

Views on progressive taxation in Spanish economists in the 19th century

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ABSTRACT

Liberal economists in the 19th century rejected progressivity in general as an unfair technique of taxation, as it was widely believed that graduated tax rates betrayed Adam Smith's first maxim of taxation. However, the expansion of the ability to pay approach to taxation in the central decades of the century, particularly since the diffusion of J.S. Mill's *Principles*, led economists to reconsider the possibility of establishing graduated taxes as way to attain a fairer system through which citizenship contributed to the common effort of the state. This might satisfy those supporting proportionality as the right technique of taxation (progressive rates in some taxes could redress a supposedly general regressivity of the tax system caused by the noticeable presence of indirect taxation, particularly consumption taxes), and also those defending that proportionality could not be a fair system of allocation tax burden, as marginal utility of money diminished.

Spanish economists were not alien to this general discussion. This paper explores the evolution of their positions on the debate on progressive taxation. Despite the fact that there were some exceptions, the majority of Spanish economists in the central decades of the century leaned to proportionality as the right and just technique for taxation. Progressivity was deemed unfair, arbitrary, confiscatory, and a socialist tool to equalize fortunes, which was not the attribution of the state. However, as the century approached its end, some economists slowly changed their positions, leaning to a partial acceptance of graduation as a suitable practice for taxation, on behalf of a better application of the principle of fair taxation. This shift was led not by academic economists, but by economists involved in politics more prone to adopt less rigid positions in this debate, and more concerned for the political side of the matter.

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Introduction

The problem of allocation of tax burden is a crucial matter in public finance. It is expected to fulfil one of the principles of justice in taxation, that of equity (as Musgrave defined it, “each taxpayer should contribute his “fair share” to the cost of government”). Two principles have been traditionally used to evaluate distribution of tax burden: the benefit principle and the ability to pay principle. The benefit principle states that one must contribute to the expenses of the state on behalf of the services received, on an equivalent basis. This poses the problem of measuring the value of public services enjoyed by individuals. Sponsors of this approach consider mostly that it calls for proportional taxation, as they plainly suppose that it is protection of property the main service rendered by the state. Myrdal, however, pointed out that the question why taxation should be proportional to interests had never been discussed in depth.¹ The equity principle seems to be better solved by using the principle of ability to pay as the basic criterion for the design of the tax structure. The ability to pay approach states that every citizen should pay taxes as far as his faculties allow him to do that. The modern doctrine of ability to pay was founded by J.S. Mill, who, in Bentham’s utilitarian framework, formulated equal treatment in taxation as equality of sacrifice, setting the bases for discussion along the century, opening the door to progressive taxation: Taxpayers would be treated equally if their payments involved an equal loss of welfare. This poses the problem of the assessment of loss of welfare.² A further difficulty of this approach was – and still is –, how taxes rise when income (or any measure of welfare) rises: This is the core issue of progressivity. Vickrey defined progressive taxation as “taxation that conforms to a concept of ability to pay, which in turn is deemed to increase more than in proportion to various cardinally measurable indicia of the individual’s economic status”.³ Neumark, considering that the real ability to pay of individuals grew more than proportionally than the increase in welfare indicators, believed from a more pragmatic perspective that a certain progression should be implemented in fiscal

¹ Myrdal (1990), 162.

² Musgrave (1985), 18-19. The debate would be later continued by Edgeworth, deducing equal marginal sacrifice as the optimal solution, Sidgwick, Wagner (who introduced a social welfare principle), and Pigou.

³ Vickrey (1994), 171.

systems at least in order to compensate the presence of regressive taxes. However, in his opinion, tax progression can only be justified in the sphere of principles, but not in what concerns to its concrete application: it is not possible to say that a particular progression is fair. In effect, as Slemrod put it, “we don’t know what the right degree of progressivity is”.⁴ Every concrete structure of progressivity involves a certain degree of arbitrariness and reveals a politic and economic ideological background as it affects the whole structure of the taxation system and the values it represents. There is a trade-off between efficiency and equity, two essential principles of a sound fiscal system. The assessment of this trade-off has concerned a great deal of economists and has guided the economic policy agendas.⁵

This paper explores the ideas on the issue of progressive taxation in Spanish economists in the 19th century (particularly in its second half, when a good number of works on public finance were edited). In spite of the fact that there were some exceptions, the majority of Spanish economists believed that it was proportionality the right and just technique for taxation. Progressivity was deemed arbitrary, confiscatory, a factor that made capitals decrease and therefore detrimental to economic growth, or a socialist device to equalize fortunes. Three aspects regarding the issue of progressivity are worth point out: First, the alternative between the benefit approach and the ability to pay approach (Spanish economists would lean mostly to the second); second, the acceptance or not of progressive taxes (be it limited to measures such as tax exemption for the poor) for the sake of justice in taxpaying (here the problem was to justify progressivity theoretically); third, the emergence of a social aspect of taxation, this meaning using progressive taxes as a redistributive tool (this was completely rejected by Spanish 19th century economists as they all sustained that redistribution was not and could not be an attribution of the state). A shift in these positions only happened at the end of the century, when some economists started leaning to a partial acceptance of graduation, usually as a compensation for the presence of regressive taxes in the tax system. This shift was not led by academic economists, but mainly by economists involved in politics and in State administration, having a less rigid and more pragmatic approach to the matter.⁶ This paper has three parts. The first reviews the main positions of progressivity in classical liberal school, the main source of influence in Spanish economists in the 19th century. The second deals with the

⁴ Slemrod (1994), 1-4.

⁵ Neumark (1994), 189-197. In the same line of reasoning, Vallejo also stressed the idea that a fiscal reform is the outcome of a compromise among the interests of those who have political power. Hence, they are enormously influenced by the economic development of the society and its quality; they have a determined social orientation and imply a concrete economic organization. Vallejo (2001), 41-42.

⁶ This reflects a particularity of Spain’s economic thought in the last part of the century It leant leant to applied matters rather than theoretical. This might explain why parliamentarian-economists or politician-economists used to be more innovative than academic.

debate between benefit and ability to pay approach in Spanish academic literature. The third part shows the positions of Spanish economist with respect to progressive taxes. Some concluding remarks are offered at the end.

Progressivity in the classical liberal school

Spain being an importer of economic ideas in the 19th century, the positions that Spanish economists held on the issue of progressivity were borrowed from their European counterparts, especially from classical liberal authors, and more in particular from French liberal economists. Ideas on progressivity in classical economists were far from unified and, in some cases, ambiguous. This was especially the case of the first classical, whereas the generation of authors writing in the mid decades of the 19th century (specially the French and their followers), supported proportional taxes more clearly. As it has been said, the discussion over proportional versus progressive taxation depended upon the two basic approaches to tax equity, the benefit approach and the ability to pay approach. Traditionally, it was considered that the benefit approach led to proportionality. The theories of taxation as an insurance premium or a payment for the protection of property were variants of the benefit approach.⁷ However, there was not unanimity among benefit theorists: Rousseau, Sismondi or Condorcet supported progression. Concerning the ability to pay approach, the measure of capacity changed over time. From a vision that prioritized property, it gradually shifted to a vision in terms of flow.⁸ It would be at the end of the 19th century that the idea of a comprehensive income tax as the best index of tax capacity developed.

O'Brien showed that many classical economists did not pay much attention to the problem of progressivity.⁹ Adam Smith's first maxim of taxation pointed out to the ability to pay principle, but then shifted in the direction of benefit. Placing him in the proportional side is not

⁷ Seligman said that the logical linkage between the benefit theory and proportional taxation was modified by the theory of the exemption of the minimum of subsistence, and later openly attacked on the basis of the impossibility of assessing the value of the advantages provided by the government, and of the fact that benefits might not be proportional to income or capital, but progressive. Most part of state benefits are enjoyed by the rich, hence they should pay more, also in relative terms. Seligman (1894), 81-85. Mill, on the contrary, thought that the poor needed more protection, hence they should pay more. Mill (1965), 623.

⁸ At the time of the French Revolution it became associated with income, and it was broadly believed that ability to pay called for a proportional tax. Later on, it was said to be income over the minimum of subsistence (Bentham and Steuart defended this scheme). Taxes in line with this idea were proportional, but only on the part of income beyond the minimum. Seligman (1894), 128-130.

⁹ O'Brien (2004), 294-311.

indisputable, as he exempted the minimum of subsistence, and referring to the tax on house rents, he famously said that it would not be “unreasonable” that the rich paid more than in proportion to their revenue.¹⁰ Ricardo neglected the problem of graduation, which had its most enthusiastic defender in Paley and its most vigorous opponent in McCulloch.¹¹ Probably the most renowned liberal economist to defend progressive taxation was J.B. Say. He supported the exemption of the minimum of subsistence. Problems emerged when income grew, for the discrimination of essentials and superfluous items was relative. In Say’s opinion, the only equitable tax was the progressive type.¹² Mill’s ideas on equality of sacrifice as the true principle of tax justice shifted the discussion: “Equality of taxation, therefore, as a maxim of politics, means equality of sacrifice. It means apportioning the contribution of each person towards the expenses of government, so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his”. Mill then deduced that equal sacrifice called for a proportional tax on income, exempting subsistence. He rejected progressivity fearing its disincentives to effort and thrift, but promoted progressivity on succession taxes.¹³

Most authors of the French liberal school supported the benefit approach, and asserted that direct taxes should be proportional. The *Dictionnaire de l'économie politique* directed by Coquelin and Guillaumin, may be a good example of their positions. In the 1873 edition, the entry “impôt” (written by H. Passy) severely criticised progressivity: Graduated taxes were prejudicial to society for they disincentive hard work and thrift, hampering capital accumulation, and providing incentive to fraud and capital flight. Proportional taxes should be the only accepted, as “taxes should fall on things and not on persons”, and individuals should be taxed according to what they enjoy of public expenditure.¹⁴ The 1892 edition of the *Dictionnaire*, now under the direction of Léon Say and Chailley, devotes much more space to progressivity, gathering the ideas of liberals at the end of the century, and introducing a milder opinion on them. The author of the entry, Stourm, starts acknowledging that, although progressive rates do not follow mathematical laws, in practice they are limited “in order not to

¹⁰ When See Smith (1976), 825 and 840-842. There have been a lot of interpretations of that passage. See for instance Seligman (1894), 94; Lynn (1976), 373; Shehab (1953), 34-35.

¹¹ Paley (2002 [1785]), 444-448; McCulloch (1975), 32 and 141-146.

¹² “On voit donc qu’un impôt qui serait simplement proportionnel au revenu serait loin cependant d’être équitable... J’irai plus loin, et je ne craindrai pas de prononcer que l’impôt progressif est le seul équitable”. Say (1841), 548. This is probably the most determined statement of defense of progressive taxation among major economists in the 19th century. In his *Cours*, Say also expressed his support for progressivity. Say (1966), 495.

¹³ In Mill’s opinion, the state should reduce inequality of opportunities, but not inequality of earned incomes. Mill (1965), 804-810.

¹⁴ Passy (1873), 909-910.

harm seriously any interest”: rates are, thus, arbitrary.¹⁵ Progressivity leads either to plunder or arbitrariness. He conceded that progressivity had been applied in some countries (“isolated experiences” showing that “progressive tax is susceptible of a moderate application, with no objection”) and that some economists had approved of it. Stourm summarized the arguments in favour of progressivity in two points: First, progressive tax could redress regressivity of indirect taxes, especially on necessities; second, progressive tax was a leveller of wealth. This second argument grounded on the doctrine of equality of sacrifice, and would become a “terrible weapon” in the hands of revolutionaries. Although Stourm acknowledged that a moderate application of progressivity could render good results (redress regressivity), it should be rejected as it was not possible to define fair rates.¹⁶

As the century passed many economists accepted mild form of progressivity. Some asked for tax exemptions for minimum income or capital, and others highlighted its compensatory effect. The main representative of this tendency was Garnier, the author of a distinction between progressive and “progressional tax”. A progressive tax was that which had rapidly increasing rates, eventually leading to confiscation. In progressional taxes, progression increased slowly and stopped at a moderate maximum, so that it would not exceed a determinate fraction of income. Garnier justified this limited progressive tax with the reasoning that protection furnished by the state grows faster than wealth does.¹⁷ Leroy-Beaulieu, a determined detractor of progressivity on the basis that it led to confiscation and correction of social inequalities, supported however the exemption of a minimum of subsistence as a compensatory device, to restore the proportionality lost by the action of indirect taxes.¹⁸ Léon Say rejected the principle of equality of sacrifice and stated the impossibility of a mathematical progressivity.¹⁹ He feared the consequences of progressive taxation (if rates were high, it destroyed capital; if moderate, it did not supply but very short revenues), however he also accepted the compensatory exception. Leroy called this *impôt dégressif*, which would relieve totally or partially low tax bases, but then charging the rest of

¹⁵ This has remained the main flaw of progressivity. See for instance Neumark (1994), pp. 189-197; Slemrod (1994), pp. 1-4.

¹⁶ “The excesses of progressivity are inherent to its own essence”. It would lead eventually to confiscation, and any attenuation was not but “arbitrary limits traced on sand”. Stourm (1892), II, 21-25. Stourm mentioned the latest projects of progressivity in the succession tax in France, only to condemn them.

¹⁷ Garnier (1862), 81-87.

¹⁸ Although he rejected the theory of the insurance premium, he approximated the benefit approach: It was not the duty of the government to equalize the sacrifice of taxpayers, but simply to obtain a fair price in exchange for the services supplied by it. Besides, progressive rates did not bring high revenues, as tax base was too small, and fostered fraud. See Leroy-Beaulieu (1906), pp. 178-214.

¹⁹ Léon Say (1886), pp. 172-173 and (1894), p. 365

taxpayers with a uniform tax rate. L. Say also accepted this idea, suggesting a tax relief to the lowest tax bases.²⁰ This was what Seligman called the “compensatory” approach, between the socialist and the individualistic approach to progressive taxation: A progressive direct tax served to compensate the negative effects of other taxes (indirect taxes) on people with low incomes. Proportionality was not under question, but the effect of regressive taxes called for compensatory devices. A great deal of economists of the last decades of the 19th century followed this approach without abandoning the liberal paradigm.²¹

In any case, at the end of the century the group of authors in favour of progressivity expanded. According to Matéos, who made this analysis in France in connection with the debate on the income tax, defenders of progressivity (authors as Allix, Jèze, Merle or Truchy) resourced to tax justice, whereas opponents (Boucard, Cauwès, Guyot, Leroy-Beaulieu or Sturm) talked essentially of arbitrariness of progressive rates (which could lead to confiscation) and, in connection to the income tax, the need of inquisitorial manners to assess the tax base.²² No doubt the strongest doctrinal support for progressivity taxes at the end of the century was Chair Socialist economic thought, especially Adolf Wagner. He contended that the state should actively foster a more equalitarian distribution of national wealth. Under this assumption, fiscal policy necessarily led to progressive taxation. Economic capacity grew more rapidly than income and wealth in absolute terms; hence a progressive tax on higher incomes applied.²³

The debate between benefit and ability to pay approach in Spanish economists

The majority of the Spanish economic authors in the 19th century supported the benefit principle and associated proportional taxation to it. Until the end of the century there were only two major authors sponsoring tax graduation: Flórez Estrada, who wrote his main economic works in the second and third decade of the century and Piernas Hurtado, whose main treatise on public finance would be used to teach for many years since the decade of the 80s. The rest of the Spanish economists used traditional arguments against progressivity, particularly arbitrariness of rates, risk to capitals and distributive implications. Some of them,

²⁰ Leroy-Beaulieu (1906), pp. 203-205; Léon Say (1894), p. 366; (1886), pp. 180, 185 and 190-192.

²¹ Seligman (1894), 73-77.

²² According to Matéos, it was the extension of the power of the state that liberals rejected. Facing the tradeoff between more justice and absence of arbitrariness, French liberal economists would choose the latter. Matéos (2012), 92-93.

²³ Wagner (1891), 889. Some contemporaries of Wagner stressed the role of taxation, not only as an economic device, but also as a moral tool.

however, accepted a limited progressivity in particular cases, for instance in taxes on luxury goods, or acknowledged the need for a minimum exempted, from which a mild progressivity would derive. These economists accepting certain progressivity were usually non-academicians, but engaged in politics and public administration.²⁴ Spanish economists in general did not display a vast range of reflections when dealing with taxation. Most of them devoted a few lines to the issue whether the fair technique of taxation should be proportional or progressive to income or wealth. The most common position was supporting the principle of ability to pay and proportional taxation. Rejection of progressivity was straightforward, with the exceptions mentioned before.

The general support to the principle of ability to pay followed from a notion of tax which transcended the mere exchange of money for the services rendered by the State. This was the basic position of liberal economists in Spain, be they radical liberal (as it was the case of many members of the so-called *Economist School* (the predominant school of economic thought in the central decades of the century), or moderate liberals. The idea of the ability to pay in these economists (who in some occasions even mentioned equal sacrifice) was not linked to progressive taxes, but to proportional: It was widely believed that a fair allocation of the tax burden, according to the principle of ability to pay, was best approached using proportional taxes. Nevertheless, some economists supported on the contrary the principle of benefit. Francisco A. Conte, the author of a well known work on Spanish public finances in 1854 defined tax as “the price of the protection that State provides to the people, in the name of society itself”, a concept which places himself close to the benefit approach.²⁵ The variant of the insurance premium approach was explicitly adopted by the member of the *Economist School* Mariano Carreras.²⁶ A professor of political economy, whose treatise on political economy, first issued in 1865, was widely used for teaching, Carreras followed Say’s conception of minimum public expenditure. This approach considered the state as the institution in charge of guaranteeing individual’s life and properties (Carreras here distinguishes between the duties of the government and the much vaster ends of society), so

²⁴ The gap between academic-economists and politicians-economists in Spain has been underlined, for instance in Almenar (2005). This is very clearly shown in the debates that Spanish economists had at the end of the century regarding the shift in economic policy to face the agrarian crisis.

²⁵ Differently from other economists, Conte had a positive view of taxes. Even if he could acknowledge that taxes were “an evil”, he considered that taxes “are of apparent utility to the prosperity of nations”. Conte (1854), II, 15-17.

²⁶ Besides teaching economics, in 1874 Carreras entered active politics becoming a Member of Parliament in the conservative party. Carreras was Piernas Hurtado’s professor at the University of Zaragoza. They had later a controversy when Piernas made a strong criticism of Bastiat’s ideas which was due to be included in the appendix of a book Carreras had wrote. Eventually Carreras did not incorporate the appendix.

taxes should be equivalent to this service rendered by the state (he was closely following Girardin's notion of tax as an insurance premium). As a consequence, he considered that individuals should contribute to the expenses of the state through two different taxes: a personal tax (actually a poll tax), which should charge all citizenship (except for the poor) with the same amount; and a real tax, which would levy property in proportion to its value. This tax should be naturally proportional, as it was not the duty of the government to equalize wealth.²⁷ A late benefit approach supporter was Lora. Even if he gave a definition of tax which did not mention the benefits supplied by the State ("the share of wealth that the State has the right to claim in order to cover the needs that its mission imposes, and the individual has the obligation to pay on behalf of such individual and in relation to the fortune he possesses"), he then stated that as all members of society take part in the benefits apportioned by the State, they all should contribute. Contributions are made on behalf of two concepts: protection of individuals and protection of property. The former calls for a personal tax, equal to everybody (a poll tax), whereas the latter calls for a proportional tax on wealth.²⁸

The first big support to the ability approach dates back to the first decades of the century. Flórez Estrada followed Smith's four rules of taxation, but was quite critical with respect to the first. Equity in taxation was not attained if citizens were just charged in proportion to their incomes. Differentiation of income was essential: Land rent should be taxed harder than profits or wages, for four reasons: First, real estate owners do not produce wealth, but receive wealth produced by others. Second, taxing profits and wages "necessarily harms industry", the cause of the prosperity of the country; land rent is just the consequence of this prosperity: it only benefits landowners, whereas capital and labour incomes benefits all society. Third, rent accrues to landowners with no effort on their part; profits and wages are the outcome of relentless activity. Fourth, land rent is regular, whereas profits might vary a lot.²⁹ As a consequence, a tax fulfilling the equity maxim should be established considering two factors: total annual income and income regularity, whether it is temporary or permanent.³⁰ All these

²⁷ Carreras believed that the personal income tax was anti-economic, "absurd" and very difficult to implement, because it charged harder the industrious persons, taxpayers should know their income in advance, and they should declare their incomes. Carreras (1881), 467-477.

²⁸ Lora (1881), 34-37 and 40-43.

²⁹ Flórez Estrada (1840), 326-327 and 438-440.

³⁰ Some of these traits were the subject of deep controversy. The discussion whether land rent should bear higher taxes, on behalf of it being a socially created wealth, would not be very important in Spain as in England, where it was widely discussed and became a central argument in Harcourt's project of progressive tax on inheritances in 1894. The debate on differentiation of income on behalf of its regularity was slightly pointed out by Spanish economists. See Daunton (2001).

thoughts place him in the field of the principle of ability to pay.³¹ Canga Argüelles, the main specialist on Spanish public finance in the first half of the century, had a particular position. In his 1820 fiscal report he uttered that tax equity could not lie in payments proportional to net income: Fair tax allocation should take into account not only net income, but also benefits citizens get from society and “labour, industry and capital invested in production”. Canga meant that the origins of income and the risk incurred to attain it should be contemplated in tax fees: Wages and capital profits should be less taxed than land rent, got with no effort or risk. But Canga made this idea rest “on the principle that by paying taxes we buy the utilities that society supplies us, and on the protection that hard work deserves”, which seems to lean more to the benefit principle.³² Some years later, in his well-known *Dictionary of Public Finance* (1833), Canga retrieved these ideas: Taxes “should fall on wealth, on behalf of citizen’s possessions and of the bigger or smaller advantages he enjoys from society”.³³ López Narváez, the author of another praised treaty on public finance in 1856, followed Canga’s ideas: Taxes should be demanded by the government according to the citizen’s ability to pay and to the benefits provided by society to him. López explicitly rejected the principle of benefit as it considered society in an extreme materialistic way; but besides, it was not possible to assess the value of these benefits and it could give way to a very regressive system, if the poor or the disabled getting social benefits were bound to pay for them. Contributing according to personal income posed many difficulties too, but this was the fairest scheme. In any case, even if he rejected the principle of benefit, López considered that State services enjoyed by citizens were quite proportional to their income.³⁴ These somehow ambiguous positions were not rare: Toledano, professor of public finance in Madrid, seemed to support the principle of benefit when he defined taxes as the fair remuneration for the social services State supplies to citizens. The object of the State is to guarantee the rights and protect the interests of every member of society. This is why taxes should fall in proportion to the faculty of the individual,

³¹ Although Flórez mentioned the different degree of sacrifice that taxation might entail depending on incomes and fees, he however did not push forward this argument, but used it to show how economic growth is the key for the government to raise more revenues, keeping fees but enlarging tax base. Flórez (1840), 265-266.

³² In this report Canga exposed his plan to reform Spanish tax system, warning that his recommendations were adapted to actual possibilities. Dealing with the *contribucion directa* (a direct tax on agrarian wealth), he mentioned the constitutional mandates that every citizen was compelled to contribute “in proportion to his wealth” (art. 8) and “taxes will be allocated among all citizens in proportion to their ability with no exception of privilege” (art. 339). Nevertheless, he later suggested introducing income differentiation. Canga (1833-34), II, 263-264 and 291.

³³ He endorsed this idea quoting Parnell (1831). Canga (1833-34), II, 611.

³⁴ López also rejected using consumption as a tax base, for it could be very unfair (it would depend on the kind of consumption: For instance, reproductive consumption are not related to wealth). López Narváez (1856), 42-56.

his interests protected by the State and the financial needs of the State. However, later he uttered that it was not possible to strictly follow this axiom: Taxes would be just the share of citizens' wealth demanded by the State on behalf of the guarantees and services it supplies; the payment for social services according to the resources of every individual.³⁵

In general, members of the *Escuela economista* in the central decades of the century criticised the benefit approach for, in their opinion, it entailed a wrong conception of the State. However, even if they were closer to the ability to pay approach, this did not lead them to accept graduated taxes at all. Miranda y Eguía rejected the idea that taxes meant an insurance premium: The idea of justice was above it. He followed a definition of tax quite close to that exposed by Figuerola in the Conference of Lausanne on taxation in 1860: Tax is the share of wealth that the State has the right to claim in order to fulfil the duties of its mission, and the individual is compelled to pay for this same reason, in proportion to his wealth.³⁶ However, he later seemed to go back to the principle of benefit to justify proportionality: The State provides equal services and equal protection to everybody.³⁷ Colmeiro, a professor of political economy in Madrid, also denied that taxes were the price for State services such as security or justice: Public interests were much wider, and taxes represented the correlation between rights and duties of individuals in society.³⁸ Madrazo, professor of political economy at the University of Madrid, also rejected the insurance premium approach, coming close to the idea of sacrifice. He held that all members of society should pay taxes in proportion to their wealth, with no exceptions, as far as the State benefited everyone. In this regard, tax proportionality – which he endorsed – was not grounded on the proportion of services enjoyed by the citizen, but on the proportionality of the size, utility and justice of the sacrifice the taxpayer made. He leaned therefore onto the sacrifice theory. However, he considered that fees should be proportional. In this regard, Madrazo criticised indirect taxes on consumption and poll taxes as regressive.³⁹ Castaño and Olózaga, in his 1881 book written according to the lectures on political economy by Melchor Salvá (another sympathiser of the *Economist School*) at the University of Madrid, made a very tough criticism to the principle of benefit. The doctrine of insurance premium

³⁵ Toledano (1859-60), II, 23 and 433-434.

³⁶ Figuerola, in his intervention in the Conference of Lausanne on taxation had a view of taxation as the right that the State has to take the fair share of individuals' wealth in order to the fulfilment of its duties. At the same time, taxes are individuals' obligation to provide (according to their wealth) so that the state may fulfil its duties. Miranda (1869), 18-19. This definition also appears in the work written together by Miranda himself and Piernas Hurtado that same year, following the lessons of Moret at the University of Madrid. It could be a canonical definition of tax among the first members of the *Economist School*. Miranda and Piernas (1869), 316.

³⁷ A poll tax was first discarded, unless society was perfectly equal. Miranda (1869), 54-61.

³⁸ Colmeiro (1870), 472.

³⁹ Madrazo (1874-76), III, 336-371.

supported by Girardin, Thiers and Garnier was rejected by them, as well as the theory of exchange of services (supported by Chezbulier, Proudhon or Duprat). They followed instead the doctrine by Schäffle: taxes are requested to citizens on behalf of their general duty of preserving life in society, regardless of the utility of public services received by them. They also sympathized with Wagner's and Chair Socialists' approach to taxation, as it acknowledged the vastness of State attributions and duties.⁴⁰ In the 1888 edition of this book, Olózaga (Castaño did not appear now) defined tax as the "amount, in proportion to their wealth, with which citizens must contribute in order to support the State duties that the Parliament decrees, and the fulfilment of the ends of the State that historical circumstances demand" (following again the definitions of Schäffle and Wagner, also adopted by Piernas in the 3rd edition of his *Tratado*).⁴¹ They explicitly reject the principle of benefit, and the idea that, being protection the first and foremost duty of the State, there should be two taxes to pay for personal protection and wealth protection (this was the case of Carreras, for instance). Quoting Mill, Olózaga-Salvá did not believe that the State was a mere insurer, and that it was not possible to classify government expenses in personal and wealth protection. Although they supported the principle of proportionality, they acknowledged the essential criticism to this form of taxation, grounded on the different sacrifice of taxpayers that this system could not redress.⁴²

This defence of the ability to pay approach became general in the last third of the century. Teodoro Peña, professor of political economy at the University of Salamanca since 1879, the author of a handbook on public finance, showed it in his definition of tax: A "fair and compulsory submission of services or goods requested by the power to the citizens, in order to fulfil its social ends". The grounds for taxation lay in the existence of the State itself, which needs material and moral means to subsist, has the duty to fulfil its ends, and consequently has the right to take resources from members of society.⁴³ But the author who developed most the theory of taxation in these years was undoubtedly Piernas Hurtado.⁴⁴ To him, tax was any compulsory payment in favour of the State. Taxes entailed an economic relationship (as far as they kept inside the boundaries of material goods) and a juridical relationship, as they were compulsory and commanded by the State, an organ and agent of Law. Its economic grounds

⁴⁰ Castaño, Olózaga and Salvá (1881), II, 499.

⁴¹ Olózaga and Salvá (1888), II, 548.

⁴² Olózaga and Salvá (1888), II, 561-563.

⁴³ Here Peña follows De Parieu. Peña then rejected the idea of insurance premium and the payment for the services rendered by the State to citizens as the ground for taxation. Peña (1896), 18.

⁴⁴ Piernas Hurtado was the most prominent representative of economic Krausism: A trend of thought which, while accepting liberalism as the grounds for society and political economy, sponsored a certain State intervention to arrange particular problems in which markets seemed not sufficient, especially social problems. On economic Krausism see Malo (2005).

lay in the very nature of the State, a human entity requiring material means which it cannot acquire by itself. Its juridical grounds lay in the fact that the ends of the State are common to society. The existence of these State “ends” determines the right of the State to ask and the duty of citizens to provide the necessary resources so that they can be fulfilled. Piernas summarized thus his definition of tax: “The economic participation that society legally takes in the ends of the State”. Here it came his criticism to other concepts of taxation leading to the principle of benefit: If one looks just to the economic relationship (as individualistic liberals do), tax became an insurance premium, the payment for the services rendered by the government, or a mere production expenditure, leading to the discussion whether taxes stimulate wealth and production or hampers them. If it is only the juridical relationship considered, as socialists did, then taxes were tools for moral and justice, turning into an efficient device to correct inequalities.⁴⁵ To Piernas these debates were nevertheless sterile because it was not the duty of the State to increase wealth (in spite of the fact that it promoted it indirectly), or to influence the social order.⁴⁶ However, he did not close the door to social reform: “Economics should decide whether the State must take action on the matter of wealth allocation, and it should also decide later if taxation is the means to do it” Here Piernas decided to consider taxes strictly from a public finance perspective, a means for the State to get material resources to exert its functions. He accepted at least partially Wagner’s view: To him the first objective of taxes was to apportion the State the means to subsist, whereas seeing to justice and other interests was secondary: These considerations should be set aside and even violated if the economic existence of the State was at risk. Piernas uttered that taxes should be general – everyone must contribute, with no exception– and equal: “tax must be *proportioned* to one’s economic resources”, adding that for the same reason that it should be general, it was fair that taxes adapted and varied according to individual’s conditions and ability to pay. Here he mentioned Mill’s equal sacrifice doctrine: Everyone should make “equal sacrifice” when contributing to the common interest.⁴⁷

In any case Piernas believed that the debate between proportional and progressive taxation, otherwise said the debate between the theory of interest and the theory of equal sacrifice had

⁴⁵ Regarding this, Piernas states that the socialist doctrine leaning on the tax as a tool for social reform is false in two senses: First, it does not point out a new and appropriate procedure to achieve these socio-economic ends that it assigns to the State; second, it de-naturalises the notion of tax. If it is accepted that the State should correct unfair distribution of wealth, by taking from the rich to give to the poor, this should be done openly, not resorting to the tax, which besides is an indirect option which will not render successful outcomes. By doing this, the state prostitutes the very notion of tax, as the State is not acquiring resources for the sake of its own needs, but for the sake of others’ needs. Piernas Hurtado (1900), I, 256-260.

⁴⁶ Piernas Hurtado (1900), I, 256-260.

⁴⁷ Piernas Hurtado (1900), I, 261-264.

a secondary interest, as both techniques of taxation were unable to attain justice because they did not see to the personal conditions of taxpayers. Piernas was in favour of a personal relationship between the State and the citizen, asking for diverse taxes depending on diverse personal circumstances, from which justice would arise naturally. In any case he believed that graduation was fairer than proportion, even if it still remained far from justice.⁴⁸ Piernas concluded, getting back to his definition of tax (citizen's participation in the social ends) that taxes should be the share of the individual's wealth given to the State according to all the circumstances which compose the economic position of the individual: Two equal fortunes should not pay the same, unless economic faculties of both individuals were exactly the same.

Proportionality vs. progressivity in Spanish economists

Spanish economists in general rejected progressive taxation, even those who accepted the ability to pay approach as the right principle of taxation. This rejection was grounded on three main arguments: First, theoretical: Progressive taxes were difficult to embody in a coherent tax theory as the connection between increases of wealth or income and increase of ability to contribute was obscure. Second, "economic": as a consequence of the first argument, graduation, if taken up its last consequences, would result in confiscation, hampering capital accumulation and growth and eliminating incentives to thriftiness and investment. Third, social: The ultimate objective of graduation was redistribution, and this was not a competence of the 19th century Spanish liberal State. Some economists, however, acknowledged that the principle of justice could be better applied if some exceptions to the proportional principle could be introduced. The idea of compensation, however, only became enforced in the reform of the inheritance tax by finance minister Villaverde in 1900, which only resulted in a tax exemption for the lowest bequests.

Proportional taxes with no exception: A majority's position

The majority of the public finance specialists mentioned above considered that a proportional tax system, even if not perfectly fair, was the best way to attain justice in the allocation of tax burden, rejecting progressivity on behalf of multiple reasons. Conte, one of the followers of the principle of benefit, believed that proportional tax is in agreement with the principle of

⁴⁸ Piernas Hurtado (1900), I, 313.

equity and justice, as every citizen must contribute to the common effort in proportion to the wealth that the public power guarantees and protects for him. Perfect proportion was beyond reach, but the government should seek to approach it as much as possible. Conte, however, reckoned the problem of low incomes in proportional taxes: Poor people might be deprived of the minimum to survive. Although progressivity was grounded on apparently equitable and fair principles, “this appearance of justice disappears when it is put into practice”: What is the rule of graduation? Where is its limit? Conte went farther: It was not fair that some people were exempted. Then he continued with general objections to graduation: Progressive tax destroys wealth, punishes the rich without profit to the poor, is a reward to misery and idleness, a death sentence to capital. In spite of this discourse and of his refusal to exempt the poor, Conte had some cautions with respect to the working class. Not only because labour was the most important element for production, but also because it was more vulnerable to perturbations. Labour class was fragile class deserved attention from the government.⁴⁹ Toledano, arguing that despite individual resources might be very different, they all deserved the same protection from the State, believed that taxes should fall on every source of wealth, so that there should be neither privileges nor people surcharged for the reason that they enjoyed more social services. He concluded that taxes should be proportional to net income. Although he acknowledged that strict proportionality was not possible to achieve, and that progressivity aimed at attaining the principle of justice more perfectly, he rejected it recalling the benefit principle following Lamartine: If the State provides equal guarantees and protection to everybody, and taxes should keep proportion to these guarantees and protection, progressivity cannot apply.⁵⁰

Members of the *Economist School* supported proportional taxation with no major exception. Pastor, one of the leaders of the school, stated that the objective of society was to preserve the rights of citizens (life and property) and to attain the most comfortable life possible. As a consequence, each citizen should contribute in proportion to the rights and benefits society provided. A proportional tax on income would erase incentives to investment and hard work, giving advantage to the idle. Two similar citizens to which society provided equal protection and guarantees should contribute equally; this would preserve incentives to the most industrious.⁵¹ Carreras rejected progressivity mainly for the reason that it was not the duty of

⁴⁹ Conte (1854), II, 21 and 25-28. Espínola, the author of another treatise on public finance in 1859, followed Conte's reasoning against progressivity. He gave a definition of tax close to Jakob, detaching himself from the idea of payment on exchange for services. Espínola (1859), 420 and 427.

⁵⁰ Toledano (1859-60), II, 433-434 and 442.

⁵¹ Pastor attacked particularly taxes on consumption: Their inconveniences are much bigger than in the case of direct taxes on income. Pastor (1856), I, 208-210 and 226.

the State to foster equality among citizens ("it opposes the laws of nature itself"). To establish graduation, it would be necessary to confer the State the power to decide on distribution of wealth. If it was applied, progressivity should be necessarily limited to avoid confiscation. It could just be applied with very narrow limits, as it fostered fiscal fraud, required cumbersome investigation by tax administration, was arbitrary, and hampered saving as it absorbed increases in capital endowment. Moreover, it implied that taxpayers were responsible and reliable. Conclusions were clear: Taxes should be proportional, even if it is impossible to establish a perfect proportionality.⁵² Miranda, despite supporting the principle of ability to pay, then seemed to justify proportionality of behalf of the equal services provided by the State to every citizen. Miranda's opinion of progressivity followed Conte, some of whose arguments he borrowed: Proportionality would be the fairest technique (he was actually echoing the conclusions of the Lausanne conference), even if pure proportionality was difficult to achieve because taxes were calculated following external signs. In his opinion, progressivity was a punishment to effort and thrift, and its implementation was useless to achieve wealth levelling, as socialists wished, because no one would have incentives to work hard, to start a business or to save. It would be a disaster to the poor too.⁵³ In his book written with Piernas, both authors offered additional criticism to progressivity: Limited progressivity, as supported by many authors, was contradictory because it harmed mostly medium-size fortunes and not big fortunes, which were its primary target. Justice is not attained with unlimited progressivity, but even less with limited. Although they acknowledged the problems of proportional taxation, they supported this system, the "only acceptable".⁵⁴ Colmeiro believed that progressivity supporters tried to achieve a complete levelling of wealth. He considered that progressivity departed from a wrong idea of the relationship between the State and citizens' property and activity: It was a system of extreme intervention leading to the extinction of individuals' activity and confiscation of a part of their property, as superfluous. But distinction between superfluous and necessary is always arbitrary. Progressivity weakened incentives to build capitals and increase the nation's wealth, hit entrepreneurship and thrift, and fostered fraud. Colmeiro rejected exemptions: As a member of society, everyone should contribute to the common effort (actually he believed that society took care of the poor much more than of the rich), linking universal taxation to suffrage.⁵⁵ Madrazo, despite the fact that he acknowledged

⁵² Carreras (1881), 478-479.

⁵³ Miranda justified supporters of progressivity, as far as this doctrine emerged in the extremely unequal societies of the 18th century, seeking the reestablishment of the principles of justice and charity. However progressivity would harm the rich and would not benefit the poor. Miranda y Eguía (1869), 54-55.

⁵⁴ Miranda and Piernas (1869), 323-330.

⁵⁵ Colmeiro (1870), 472-474.

the problem of regressive taxes such as consumption excises, was extremely critic towards progressive taxes, borrowing arguments by Proudhon: It is unfair, harms production, it is confiscatory and it is impossible (for it produces fraud). Only the proportional tax is fair: Everyone contributes according to their capabilities.⁵⁶

Castaño-Olózaga-Salvá supported proportional taxation, following Leroy-Beaulieu: It is the fairest system, following the principle that all citizens must contribute to public charges. However it has some flaws too: wealth is assessed through external signs, and it is comparatively harmful to the poor, as it might deprive of the necessary. However, this did not lead Salvá to support progressivity. He considered that its fundamentals were false (it was the poor and not the rich the one who get more services from the State), and its consequences were adverse: Progressive tax was deemed most adequate to level fortunes, but this harmed the poor too. Finally, if it was established, fees would be arbitrary and then unfair.⁵⁷ In their 1888 edition, Olózaga-Salvá, even if they continued sponsoring proportionality (now on behalf of its neutrality), acknowledged however the essential criticism to this form of taxation, grounded on the different sacrifice of taxpayers. They continued rejecting pure progressivity (as it ultimately led to confiscation), but also Garnier's progressional system, as far as it hampered capital accumulation (they followed Boccardo: this was the most important of its flaws), and lacked a fair or scientific criterion to establish rates, leaving this faculty to the government. They also rejected exemptions on behalf of their theory of taxation, unless exempted individuals were also deprived of their civil rights. The socialist view of using tax as device for redistribution was obviously completely discarded: This was not an attribution of the State.⁵⁸ Peña, in turn, believed that proportional tax was the "least exposed to arbitrariness", but had the problem to precisely assess the tax base. Progressive tax was grounded on the theory of equal sacrifice, and understood as an efficient way to modify wealth distribution, this is, a tool for social policy. Peña showed the arguments of some economists against graduation (Leroy, Smith – whose famous albeit controversial passage Peña doubts could be interpreted as a support for progression, Garnier, Proudhon, Boccardo), concluding with Piernas that it was necessarily arbitrary as it was not possible to design a legitimate and fair progression for lack of scientific principles. Peña gave further reasoning to censor progression: It harmed capital accumulation, led to plunder and unfairness, would not

⁵⁶ Madrazo (1874-76), III, 353-354.

⁵⁷ Castaño, Olózaga and Salvá (1881), II, 509. Salvá gave another argument against progressivity: it obstructed virtue, because the existence of large fortunes was the basis of a rational charity. This reasoning involved the idea that maintaining demand for charity was preferable to fight to suppress it, this is, fight against poverty.

⁵⁸ Olózaga and Salvá (1888), II, 563-568.

render high revenues to the State and contributed to social conflict by confronting the poor to the rich.⁵⁹ Brañas, professor of political economy in Santiago, followed a concept of tax very close to that used by Piernas Hurtado: An economic and juridical institution which includes the right of the State to demand a proportional share of citizens' wealth, and the obligation of citizens to pay, with the object of paying for public services. Brañas supported a proportional tax, as the least unfair and unequal. He made a review of progressive taxes in Switzerland, concluding that they could not be applied to bigger countries with more complex tax systems.⁶⁰

Progressive measures on behalf of tax justice

It was not very common among academic economists accepting a certain progressivity for the sake of redressing unfair circumstances created by the presence of regressive taxes in the fiscal system. Defending a pure proportional system, an early supporter of light progressive measures was Jaumeandreu, professor of political economy in the chair of the Board of Trade of Barcelona in the early 1800s.⁶¹ He believed that ability to pay did not grow progressively as income grew (it was not true that those who earned higher incomes had a larger ability to pay taxes, because their position also compelled them to larger expenses, according to their social status). Progressive rates meant taxing harder the industrious individual, thus rewarding idleness. However, Jaumeandreu made an exception regarding tax on luxury: Progressive rates could be used without inconvenient in taxes on luxury items. This would be justified especially if the state was in dire circumstances and needed further resources.⁶² On the other hand, Jaumeandreu was extremely critical on indirect taxes on necessities, as they were regressive. This did not exclude consumption taxes from a sound tax system, but they should charge more unproductive and leisure consumption than productive consumption.⁶³ Flórez Estrada,

⁵⁹ Peña (1896), 51-59. The only exception to contribution should be the poor, grounded on an actual inability to pay and on a reason of public charity. He did not mention it in the framework of the discussion on progressivity, though. Peña (1896), 98.

⁶⁰ Brañas devoted some space to expose the doctrine of tax on net income of Piernas, but he made some criticism particularly in what concerns details of its application, leading him to qualify it as an "impossible ideal", even if Piernas' aim of perfect tax justice is very praised. Brañas (1896), 205-211.

⁶¹ First modern supporter was most probably Alcalá Galiano, still in the 18th century, who contended that, in order to maintain public utility, it was necessary for affluent citizens to pay much more taxes than the rest of the population. Alcalá Galiano was a close follower of Adam Smith's financial thought; he also recommended that taxes should be charged on the rent of land and luxury consumption. Alcalá Galiano (1788), 30-35.

⁶² Jaumeandreu (1816), 309-310.

⁶³ Jaumeandreu (1816), 304-306. Jaumeandreu, as many authors of the first half of the 19th century stressed Say's idea that taxes were a necessary evil, and therefore should be as small as possible. Jaumeandreu (1836), I, 330.

following McCulloch, pointed out that taxes on consumption were regressive, as they made prices increase thus reducing poor consumers' demand, because the elasticity of consumption of low classes are much higher than that of the rich. On the contrary, low excises on mass-consumption goods would result in higher rent to the State, because consumption would multiply. Flórez concluded that the best tax system would be that charging unproductive wealth, this is, a system charging especially land rent.⁶⁴ Canga Argüelles, despite his ideas on income differentiation, pointed out that contributions "should be allocated among all individuals, in shares proportional to the faculties of each of them". He however made an exception for the poor, who should not bear any tax.⁶⁵ He also acknowledged that consumption excises were regressive, as they charged necessities, the largest part of the expenditure of the poor.⁶⁶

Probably the most important voice in favour of progressive taxation (although it did not satisfy him entirely) was Piernas Hurtado (his ideas evolving from his 1869 text written with Miranda). He considered that proportional tax attained "purely arithmetical equality, but not juridical nor economic", he leaning on J.B. Say and Garnier (proportional tax is more onerous to the poor) and J.S. Mill (proportional tax cannot attain equality of sacrifice, but Piernas remarked that Mill's sole conclusion was to leave a minimum exempted, a very basic form of progressivity). Piernas concluded that "it is indisputable fact that with this procedure justice is not satisfied". Although Piernas stated that the State did not have the mission to avoid economic inequality in society, and that taxes should not apply to this end as they were only the means for the State to acquire resources to develop its functions, however, when measuring the ability to pay of citizens, it was necessary to take into account these inequalities, in order not to aggravate them.⁶⁷ Progressive tax sought to create a system "allowing it to be in fact *proportioned* to the wealth it charges". However, its biggest defect was that it built a tax system grounded on arbitrariness: There were not scientific principles to arrange it. There was here a theoretical dead end: If progressivity is unbounded, it de-naturalises the tax turning it into confiscation; if it sets a maximum fee, it contradicts its principles turning into a proportional tax for the highest wealth. In any case, logics made that virtually no economist

⁶⁴ In the case of Spain, Flórez, following Mill and McCulloch suggested public leasing of large portions of fallow land in exchange for a low rent. Public income would be completed indirect taxes not falling on profits or wages (the most appropriate tax should be that on export goods, as it is foreigners who bear it), state monopolies and inheritance taxes. Flórez Estrada (1840), 328-330.

⁶⁵ Canga (1833-34), II, 611.

⁶⁶ Consumption excises had the effect of raising wages and then manufactures, resulting in the ruin of industry. Although he preferred direct taxes on net income, he reckoned that consumption taxes were hard to suppress. Canga (1833-34), I, 285-286.

⁶⁷ Piernas Hurtado (1900), I, 306-307.

supported unlimited progressivity, they leaning to system of limited progressivity, as Garnier (*progressional*).⁶⁸ Piernas concluded that “progressive tax fights between contradiction and injustice and succumbs necessarily to arbitrariness”. However, although he could not be satisfied with it, he accepted its objective, as far as it sought to assess effective ability to pay, the effective position of each taxpayer. But Piernas rejected the method to achieve this, and also condemned progressivity as far as it became an instrument to equalize wealth in the socialist mood.⁶⁹ In spite of his consideration that neither proportionality nor progressivity fulfilled his idea that taxes should take into account taxpayers’ circumstances, Piernas finished, regarding current bases for contribution – particularly as far as there were consumption excises (regressive) – that direct taxes should be “undoubtedly progressive so that there is a compensation. So, if we are to choose between proportional and progressive taxes, we prefer the latter, in conditions similar to those in Switzerland”.⁷⁰

A limited progressivity in inheritance taxation: Policymakers’ pragmatism

After Britain in 1894 and France in 1895, the Spanish parliament debated and passed a bill to introduce progressive rates in its tax on inheritances. As it happened in the other countries, this bill triggered a debate on progressivity which transcended economic literature and had its main seed in the Parliament. In the debate, parliamentarian economists declared themselves in favour of the ability to pay approach, but considered that it called for a proportional tax system, with some kind of progressivity as a compensatory device. The bill said that graduate rates “fits better the principles of equity and distributive fairness, which called for alleviation

⁶⁸ Piernas shows the examples of moderate progressivity of the Swiss cantons of Vaud and Zurich, but he seems to share the criticism of Leroy- Beaulieu, who considers that these ingenious systems are not really in favour of progressive taxation, as these taxes are very small, graduation is light, and it stops when it reaches the big fortunes, precisely those aimed at charging more with progressive technique. Piernas Hurtado (1900), I, 311.

⁶⁹ This was the position of the Socialists of the Chair: Schäffle, Wagner. Scheel, etc., to whom tax was a means of social policy, the most efficient resource of the State to modify the economic organism. Piernas Hurtado (1900), I, 309-313.

⁷⁰ Piernas Hurtado (1900), I, 313-314. Piernas had his own alternative, what he called the “tax on liquid wealth” (*impuesto sobre los haberes líquidos*), as the only fair. In his opinion, most tax doctrines support the principle of ability to pay, but they later abandon it. Why? Because the “economic position” of each individual does not depend only on the wealth possessed, but also on the needs that this individual must face. So the “*haberes líquidos*” refer to the individual wealth in relation to the individual needs; the economic position assessed on behalf of available resources and the personal ends to which these resources should be applied. Piernas believed that Mill’s theory of equal sacrifice approached his idea, but he rejects Mill’s application (tax exemption to the poorest) Piernas explains then how to implement his tax ideal, which he deems feasible, as the example of the income tax in England (in which exemptions reflect the respect for personal needs) shows. Piernas Hurtado (1900), I, 292-302.

of levies on small capitals, in order to make taxes less onerous and less painful”.⁷¹ Villaverde, the minister of finance, sponsor of the reform, defended his limited progressivity plan linking it to Garnier’s “progressional” system, in order to achieve overall proportionality, broken due to the presence of regressive indirect taxes such as consumption excises. Graduated rates would allow relief to poor classes and therefore the fulfillment of the constitutional requirement of establishing a proportional tax system (Villaverde interpreted it as “proportionality of faculties”). The succession tax would turn out to be *degressive*, as its aim was to reduce tax burden on small fortunes.⁷² Other parliamentarians joined the argument, for instance Laiglesia, the chairman of the Budget Commission, who called it “modern proportionality”. Republican Azcárate, a Krausist economist very close to Piernas Hurtado (an unusual ally to conservative Villaverde), strongly supported the ability to pay principle, the “proportionality of faculties”, considering that a “progressional” tax fitted well the principles of freedom and justice. Even if he said that graduated rates in some taxes aimed at achieving equality of sacrifice, whereas a pure proportional scheme resulted unfair, Azcárate only considered progressivity legitimated in the framework of the theory of compensation. He borrowed Seligman’s approach of progressivity as compensation,⁷³ strengthening it with the ideas of two of the greatest sponsors of proportion taxes, Leroy-Beaulieu and Léon Say, who accepted progressivity as compensation in a few cases).⁷⁴ Azcárate rejected the idea of using taxes as a mechanism to modify wealth distribution, in the Wagner’s fashion, as a socialist tool to equal fortunes. He became a pillar in the defense of progressive succession tax for the sake of a better achievement of justice in taxpaying. Opponents of progressivity used the usual arguments against it: Arbitrariness of rates, danger for capital accumulation and hence for growth, confiscation of property, fraud, etc.⁷⁵ It was therefore in the political realm that positions of economists on progressivity showed themselves more flexible and ready to accept exceptions

⁷¹ Diario de Sesiones del Congreso de Diputados (DSC) 1899-1900, 14, appendix 9, 2.

⁷² DSC 1899-1900, 118, 4036-4040. In another occasion, Villaverde stated that taxes were citizen’s contribution in proportion to wealth, so that the State could exist. This “proportion” was “sometimes” better achieved through a graduated scale. This, he said, was L. Say’s doctrine, which he followed. DSC 1899-1900, 119, 4060.

⁷³ The work by Seligman, translated into French (*L’impôt progressif en théorie et en pratique*) and widely known in Spain, influenced Spanish writers on public finance in the 20th century particularly in the issue of progressive taxes. Seligman pointed out three approaches to taxation, the socialist (taxes are instruments to level wealth), compensatory (taxes are the payment for the services rendered by the State), and the economic (taxes are the contribution of each citizen to the common effort, according to his/her capabilities). Seligman was not but adding the socialist approach to the old discussion between the principle of benefit and the principle of ability to pay.

⁷⁴ DSC 1899-1900, 119, 4061, 4068 and 4075.

⁷⁵ DSC 1899-1900, 117, 4005; 118, 4030; 119, 4070 and 120, 4096. The reform passed but was later rejected in the Senate. The only reform in the succession tax would be a threshold for the smallest inheritances.

to the proportional general scheme of taxation, on behalf of a better attainment of justice in the allocation of tax burden.⁷⁶

Concluding remarks

In spite of what some economists highlighted in their treatises, the problem of the form of taxes – fix, proportional or progressive to tax base – was not a subject of wide discussion among Spanish economists until the 20th century. The vast majority of them followed the principle of ability to pay as the right application of the maxim of justice in taxpaying, but in their opinion this clearly led to taxes proportional to the tax base. Progressivity was unscientific, arbitrary, dangerous, prejudiced capital accumulation and thus economic growth, etc. All these reasons were enough to discard it immediately, it being left to those conceiving redistribution as one of the attributions of the State. Only at the end of the century these positions changed slightly, but this shift was not led by academic economists, but mostly – with the big exception of Piernas Hurtado – by parliamentary economists, mainly in the debate on inheritance taxation in the Parliament in 1900, where the idea of graduation as a compensatory device spread. There, some parliamentarians invoked a better achievement of justice in taxation through progressive rates, rejecting a restricted view of liberal fiscal theory unable to consider progressivity suitable. It would be necessary to wait to the next generation of Spanish economists, those who criticized the previous Spanish works on public finance, to find wider acceptance of progressivity in their writings. In all, Spanish economists in the 19th century remained pegged to the principle of proportional taxation, they being very suspicious towards the idea of equal sacrifice and thus progressivity, and following liberal tenets on taxation in a very restrictive way.

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⁷⁶ On the ideas in this parliamentary debate, see San Julian Arrupe (2012)

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