inheritances remained quite low (Jèze 1921, pp. 159–60). This pattern continued in the years after the war.

One could argue that diverging trajectories in the postwar period reflected the fact that French revenue needs were high and growing, while American ones were in decline. France had huge debts to repay and faced a financial crisis that required significant revenues. However, a glance at a country with more comparable revenue needs—Great Britain—shows that the British managed to preserve a tax system based on income taxes throughout the 1920s, despite their having an even larger state than the French (fig. 2). Writing about France's adoption of a general consumption, or turnover, tax, economist Carl Shoup (1930, p. 8) remarked that “the problem of understanding why the turnover tax was introduced thus largely becomes one of understanding why other taxes were not called upon instead.”

Parliamentary efforts to hire more tax collectors or improve the system of tax administration repeatedly failed, contributing to tax evasion and fraud. Moreover, in the immediate postwar period politicians made it easier for politically powerful groups—peasants, shopkeepers, small busi-

¹⁴ If the taxpayer declared an obviously low amount of income, the tax administration could investigate, but the determination of real income would be based on “external signs” (Haig 1929, p. 36).

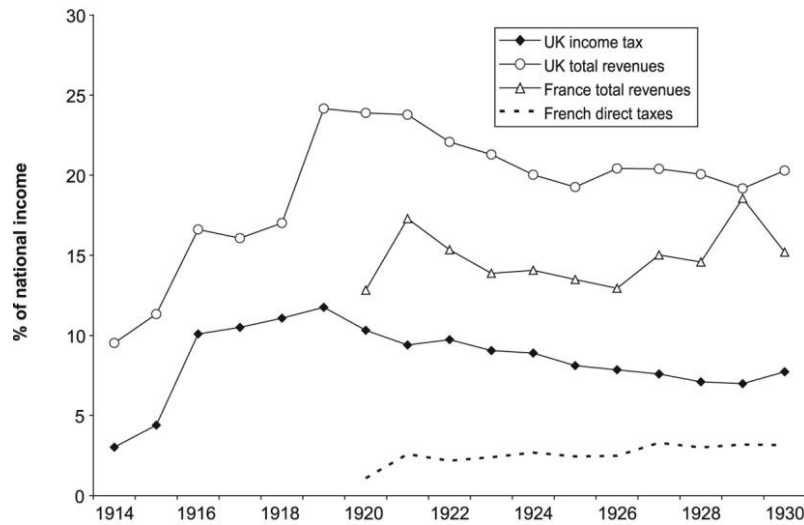


FIG. 2.—Central government tax revenues as a percentage of national income (Mitchell 2003a, 2003b).

ness, and the liberal professions—to escape supervision by tax collectors (Peel 1926, pp. 148–54; Owen 1982, p. 349). Given these politically generated flaws in assessment, raising income tax rates repeatedly failed to yield the expected revenues (Piketty 2001, pp. 259, 265). The scheduled taxes had more revenue-raising potential, but their rates rose only modestly in this period, and assessment methods remained the same (Piketty 2001, pp. 260–61).

Faced with ongoing problems with the income tax and desperate revenue needs in the 1920s, French officials turned to the sales tax as a more dependable method of raising revenues. In 1920, the first general sales tax was created—the *taxe sur les chiffres d'affaires* (TCA), a simple tax on the price of sale for every transaction (making it cumulative). The TCA had the support of business groups because it spread the tax burden across consumers and did not penalize any particular goods (Shoup 1930, pp. 14–16; Owen 1982, pp. 295–96). Although it was fiercely opposed by the Socialists, the Radicals largely went along with the TCA, hoping it might be a temporary expedient (Shoup 1930, pp. 21–22). Also important was the fact that small business, farmers, and other consumers had not risen up against the tax, whereas there was continuing strong animosity toward the inquisitorial income tax (Owen 1982, p. 328). This is not to say that the sales tax was popular; rather, it was the least objectionable form of finance to the largest number of groups.

In the succeeding years, sales taxation became an increasingly important

source of finance. While the income tax continued to be difficult to administer, the TCA began generating considerable revenues within a few years of its enactment (Shoup 1930, p. 32). Given the intensifying financial crisis, with France struggling to pay off its wartime debts and reassure investors, the need for revenues prevented any reduction in the tax. Thus, although radicals and socialists railed against the turnover tax as an unjust burden on lower-income people, they failed to do anything meaningful about it when they came to power in 1924–25 (Haig 1929, p. 113).

For the next three decades, despite political and economic upheaval and changes in the partisan composition of government, French tax policy would show great continuity (Flamant 1973; Asselain 2006). Ongoing experimentation and revision in the turnover tax would culminate in the creation of the VAT in 1954 (Tournié 1985, pp. 122–25). While initially applied only to the production sector, the VAT was later extended to wholesale trade and retail and would become a major source of revenues for the French government (Lynch 1997). There were, however, no major reforms to shore up the income tax and no attempt to grapple with the problems that had plagued the income tax system since its inception.¹⁵ Large exemptions narrowed the tax base considerably, while the under-assessment of peasant and small business income continued. High levels of tax evasion exacerbated these problems (Shoup 1955; Flamant 1973). Lacking the political will to rectify this situation, French governments would instead rely on “*anesthésie fiscale*”—a policy of raising revenues through less overt forms of taxation (Shoup 1955, p. 341).

Thus, the overall structure of the French tax code endured. Capital was treated favorably and business profits were taxed lightly (relative to other Western countries), whereas salaried employees and people for whom consumption was a large share of their incomes bore a heavy fiscal burden.¹⁶ The decision after World War II to finance the welfare state largely through payroll taxes, rather than through expanded income taxes, reinforced the regressive nature of the tax system. Tax policy making throughout the Fourth and Fifth Republics would be characterized by continuity rather than significant change, and France would continue to have one of the least significant income taxes in the Western world (Tournié 1985; Asselain 2006).

¹⁵ The only reform of significance was in 1948. It replaced the schedule taxes with a tax on personal income and one on firms, but this did not change the structure of French tax receipts.

¹⁶ The earliest data available from the OECD show that in 1965, corporate profits taxes in France amounted to only 1.8% of GDP and 5.3% of total revenues, but were 4% of GDP in the United States and made up 16.4% of total revenues (OECD 2007).

WIDER IMPLICATIONS

Our study has implications for other areas of political economy in France and the United States and the structure of tax policy in other Western countries. First, the pattern in tax policy of an American state that is more punitive to capital than that of France is also found in other domains of political economy. Legal scholars have long argued that in regulation, the American state historically did more to constrain capital than other countries. For example, the Sherman Anti-Trust Act, for all of its flaws, far exceeded the regulation of trusts in any other country except Canada, and until the Second World War only the United States and Canada had antimonopoly provisions of any kind (Friedmann 1956). The regulation of consumer debt has always been more favorable to consumers (and therefore less favorable to businesses seeking to collect debts) in the United States than in France, with the American willingness to discharge consumers of their debt established early in the country's history but unheard of in France until 1989 (Niemi-Kiesiläinen 1997). In trade policy, "between the large corporations and Washington, relations have reached enmity [and] U.S. trade policy in modern times has been governed by popular considerations" while "French voters have consistently delegated the formulation of trade policy to business. The reality is that for almost a century (1892 until the late 1970s), French industrialists have enjoyed a stable, privileged, collusive relationship with state officials" (Verdier 1994, pp. xix–xx).

For current theories of comparative political economy, these laws that favor capital in France and oppose capital in the United States are hard to explain. For all of their divergences, schools of thought ranging from "varieties of capitalism" to the "worlds of welfare" to neo-Polanyian and neo-Marxist approaches all agree that the United States is a state that privileges capital accumulation to a greater degree than the countries of Europe. Therefore, these approaches cannot make sense of these patterns of anticapitalism in the United States. We have argued that these patterns of state-capital interaction in the United States and France resulted from broad social resistance to the concentration of power in each country. Because the United States was marked by a rapid concentration of economic power in the late 19th century, a widespread resistance to that concentration of power took the form of support for a tax with clear redistributive purposes. Meanwhile, because France was marked by concentration of state power over the 19th century, it was resistance to concentration of state power that marked tax debates, with widespread fears of the abuse of state power preventing the implementation of income tax. We suspect that other areas of political economy might also be explained by attention to this resistance to the concentration of power in the 19th

century: for example, studies of the Sherman Anti-Trust Act disagree on the question of whether the act was driven primarily by populist sentiment or by concern for small businesses, but in either case, they agree that the trigger was the rise of the large firms, and that the act represented politically organized resistance to the world the large firms seemed to be creating (see Troesken [2002] for an overview of the debate).

Our findings for these two cases potentially apply to a wider array of countries as well. While space considerations preclude a more exhaustive account, we look briefly at the nature of tax debates in other countries to see how well our theory travels. Tables 2 and 3 show levels of industrialization and state centralization for several other advanced industrial states, and figure 3 categorizes states by levels of industrialization and state centralization into a two-by-two table.¹⁷

Britain experienced industrialization early and developed a strong class-based cleavage in politics, and it also had vigorous local governments at this time. The prediction of our argument would be that the imperative to discipline capital was a powerful force driving the early income tax, perhaps in conjunction with lower tariff barriers, and that this antagonism toward capital would not be diminished by fears of an overweening state. Class-based alliances could thus form in favor of taxing wealthy industrialists, bringing about the adoption of the income and other progressive taxes. The British case generally confirms our approach. Adoption of the first income tax in the mid-19th century was motivated largely by free trade concerns, with the tax revenue replacing that lost through lower tariffs. Growing labor militancy in the late 19th and early 20th centuries then turned the income tax into a populist issue, and demands for social spending and progressive income taxes were met in the People's Budget of 1909 enacted by Lloyd George's socially reformist government. Fear of fiscal inquisition was not an issue that impeded development of the income tax. The British state was more developed and centralized than the American one, but many scholars argue that Britain lacks the statist tradition found in France (Nettl 1968; Badie and Birnbaum 1982; Rosanvallon 1990; Jepperson 2002).¹⁸ With its earlier internal unity and relatively well developed political center, Britain was not compelled to create an absolutist state that would enforce quiescence (Thomson 1940, pp. 83–84; Badie and Birnbaum 1983, pp. 121–23). Local political authorities were thus preserved that attended to many of the everyday needs

¹⁷ Table 3 does not include Belgium and Denmark, so we rely on historical case studies to assess the degree of localization or centralization in these two countries.

¹⁸ Rosanvallon (1990) even argues that Britain had a more rationalized and effective bureaucracy than France that could better achieve tasks such as tax collection, but that the weight of the state upon society was much heavier in France (see pp. 63, 99).

TABLE 2
PER CAPITA LEVELS OF INDUSTRIALIZATION

Country	1880	1900	1913
Belgium	43	56	88
Denmark	12	20	33
France	28	39	59
Italy	12	17	26
United Kingdom ...	87	100	115
United States	38	69	126

SOURCE.—Bairoch (1982, pp. 294, 330).

NOTE.—U.K. in 1900 = 100; triennial annual averages, except for 1913. We use Bairoch's (1982) measure of industrialization because, as Cameron (1985) points out, it correlates almost perfectly with W. Arthur Lewis's measure of industrialization, even though the two were calculated using different methods. This suggests that some underlying process is being accurately captured.

TABLE 3
SUBNATIONAL TAX REVENUE AS PERCENTAGE OF
TOTAL REVENUE, 1880–1920

Country	1880	1920
France	3	3
Germany	50	60
Italy	25	16
Netherlands	20	50
Norway	40	40
United Kingdom ...	30	23
United States	62*	57

SOURCE.—Seebohm, cited in Alt (1983, p. 193).

* Figure is for 1902.

of the people—a stark contrast with the French state's centralized control over many spheres of life (Thomson 1940, pp. 97–98). Bearing out this picture is the importance of subnational forms of taxation: in 1880, 30% of total revenues in Britain came from local taxes, about half the percentage of the United States, but many times greater than that of France, where only 3% of total revenues were subnational (Alt 1983, p. 93). In sum, the lack of fiscal inquisition rhetoric in the British income tax debates is consistent with what we would expect from a less centralized polity.

At the other end of the spectrum are later-industrializing, centralized polities, such as Italy, that were slow to develop income taxes and instead relied heavily on indirect (and often highly regressive) taxes. Here, we would predict weaker class-based politics around the income tax owing to the slower pace of industrialization, lack of demand for lower tariffs

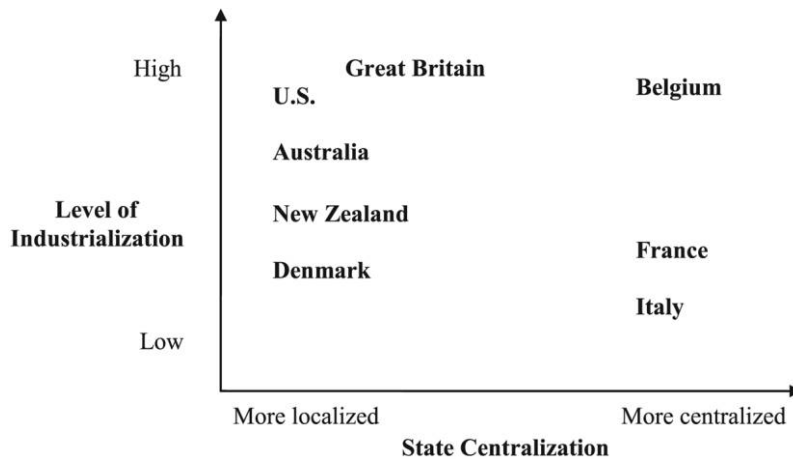


FIG. 3.—States categorized by levels of industrialization and state centralization. In addition to the sources identified in tables 1–3, we also drew on the following sources for this figure: Maddison’s (2003) macroeconomic indicators of per capita GDP; Kinghorn and Nye’s (1996) estimation of firm size for the United States, Germany, and France (we chose this as the measure of firm size that is least favorable to our own interpretation; it nevertheless shows that a larger proportion of the American labor force was employed in firms with over 50 employees than the French labor force); and several historical studies: Kindleberger (1964), Landes (1969), Schmitz (1995), Cassis (1997), and Dormois (2004).

from an uncompetitive agrarian sector, and antipathy toward an already intrusive state. Working out the precise mechanisms by which the Italian tax system emerged is complicated by the country’s lack of democratic politics during the crucial period for tax policy development. Still, the Italian case offers some confirmation for our approach. Italy industrialized even later than France and had an even less modernized and less competitive agrarian sector. The push for an income tax was not a populist push from below but came from free trade elites seeking replacement revenues for tariffs.¹⁹ Thus, in 1864, a national income tax was adopted that was modeled after the British equivalent (Seligman 1914, p. 340). Yet this tax was adopted in a very different context—a statist polity in which there was mass distrust of the state and its tax collectors—and this would undermine collection of the new tax (Smith 1959, pp. 86–87; Moss 1974, p. 153). Much as in France, Italians had been accustomed to a direct tax system based on external signs for assessing income. The new tax required all people to submit annual tax returns that revealed their income to tax collectors. Without the power to oppose this in parliamentary pol-

¹⁹ Italy’s lack of natural resources made it very dependent upon imports to acquire the raw materials for industrialization.

itics (less than 2% of the public was eligible to vote), Italians expressed their views with their actions by refusing to submit their returns or lying about their income. The tax collectors assigned to gather the tax could do nothing against this widespread resistance and simply returned to their previous methods of using external signs (e.g., the rental value of a property) to assess the tax (Seligman 1914, pp. 350–52).

What about the other two combinations in our two-by-two table in figure 3? Belgium is characterized by high industrialization and state centralization, having been one of the first countries to industrialize in Europe yet also classified by scholars as a centralized, statist polity (Nettl 1968; Jepperson 2002). Here our theory would expect to find a high degree of class-based politics around the income tax but also fears about state intervention in people's private financial affairs that might undermine a class-based coalition around taxing the rich. We find precisely that: the drive for progressive income-tax reform emerged in the late 19th century and was championed by socialists, progressive liberals, and some socially minded Catholics. The Catholic party in power opposed the tax, however, and would use its position of power to stymie the reform until after World War I, thus making the delay of the income-tax reform seemingly a product of class-based politics in which conservatives prevailed. However, notable about the Belgian tax debates was the importance of the theme of fiscal inquisition: the Catholic party—which counted among its constituents not only the bourgeoisie but also farmers and the petite bourgeoisie—fiercely resisted mandatory declarations of income, stricter administrative controls of tax returns, or abandoning the indirect modes of assessing income that previously characterized the Belgian direct tax system (Hardewyn 1997, pp. 1089, 1091, 1097). When a coalition government finally passed progressive tax reform in 1919, the new income tax system was riddled with holes in its assessment system that undercut its revenue-raising potential and especially protected the interests of farmers, those in liberal professions, and holders of capital (Hardewyn 1997). As in France, the weaknesses of the direct tax system led Belgium to develop multistage sales taxes in the 1920s that laid the foundations for the heavy VAT adopted later in the 20th century (Due 1957).

In Denmark, which was late to industrialize and also preserved a strong tradition of local government, we would predict an absence of both the fiscal inquisition rhetoric and a soak-the-rich-movement. This appears to be the case. The main issue of concern in the 19th and early 20th centuries was land taxes, which is not surprising given the importance of agriculture in the Danish economy. A land tax had traditionally formed the main source of government revenues, but it was abolished in 1903 when large landowners gained political power. To replace these revenues, an income tax was adopted, but this was done without much discussion. Later,

smaller landholders gained control of government and reinstated the land tax, reflecting an ongoing cleavage between large and small landowners that would mark Danish tax debates. What is noticeable is the absence of the drive to tame monopoly capital through taxes and the absence of resistance to the way in which the new tax would be assessed. Income tax seems to be an afterthought, and it is adopted without much fanfare, either in favor of or against it. Where elsewhere income tax replaces tariff revenue and is channeled onto capitalists by soak-the-rich movements, here income tax is a replacement for land taxes and is a complement to (not a substitute for) consumption taxes (Laux 1968; Silagi 1994).

These comparisons suggest that our argument extends beyond two cases and captures something generalizable about the origins of the tax mix in Western democracies. That does not mean that tax systems have been entirely frozen, however. For example, it is clear from available sources that Britain shifted to a greater reliance on sales taxes under the administration of Margaret Thatcher (Johnson and Stark 1989), ending up below Belgium in figure 1. Although the United States and France have so far retained their characteristic reliance on income or consumption tax, respectively, as a percentage of total revenue, the role of income tax as a percentage of GDP has recently fallen in the United States and risen in France.

Nevertheless, the embrace of income or consumption taxes at the turn of the 20th century reverberates to this day in the political sphere: reliance on income tax consigned the United States to perpetual conflict over revenue generation (including in the current political moment) while the adoption of the consumption tax in France underpinned the rise of a remarkably efficient and extensive welfare state (which resists retrenchment to this day). Thus, policy-making debates and decisions at a critical juncture seemingly long in the past continue to shape contemporary politics. Although the resulting conflicts against monopoly power and state-led “inquisition” may now be largely forgotten, the imprint of these struggles can still be seen today in the tax code.

CONCLUSION

The reliance throughout the 20th century on income tax in the United States, and the concurrent reliance on general sales tax in France, can be traced back to the dawn of the 20th century, when the paths of France and the United States diverged and then were entrenched by the demands of the First World War. The divergence began before the war: in the United States, rapid industrialization in the context of an underdeveloped

central state led to popular support for progressive income taxation as a way to avoid protectionist tariffs, discipline capital, and shift away from an unpopular local system of direct taxation. In France, intrusive methods of taxation by the central state in the context of slower industrialization created resistance to new schemes of direct taxation. In the United States, farmers displaced by industrialization and hurt by protectionist tariffs favoring the Northeast were represented by Democrats in the South and a faction of the Republican Party in the Midwest, and the Democratic Party as a whole eventually began to mobilize widespread outrage at the excesses of monopoly capitalism. In France, popular sentiment against the intrusions of direct taxation by the central state fed the center-left's ambivalence over progressive taxation, and no constituency analogous to American farmers crystallized in favor of the income tax issue. Nor did a class of wealthy magnates rivet popular opinion on the need to discipline capital through progressive taxation. The desperate search for revenue in France was channeled into the tax of least resistance, the general sales tax.

These findings help us make sense of the origins of tax systems in a larger array of advanced industrialized countries. They also shed light upon a curious puzzle—that the American state is frequently more punitive toward capital than the French one. Although we were able to examine only one element of political economy in depth, our study shows that an improved understanding of the politics of taxation can contribute to a host of wider debates in economic sociology.

Our investigation leads to two substantive injunctions for economic sociology and comparative-historical sociology. First, look at taxes. The complexity of the tax code has been a remarkably effective screen, serving to hide in plain sight important questions of power and privilege. Fortunately, a group of scholars has been working to peer through this screen and is arriving at some startling insights about political economy (e.g., Steinmo 1993; Campbell and Allen 1994, 2001; Brownlee 1996; Howard 1997; Lindert 2004; Martin 2008; see also the contributions to Martin et al. [in press]). But we suspect that much about fiscal sociology remains to be discovered and that close examination of taxation still has much to tell us about the social world.

The second injunction is to look more broadly at movements of resistance to modernity. Current theories of political economy place a great deal of weight on labor unions, class-based parties, and employers, but we found that these factors could not explain fundamental differences in the structure of tax systems. Instead, we examine how the two great transformations of the age—industrialization and the expansion of the state—reverberated across the political landscape, shaping distinctive social and political currents for and against progressive taxation. In so doing,

we adopt a more nuanced and complex understanding of industrialization—one that looks not only at labor movements but also at how different pathways to modernization shaped agrarian political movements—and we view the state not only as a bureaucratic actor in political life but also as a source of popular antipathy and opposition. We have suggested that these movements of resistance to industrialization and state centralization may explain other domains of political economy as well, and we have shown that the theory seems to travel beyond the two cases that we have explored. We conclude that theories of political economy cannot explain some central facets of the contemporary world unless they examine these movements of resistance to both industrialization and state centralization in the decades before World War I.

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