

Conference report

By Holger Nehring and Florian Schui

The Transfer of Ideas about Taxation since 1750

Centre for Research in the Arts, Social Sciences and Humanities (CRASSH), Cambridge, 16-18 September 2005

The conference explored the transfer of ideas about taxation from the mid-eighteenth century to the beginning of the 1950s. This was a period of fundamental change in the ways states organised their finances: not only did wars and revolutions pose a challenge to state finance; particularly in central Europe, this was also a time of state formation and constant reconfiguration of state structures. Moreover, the economic growth during the Industrial Revolution and the several economic crises from the late nineteenth century onwards posed increased challenges for the tax-levying states. Imperial states also created fiscal structures in the colonies as part of their general political and economic policies during this period.

Historians and historically-minded economists as well as legal scholars have written the financial history of this period mostly from a national perspective. This focus results from the close connection between the emergence of modern nation states and their fiscal systems. However, strictly national perspectives on the history of taxation neglect the importance of international exchanges of ideas about taxation. These exchanges were often crucial in shaping the national histories of taxation. The conference sought to explore the complex and often paradoxical interplay between transnational flows of ideas and the strengthening of the administrative structures of nation states. It brought together an interdisciplinary group of scholars from Europe and the USA who specialise in different periods to explore these issues in a diachronic and systematic context.

The papers addressed four sets of issues. The institutional, financial, legal and economic contexts for the transfer of ideas about taxation, especially the ways in which ideas and debates about taxation shaped fiscal institutions and vice versa; the specific ways in which ideas about taxation were ‘translated’ or adapted to specific national political and cultural contexts; the social, political, and economic conditions which facilitated or blocked the transfer of ideas about taxation; the ways in which the transfer of ideas about taxation was

linked to concepts of good government and to economic theories. All papers also sought to grapple with the methodological issues of transnational and connective history.

After words of welcome by Florian Schui (CRASSH, Cambridge), Ludmilla Jordanova (CRASSH) and Gareth Stedman Jones (Centre for History and Economics, Cambridge), the development economist Ha-Joon Chang (Cambridge), in his keynote address, explored the interconnections between public finance and economic development in historical perspective. In his historically wide-ranging talk, Chang warned against the unthinking application of neo-classical economic theory to the problems of today's developing countries and argued that transfers of fiscal ideas from industrialised to developing countries have often failed. He argued that much of today's economic theorising and policy advice ignored crucial historical, cultural and institutional factors which impeded the transfer of fiscal models. Epochal changes in economic thinking and economic development had to be taken into account when looking for the application of historical lessons to developing economies today. He illustrated his argument by giving examples of the failed imposition of foreign tax norms on economies in the nineteenth century and in the post-World War II period. These attempts failed because they had ignored the crucial fact that the governments of these developing countries often lacked the ability to tax because there were no state institutions and because they did not enjoy the necessary legitimacy amongst the population. Before they became free-trading economies in the mid-nineteenth century, economies such as that in Britain had grown while still protected by an extensive tariff system. When urging others to turn to free trade, Britain applied norms to which Britain itself had not adhered. With weak state structures, a lack of economic institutions and a low degree of legitimacy, governments across history often saw tariffs and duties as the only means available to generate the necessary revenue. The introduction of value-added taxes, advocated by the World Bank in the 1970s, faced huge obstacles: it depended on the issuing of receipts, but many developing economies did not have the technology to issue receipts and the concept of receipt was culturally alien to many economic actors. In his conclusion, Chang urged to take the history and technology of institution-building seriously when formulating economic policy recommendations. In particular, he underlined the importance of a historical analysis of the 'black box of the state' and of economic institutions for the development of economic theories and policies.

The first panel looked at some specific transfer processes provoked by the increasing demands of war finance in the late eighteenth and early nineteenth century. In his paper, Florian Schui

took the conference delegates on a journey with around 350 French tax inspectors which had been hired by the Prussian government in 1766 to improve Prussian finances after the Seven Years' War had drained the state's resources. In this outstanding, but not unique transfer process, French administrators created a new tax administration in Prussia, the "Régie". By increasing the tax burden on elites, the Prussian government sought to raise the funds for ambitious economic, military, and cultural development efforts. Schui elaborated on the hiring process and the social composition of the inspectors, the role in the transfer of fiscal and technical knowledge, and the largely negative perception of the new administration by the tax payers and the other branches of Prussian administration. In this context Schui highlighted the connections between political legitimacy and the transfer of ideas. The Prussian King looked for expertise from the "laboratory of public finance" which France was at the time because he could not gain the necessary support and expertise for the drastic measures he sought amongst his own administration. However, when the French administrators arrived in Prussia, they did not merely apply the French model; they learned from their own mistakes by dissuading the King from implementing a one-to-one copy of the French system. In 1786, the new King Frederick William II. abolished the "Régie" after intensive criticism from the public, but the administrative structure the French inspectors had set up remained in place. By 1786, Prussia had made an important step towards making its elites contribute more to public spending and thus towards a more universal taxation system.

In her paper on the transfer of the cadaster system in central Europe during the eighteenth century, Christine Lebeau (Paris I - Panthéon Sorbonne) elaborated on the interplay between commentators, practitioners, academics and bureaucrats in the periphery, especially the role of Piedmont, in developing and spreading the cadaster system. While the first cadasters were developed by geographers, geometers and land surveyors, they were not yet used by public administrators to measure the tax base. The practitioners' ideas were only taken up when, faced with increasing demands on their finances, administrators discussed ways of assessing the ability to pay taxes. By the mid-eighteenth century, therefore, cadasters had turned from a technical problem to one of political power. Knowledge of cadasters became part of the arcana of rule and was thus kept secret. While many of the technical transnational discussions had been public, governments conferred secretly to decide which cadaster systems were most useful. Only much later did these discussions reach the public domain. Throughout, Lebeau highlighted the importance of personal networks amongst practitioners, scholars and administrators, from both states and regions. She also stressed that it was

difficult to speak about specific models of cadasters, as the role of models was more often a tool of political arguments than an adequate description of content.

Alexander Grab (University of Maine) took these issues into the era of the Napoleonic Wars by exploring the ways in which the French government sought to impose its financial system on the French areas in northern Italy. Like the other speakers, Grab stressed the issue of legitimacy: while Napoleon consolidated the fiscal heritage of the French Revolution and sought to reduce the tax burden at home, he aimed to finance his wars by imposing increased burdens on the territories in occupied Europe. Napoleon thus imposed the efficient system of tax collection developed in France onto Northern Italy. Throughout, Napoleon was convinced that Italy was a rich country and that it was able to shoulder the imposed burden. Through his local administrator Giuseppe Prina, Napoleon increased the existing burdens and created new ones, especially in the area of consumption taxes through licences and octroys. At the same time, he was unconcerned about the impact of these increased burdens on the legitimacy of his Empire amongst the northern Italian citizenry.

In his comment, Christopher Clark (Cambridge) analysed the papers in the light of recent research on cultural diffusion and political transfer processes, largely following lines of investigation suggested by W. Parsons and D. Dolowitz & D. Marsh. He highlighted the multi-layered and voluntaristic nature of political transfer processes and discussed some methodological problems connected with transnational research. He highlighted the role of states and institutions in mediating transfer processes and cautioned against seeing the history of nation states and transnational history as mutually exclusive. Clark concluded by stressing the “plurality of twisted paths” when looking at the transfer of ideas: it would, he argued, be difficult to assume a clear historical trajectory from fewer to more transfer processes across history.

The second panel examined transfer processes within Empires. The first contribution was Martin Daunton’s (Cambridge) talk about “Transfers of Ideas about Taxation within the British Empire”. Daunton elaborated on the “export” of taxation from Britain to the colonies, focusing primarily on the late nineteenth and early twentieth century. In the nineteenth and early twentieth centuries, an increasing share of domestic expenditure and the expenses for the empire were covered by taxation levied on tax payers in the colonies. A crucial problem in this context was that taxation imposed by Britain on its colonies was inevitably considered

illegitimate by colonial populations, as the colonies lacked representative franchise systems. In order to create greater legitimacy, Britain followed different routes in different parts of the empire. The British either followed the traditional local patterns of taxation (or rather the patterns that British administrators assumed to be the local patterns), or they imported their own ideas about taxation. These decisions about colonial taxation were thus closely associated with the type of society that the British considered desirable for the particular colony. In India, for example, there were conflicting tendencies in the British administration. One view was that taxation should promote the further development of large estates, similar to the situation in Britain. The contrasting view was that of a fiscal pattern which would benefit small farmers and foster the development of a “yeoman type” pattern of land ownership. Other paths were pursued in white settler colonies. There, an extended franchise was seen as a way to obtain greater legitimacy for taxation. Many of these debates about taxation and social structure in the colonies were influenced by contemporary debates in Britain. However, as Daunton emphasised, transfers of fiscal ideas ran both ways in the empire: many of the controversies about taxation in the colonies also fed back to debates about the situation in Britain, especially with regard to the question of political legitimacy.

In the second talk of this panel, W. Elliott Brownlee (University of California, Santa Barbara) examined the transfers of ideas and fiscal experts between the USA and Japan between 1945-1952 and focused on the developments associated with the “Shoup Mission”, headed by the American economist Carl S. Shoup. Brownlee argued that the Japanese government successfully resisted many of the changes proposed by the Shoup mission. Most of the changes adopted by the Japanese, he argued, would have been implemented even without the presence of the Shoup mission. The Japanese government’s success in blocking a fundamental change of the tax system was largely due to previous political decisions taken by the USA. In order to create a stable Japanese government against the perceived threat of the Soviet Union and China, the USA had opted to keep most of the Japanese civil administration in place and backed a liberal-democratic government in Tokyo. The crucial role of legitimacy for the success of transfers in an imperial setting clearly emerged in Brownlee’s contribution. Brownlee concluded by highlighting two principal long-term effects of the Shoup mission. First, the mission triggered a broad debate about fiscal policy in Japan in which the American mission served as a political argument. Second, despite the problems of the Shoup mission, the reputation of fiscal missions was greatly bolstered amongst the tax policy community in

the USA. The Shoup mission thus had a strong influence on similar USA tax missions carried out subsequently by the USA, but also on international institutions such as the IMF.

In his comments, Sunil Amrith (Cambridge) stressed that both cases brought out the problems of competing policy imperatives in the context of transfers of taxation. In India and in West-Africa, the British often failed to change the fiscal system substantially, as they lacked legitimacy and adequate state capacities in the colonies. Similarly, US efforts to change fiscal patterns in Japan were frustrated because the lack of legitimacy prevented the USA from antagonising the Japanese government. Amrith concluded by stressing the lack of political legitimacy as a crucial problem for transfers in a context where one country exercises control over another territory.

In his paper about the transfers of ideas about taxation between the United States and Germany, c. 1880-1914, Holger Nehring (Oxford) examined the importance of German economic ideas and concepts for the American debate about a federal income tax. In his comparative and connective paper, Nehring used the income-tax debates in both countries as an optic into federal state-building in both countries at the turn of the nineteenth century. The adoption of federal income taxes in the USA and in Germany in 1913 constituted a break with previous traditions and was perceived as such, despite predecessors in times of war and on the state level in both countries. At their core, the American and German debates about a federal income tax in both were about how the federal state should interfere in people's lives and about negotiating the boundaries between the private and the political. It was this element which, in a very specific political and economic context, created the conditions for concepts to travel from Germany to the US. After elaborating on the political, economic and fiscal conditions in which the American and German income tax debates took place, Nehring highlighted the role of experts in transferring ideas across the Atlantic. He conceptualised the transfer of ideas as observation, rather than personal interaction or any mechanical diffusion. Increasingly, experts from the American progressive movement advocating a federal income tax had a say in Congress and provided politicians with new forms of social knowledge. American reformers such as Edwin R. Seligmann had all studied with members of the so-called Historical School of Economics in Germany. This allowed them to assume a more positive role for the state under what they regarded as specific social circumstances. Income taxation meant that states looked for a transparent system that would be used to determine what the person received as income, how it was spent and what share the state could

reasonably claim. It was in the realm of perceptions of the state's role that German and American experiences differed substantially, owing to the different political systems. Precisely this element has made it possible for most historians now to highlight the differences between the German and American federal state-building experiences, rather than to emphasise their connections.

Andreas Thier (Zürich) explored the diffusion of the income tax amongst the federal states within the German Empire. The introduction of the income tax in German states - as in the USA and many other countries - marked a fundamental fiscal innovation. As Thier underlined, this change occurred almost simultaneously in the German states, although the introduction of an income tax was not imposed by the central government. In Thier's historical analysis, the simultaneous change can be explained by transfers on three levels. First, the "Verein für Socialpolitik" played a crucial role in the diffusion of the income tax ideas amongst German social experts. This association was closely linked to the German Historical School, which also influenced the income tax debate in the USA. Through academic work and political lobbying efforts, economists and social reformers such as Adolph Wagner promoted fiscal reform. Although Thier acknowledged that their public influence was evident, Thier did not see any concrete effects of the experts' ideas on governmental decision-making in Prussia and other German states. Second, the suggestions for an income tax were discussed as part of the political and administrative processes in the central state and the federal governments. State and federal governments exchanged legislative drafts and reports. Especially Prussian civil servants held positions in both state and central government. Thier argued that there was some, but not necessarily conclusive, evidence of vertical exchanges that developed in the dynamic interaction between central government and federal governments. The competition for revenue between the two levels of government was crucial in this dynamic. Third, Thier argued that the fiscal needs of the federal states worked as a strong motivation for the introduction of the income tax. All federal states found themselves in a tax competition for revenue with the central government and with local government.

In his comment, Peter Becker (Linz) emphasised the methodological and theoretical implications for the research on transfers of fiscal ideas that emerged from both papers. Becker argued that, in both cases, the analysis of the transfer processes needed to take a close look at the type of knowledge that was transferred and generated and the networks through which knowledge was diffused. In particular, he highlighted the importance of technical and

administrative knowledge – how to collect taxes and how to organise their collection – as crucial for enabling the transfer of specific tax concepts. Becker suggested to classify transfer processes according to three types of exchanges: observation, communication and assimilation.

Discussions throughout the conference not only focused on the specific issues, but also on the methodological issues connected to transfer history. All discussants agreed that transfers were difficult to pin down, and very often the transfer took the form of mutual observations. These observations could take place in different settings, such as conferences or diplomatic missions, or be mediated through newspapers and learned journals. The transfer of ideas and models and the application of these models had to be clearly distinguished. Therefore, the results of the conference suggests that the findings of sociological and political-science research on the diffusion of ideas rather too easily assumed that similar challenges would lead to the almost natural adoption of similar policies across different political, institutional and economic settings.

Moreover, participants discussed whether ideas and models were really transferred as distinct packages, as much of the research on the transfer of ideas has implied, or whether the talking about models was embedded in specific political contexts. Similarly, participants agreed that “ideas” had always to be placed in their economic, political and cultural settings and could not be regarded as monads which were shifted as distinct packages from one place to the other. The interrelation between fiscal ideas and the economic and administrative reality was highlighted as one of the crucial issues for the understanding of transfer processes. The question of whether transfer processes became easier or more difficult during the period under consideration also assumed a prominent role. Discussants disagreed, however, whether the increase in transnational communications over the last two hundred years has made transfer processes easier. During this period of increased transnational communications, the existence of well-established administrative routines and economic structures have made the transfer of models and concepts much more difficult as new concepts could not easily fit into the old historical frameworks.

The conference was generously funded by the Centre for History and Economics, Cambridge, CRASSH and the Trevelyan Fund of the Cambridge History Faculty. Publication of the conference proceedings and the establishment of an international research network for those interested in the history of taxation are planned.

The conference was organised by Holger Nehring and Florian Schui. Contact address: Florian Schui, CRASSH, 17 Mill Lane, Cambridge CB2 1RX, UK. Email: fhws2@cam.ac.uk.

Speakers and Commentators:

Dr Sunil Amrith, Trinity College and Faculty of History, Cambridge, UK

Professor Peter Becker, Faculty of History, University of Linz, Austria

Professor W. Elliott Brownlee, Faculty of History, University of California at Santa Barbara, USA

Dr Ha-Joon Chang, Faculty of Economics, Cambridge

Dr Christopher M. Clark, St. Catharine's College and Faculty of History, Cambridge

Professor Martin Daunton, Trinity Hall and Faculty of History, Cambridge, UK

Professor Alexander Grab, Faculty of History, University of Maine, Orono, USA

Professor Christine Lebeau, Faculty of History, Université de Paris I – Panthéon Sorbonne, France

Dr Holger Nehring, St. Peter's College and Faculty of History, Oxford, UK

Dr Florian Schui, CRASSH, St. Edmund's College and Faculty of History, Cambridge, UK

Professor Andreas Thier, Faculty of Law, University of Zürich, Switzerland