

THE OLD AND THE NEW POLITICS OF TAXATION: THATCHER AND REAGAN IN HISTORICAL PERSPECTIVE*

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A major tenet of neo-conservative thinking holds that the Structure of democratic politics leads invariably to a tendency for the state to grow and thus for expenditure and taxes to increase. They argue that because the benefits of social programmes are highly concentrated on specific interest groups, there is a powerful incentive for such groups to engage in political lobbying and to exchange promises of electoral support for benefits. Because the costs of programmes and privileges are dispersed by means of taxation over the entire population, there is little reason for legislators to resist such sectional claims. Together these complementary incentive structures result in a steady growth of the state.

Some neo-conservatives, in fact, have been so impressed with this powerful logic as to conclude that fiscal responsibility and democratic politics are in some sense **incompatible**.¹ This intuition gave rise in the 1970s to a great deal of talk about political 'overload' and to proposals for limiting the demands of constituents upon democratic polities. The political theorist Brian Berry has described this syndrome extremely well. Left to its own devices, he argues, the market produces numerous problems to which governments of all persuasions are called upon to respond.

Anyone whose primary commitment is to the market. . . therefore, tends to . . . look on the democratic state. . . with antipathy. The political problem facing that person is how to get democratic approval for tying the hands of government in perpetuity.²

The experience of the last few years however, ought to have been at least mildly reassuring to advocates of the market and to have lessened their fears over the deleterious effects of democracy. The coming to power of conservative regimes in Britain and the United States and the success of their attacks upon the state have revealed the weak foundations upon which the welfare state had been built. Not only has the growth of the

• The authors want to thank Edwin Amenta, Mary Cronin and the editors for their helpful criticisms of an early version of this essay.

state been checked, but it has even begun to be reversed. Most important, it would appear that the tendency for state growth supposedly implicit in democratic politics has ceased to operate in anything like the manner described by neo-conservatives, and that the ineluctable logic of state expansion has been replaced by a markedly different politics. The new politics is based upon a logic of populist tax reductions that reverses the incentive structures facing politicians. Increasingly it seems, the claims of interests and constituents are overridden in the name of, and on behalf of, the taxpayer.

Clearly the new logic of tax politics has not succeeded in overturning all claims upon the state. The Reagan administration, for example, has made little headway against Social Security; and Thatcher has not had much success in tackling the National Health Service or in cutting benefits for the unemployed. Nevertheless, advocates for nearly every social programme have been placed on the defensive. The reason, largely, is that the Thatcher and Reagan regimes have managed to place taxation at the top of the political agenda.

Unfortunately, supporters of the welfare state—and the left in particular—have been slow to recognise this shift of the agenda of high politics and of the language of political debate. In Britain, for example, there has been much more discussion of the notion of 'authoritarian populism' and of Thatcher's appeal to jingoism, to imperial nostalgia and to 'Victorian values' than to her more prosaic, but perhaps more important, appeals to the economic interests of taxpayers. In the US there is a similar fascination with the links between the Republicans under Reagan and the more crazed elements of fundamentalist Christianity. In electoral terms however, the most interesting connection has been between Ronald Reagan and the anti-tax sentiments of large sections of the public. Certainly Reagan's managers in 1984 understood what mattered most, as they distanced their candidate from the far right while reiterating his pledge to cut or at least not to raise taxes. As Walter Mondale found out, no merely arithmetical logic could prevail over that political calculation.

Politicians like Mondale, or for that matter Neil Kinnock, and their parties thus face a genuine dilemma. They need either to fashion a progressive alternative to the tax policies on offer from conservatives or they can attempt to shift the political agenda. But they are not well-equipped to do so. In recent years neither the Labour Party nor the Democrats have sought seriously to create a political consensus on taxes, and both parties have chosen instead to use the automatic increases in revenues caused by inflation to avoid confronting the issue of who pays for the welfare state.³ Party leaders seem to know intuitively what the historical record shows in detail: that supporters of social programmes have been successful when they have been able to focus political debate on their merits or on the needs of constituencies, but have failed miserably when

the question of taxation held the centre of the stage. They therefore respond to the new politics of taxation not with creative alternatives but by wishing the issue would go away.

But conservatives in both countries sense this as well, and have resolved not to let the issue die. They know that so long as taxes and deficits dominate political debate, the left has very little hope of winning. Hence they return again and again to the issue. In the US, the Reagan administration has clearly decided that the best hope of turning the popularity of Ronald Reagan into permanent gains for the right is to identify Reagan and the Republicans with tax reform. In Britain, the Thatcher government is increasingly pinning its hopes for a third term on its success in cutting income tax. Whether these efforts succeed remains to be seen, but what is clear is that the Labour party and the Democrats cannot assume that the issue of taxes will diminish in importance. There is hence a crying need to come to terms with the new politics of taxation and for an effort to develop either a progressive alternative or a device for shifting the political agenda. The purpose of this essay is to assess the current politics of taxation in the light of the overall development of taxation at the national level in the twentieth century. The emphasis will not be on the economics of taxation, or on the theory of taxation, but rather on the politics of taxation and on how these have changed in recent years.⁴ Hopefully this will serve as a useful preliminary to some more constructive thinking on how to deal with the issue.

Taxation in Britain to 1955

From a fiscal standpoint, the key device for enlarging the compass of state action in modern times has been the graduated income tax. Its evolution thus provides a useful vantage point from which to examine taxation as a whole. The history of the income tax in Britain divides itself into several distinct stages.⁵ The story begins during the Napoleonic Wars, which prompted Pitt to introduce the first modern income tax. The tax was removed after Napoleon's defeat, however, and was not reinstated until 1842. Peel's reversion to income tax in that year begins a second stage in the evolution of the income tax, but it was a relatively uneventful one, for the tax remained a minor source of revenue until the turn of the century. The period 1900–1914 constitutes the third, and quite decisive, phase in income tax history, resulting in the permanent adoption of a graduated system of income tax.

Since 1914, the tax has retained much of its basic shape, but there have been major battles over rates, exemptions and the definition of income. The terms on which these post-1914 battles have been conducted have conspired to produce a nearly constant downward pressure on taxation. These pressures were lifted, however, by the two world wars. After both wars, pressure to reduce taxes was reasserted, but far more successfully

after the First than after the Second World War. These post-war tax settlements, then, comprise two further critical stages in the evolution of the income tax.

Undoubtedly the key fact about the nineteenth-century history of taxation was that, despite the dominance of *laissez-faire* ideology, the income tax was never abolished. This failure was an important precondition for the subsequent transformation of income tax into a more progressive and powerful fiscal device. Why was it not abolished? Surely the main reason was the strong preference for fiscal responsibility among middle-class liberals. 'Gladstonian finance' was characterised by a limited conception of the proper sphere of government, by a commitment to frugality and efficiency in administration but, at the same time, by a willingness to tax the middle and upper classes sufficiently to keep the state from becoming dependent upon loans from bankers. There had been a very sharp political reaction against the financial consequences of the Napoleonic Wars, which had left Britain saddled with enormous debts and interest charges. This reaction emerged with the general indictment of 'Old Corruption', and nineteenth-century reformers became in response keen advocates of government financial independence. It also complemented the desire of the banking community, centred in the City of London, to ensure Britain's role as a financial centre by maintaining confidence in state finances and in the international gold standard.⁶

The outcome was a consensus on the need for fiscal responsibility and a willingness to put up with a moderate level of taxation to get and sustain it. This consensus achieved institutional embodiment in the practices of the Treasury. Its hold over officials and politicians meant that the state would be reluctant to relinquish such a flexible fiscal mechanism as income tax. The tax-paying public, in turn, developed a genuine tolerance for the tax. It was low enough not to be a terrible burden, and among the middle and upper classes payment of the tax became a badge of political responsibility. To be a 'taxpayer' was to be a fully-fledged citizen; conversely, those who did not pay tax were in some sense not fully members of the polity. The effect of this curious adaptation to income tax was a highly efficient tax system commanding wide acquiescence.⁷

Britain entered the twentieth century therefore, with income tax firmly in place. There were debates about the fairness of the tax: should income from different sources be treated all alike (the issue of 'differentiation'); and should incomes of varying sizes be taxed equally (the question of *graduation*)?⁸ And there were still people who took seriously the politicians' rhetoric about abolishing the tax altogether. By 1914, however, these questions about the permanence and the shape of the income tax were resolved. To begin with, the Boer War caused a significant jump in tax rates, making the prospect of abolition extremely remote. The war also stimulated a renewed interest in social reform and in how to pay for

it. Two alternatives—progressive taxation of income and wealth, or **tariffs**—dominated political discussion. The Tories opted for tariffs, fought the election of **1906** on the issue and were decisively defeated. The new Liberal government appointed a commission on income taxes, which assumed the continuation of income tax and declared both differentiation and, through a super-tax or surtax on higher incomes, graduation to be feasible and in effect, desirable. These principles were incorporated into the Liberal budgets prepared by Asquith and Lloyd George and combined with other measures of progressive taxation, such as the land taxes proposed in the People's Budget of **1909**.

Ironically, it was not the income tax, but rather the new impositions on landed property that were most important in stirring up the battles of **1909–10**.⁹ The prominence within these battles of the 'land question' seems odd in retrospect, but it was entirely appropriate, given the historical attachments of the two parties, the difficult problems of local government expenditures and the imperatives of electoral **competition**.¹⁰ The leaders of the Liberals all knew that the party's failure lay in becoming the party of the working class. They hoped however, to attach the workers to the party without at the same time losing their middle and lower-middle class supporters. The answer was to rally the workers and the middle class against the landlords—not against **capital**.¹¹ The result was the adoption, almost by default, of the 'differentiated' and graduated income tax. Soon after, of course, income and other taxes were much further increased in order to pay for the First World War, and the battles over the budget receded into memory as attention focused upon the far bloodier battles being fought in France.

There are perhaps, two ways to summarise and interpret this outcome. One way is to see it as testimony to the inherent superiority of income tax over other means of raising revenue. In comparison with other such means it can be reasonably fair; it is flexible, and it can be quite effective. The other approach is to see it as a reflection of the prevailing balance of class power. Thus tariffs were rejected as a fiscal alternative because they ran counter to the interests of finance, i.e. the City, and of many workers more concerned about cheap food than about competition from foreign manufacturers; the taxation of land lost out as an alternative because it was so violently opposed by the landed interests and because it did not, in the end, produce a great deal of revenue. Both tariffs and land taxes might well have benefitted manufacturing interests and aided growth, but industry has always been weaker than finance and never powerful enough to beat the landed **interest**.¹² The result, then, was the institutionalisation of the income tax which in effect treated all sections of capital equally.

The origins of the progressive income tax were based on an inter-class compromise rather than a decisive shift in the balance of advantage between social classes, and did not signify a new commitment to expanding the

public purse for social ends. In terms of public finance and economic theory, moreover, the acceptance of progressive taxation did not signify any weakening in the antipathy to public debt.

The adoption of the graduated income tax therefore did not lead on in any smooth fashion to the augmentation of revenues and expenditures. This was to be demonstrated almost immediately, for despite the fact that the British state was now armed with a highly-effective tax system, the government chose not to use that system to pay for more than a fraction of the costs of the Great War.¹³ Rather, a very large portion of war expenditure was financed through loans on terms that burdened the state with large debts after the war.¹⁴ Nevertheless, resistance to high taxes was strong enough that, despite the enormity of the debt, tax rates were lowered.¹⁵ The standard rate of tax, which stood at 6/- in the £ in 1918, was lowered to 4/- by 1925. Supertax was also decreased over the same period. This represented a hefty boost over the historic rate of 1s—in effect as recently as 1906—but it also meant a drop of a third from war-time levels.¹⁶

The intense pressure to lower taxes after World War I flowed directly from the logic of the class-based pre-war system of taxation. The imposition of super-tax meant that there were now three fiscal classes in Britain: super-taxpayers, ordinary taxpayers who paid at the standard rate, and those who paid no income taxes—roughly the working and lower-middle classes. The saliency of these distinctions meant that discussions about post-war financial policy were quintessentially matters of class politics and hence elicited intense political mobilisation. During and after the war, for example, the Labour party and the Trades Union Congress lobbied hard for continued working-class exemption from taxation and for the 'conscription of wealth', specifically a 'capital levy', to pay for the war. Even more powerful representations were made by businessmen, ratepayers and landowners, for much lower taxes and, if necessary, for postponing repayment of the public debt. For their part, the Treasury and the City of London wanted to restore fiscal stability by paying off the debt through a sinking fund and by maintaining taxes at levels much lower than wartime but far higher than most businessmen and many of the middle classes would have preferred. The policy adopted by successive post-war government was clearly most in line with the views of the Treasury and the City, but nevertheless represented something of a compromise. Indeed, if there was a loser in the tax policies of the 1920s, it was probably not the workers, but business and industry, whose advocates were unable to convince officials or tax experts—like Sir Joseph Stamp and others who sat on the Colwyn Committee of 1924–26—of the deleterious effects of taxes upon business investment. The Labour Party and the workers were, of course, to suffer the bitter consequences of fiscal orthodoxy in the 1930s, but that was still to come.

The catastrophe that did eventually befall the second Labour Government in **1931** can be traced directly to the legacy of tax policies inherited from the post-war stabilisation. The depression of **1929** drastically reduced revenues and led to a drain in the unemployment fund. Labour responded by proposing some reductions in benefits and higher taxes to maintain solvency. This threatened to upset the post-war settlement from both ends. The financial community in London and abroad demanded a different mix, with more draconian cuts in benefits and less drastic tax increases. Virtually no one advocated greater deficits, and certainly not the Labour Chancellor of the Exchequer, Philip Snowden. The outcome was the fall of the Labour Government, followed by substantial benefit reductions and a modest, temporary, increase in income tax. The effect of these decisions, most analysts would now agree, was severely deflationary and a worsening of the economic crisis.

Despite these dire effects however, neither the politicians nor the bureaucrats were tempted away from orthodoxy for most of the **1930s**.¹⁸ Hence the standard rate was raised to 5/- in the £ during the financial crisis of **1931**, but reduced to **416** in **1935**. Throughout the worst period of unemployment, the government was unwilling to contemplate deficits that might stimulate industry or tax increases to maintain the unemployed at a decent level of existence. Rearmament inevitably brought the rate back up, but in small steps painfully taken: to **419** in **1936**; to **51-** in **1937**; and to **516** in **1938**, where it actually remained until the onset of war.¹⁹

What nearly twenty years of economic stagnation and social retrenchment could not do however, the war accomplished almost immediately. The standard rate was pushed up to **716** in **1940** and to **10/-** in **1945**; and along with that went a surtax rate rising at the top end to **1916** in the **E**, an excess profits tax of **100** per cent and a new, highly-efficient, 'pay as you earn' (**PAYE**) system. The **PAYE** system was an extremely important innovation, for it greatly expanded the number of taxpayers. With wages averaging **£190** in **1939** and incomes under **£225** exempt from tax, very few workers paid into the system. From **1943** onwards however, many more incomes were subject to tax. After the war, Labour removed a significant number of lower-paid workers from tax, but the system as a whole remained much extended.

Taken together with US aid, the fiscal changes of wartime allowed the government to finance a greater proportion of war expenditure without recourse to loans. This in turn, allowed the state to borrow the funds it did need on a much better basis than during **1914-18**. The '3 per cent war', as some dubbed it, therefore left Britain with a much less onerous burden of debt in **1945** than in **1918**. Britain's post-war economic problems were no doubt severe, but policy was not dominated by the overwhelming need to repay debt. The Labour Government elected in **1945** was thus far more successful in resisting pressure for tax decreases than previous

governments, and hence far more capable of implementing its social agenda and its vision of a socially just taxation system, than its predecessors. After the war, Labour reduced the basic rate to 9/- in 1946, lowered the rate on excess profits and **granted** some generous exemptions for those in the lower-income ranges.²⁰ Between 1946 and 1950, the government reduced effective tax rates on the latter by over a third, but the relief afforded those with higher incomes and the reduction in taxes overall were much less pronounced than after the First World War. Moreover, with the outbreak of the Cold War and rearmament after 1950, the prospect of sustained post-war reductions in taxes faded from view. The level of taxation stabilised in the early **1950s**, and the social and political compromise it represented was epitomised in the moderate budgets of Lord Butler and in the centrist Report of the Radcliffe Committee on the Taxation of Profits and Income, which appeared in May, 1955.

What stands out most clearly from this brief review is the contradictory nature of British tax policy over time. On the one hand, the upper and middle classes were more willing to tax themselves than their counterparts elsewhere in Europe, and the British state developed an institutional bias toward the maintenance of a system of direct, and ultimately progressive, taxation. On the other hand, this toleration for taxation did not produce a particularly **strong** tendency for taxes to grow or for the state to expand, at least in normal times. What factors account for this curious **contradiction**? Five factors—some of which have been noted in the **narrative**—would seem to be most important:

1. The structure of the British state. The concentration of sovereignty and fiscal authority at the centre has created continuous pressure on the state to provide at least a minimum of goods and services.
2. The structure of the British economy. The strength of finance ~~and~~ industry, and the **coincidence** of interest and outlook produced by the international role of finance and the imperial character of the state, led to a strong predisposition toward fiscal responsibility and hence to a toleration of taxation.
3. The nature of tax policy-making. The setting of taxes in Britain is highly visible and political, and has elicited constant discussion and mobilisation, whose cumulative effect has been to make it more **difficult** to raise taxes in normal times.
4. The character of British **Conservatism**.²¹ Though theoretically ambivalent about the state, twentieth-century Conservatives have been driven by electoral necessity to oppose consistently the raising of taxes on income and property. At times they have proposed tariffs as an alternative, but most often they have simply favoured lower taxes overall.
5. The weakness of pro-tax forces. Neither the Liberals nor Labour was capable of fashioning a consensus for progressive taxation. The Liberals' advocacy of progressive taxes before 1914 was highly controversial and probably hastened the party's decline; subsequently Labour schizophrenically combined support for progressivity with a highly orthodox theory and practice of public finance overall.²²

Ironically, what emerges from this analysis of the forces dominating tax politics through the early 1950s is a picture that shares many features with the 'new politics of taxation' under Mrs. Thatcher. Ordinarily the forces holding down taxes were stronger than those **pushing** them up; more often than not taxes were at the top of the political agenda and thus prevented the implementation of social programmes; and what advances were made toward higher and more progressive taxation owed little, if anything, to the efforts of the political left. Nevertheless, the outcome of a century of tax history was a reasonably progressive and extremely powerful system of taxation centred around the income tax. The cause of this anomalous result was, of course, the combined impact of two world wars. Clearly, war mattered a great deal to the history of taxation in Britain.

The Politics of Taxation in the United States

The history of taxes in the United States reveals a number of similarities to that in Britain, but also some important differences. At the most basic level, both the US and Britain have relied upon a combination of national income taxes and local property taxes, rather than indirect taxation, to provide the bulk of government **revenues**.²³ This has made the setting of taxes a highly visible and **politicised** matter in both nations. The chronology of innovations in tax policy in the two countries turns up even more noticeable similarities. Income tax became a permanent part of government finance in the US in 1913, just about the same time as the graduated income tax came to be finally accepted as a key fiscal tool in Britain. In both countries, the two world wars witnessed a massive expansion of taxation overall and heavy reliance upon the income tax. The broadening of the tax base to include not merely the middle and upper classes but also the less well-off came with the introduction of payroll deductions in the middle of the Second World War on either side of the **Atlantic**.²⁴

The similarity in the timing of tax developments should not obscure the differences between the two experiences. In neither country was the political context particularly favourable to the raising of taxes, but it was clearly less unfavourable in Britain than in the United States. Most important, the pressures on the central state to provide services and hence to tax were weaker in the United States than in Britain. The responsibilities of the federal government were quite restricted; and many of the services provided nationally in Britain were provided by states and localities in the US. Levels of provision and taxation varied enormously. America's federal polity thus limited the possibilities for progressive taxation and reform at the national level but allowed considerable scope for such activities locally. The effect was less pressure on the national government to raise taxes.

Also inhibiting the development of personal taxation at the federal level was the nature of the American business community. There was no clear split between industrial and financial capital in the US. The splits that did

exist were based more on regional or local factors than on anything else, and most businessmen were oriented toward the internal market. There was no force comparable to the City of London oriented to the world economy and dependent upon the fiscal stability of the state. Businessmen of all sorts shared a common antipathy to taxation, and they mobilised that sentiment regularly and effectively.

The third factor making tax politics different in America was the asymmetry of class mobilisation around the issue. The mobilisation of the middle and upper classes against taxes was not paralleled by a mobilisation of support for progressive taxation policies on the part of labour. The Democrats, for example, had strong ties to business interests and never identified themselves unambiguously with progressive tax alternatives. Thus if Labour's tax politics were less than inspired, Democratic tax politics were often perverse. One consequence of this was that the coalitions that occasionally did form in favour of progressive taxation were organised on a sectional or regional basis, and tended to be unstable and to have great difficulty in actually carrying out their proposals.

In the US, therefore, the well-to-do treated tax politics as class politics and mobilised accordingly; but the rest of the population failed to rally around progressive taxation as an alternative. This imbalance is evident throughout the history of American taxation. In **1895**, for example, the Supreme Court took up the cry of the rich and, in overturning a 2 per cent tax on incomes over \$4,000, argued that 'The present assault upon capital is but the beginning. . . of a war of the poor against the rich; a war constantly growing in intensity and bitterness.' In this the Court was merely echoing other critics of the progressive income tax, who characterised it as part of a 'communistic march' to 'confiscate wealth' and 'ultimately wreck the American Republic'. Among the middle-class public, the government's right to appropriate even a part of a person's earned income was contested. The nineteenth-century structure of federal taxation was designed to avoid taxing 'the People' as a whole or capital as a class in favour of symbolic targets such as the 'interests'.²⁵

Despite the class-conscious rhetoric of opposition, the tax to which the Court was responding had not emerged from a distinctly class-based political movement. Rather, it was a product of those uniquely American social movements of the late nineteenth century that mixed social with regional grievances and alignments.²⁶ The depression of **1893** had produced an agitation by poor and 'debtor' states for relief and for the introduction of a national income tax modelled upon that of the Civil War. There was also pressure to tax the businesses of the Northeast, who had been benefitting from a tariff that seemed to hurt much of the rest of the country. It was in this context that the Democratic Congress attached an income tax amendment to the tariff bill of **1894**. A year later however, the Court declared the tax 'unconstitutional' in a ruling

that would remain law until 1913.

The demand for a national income tax nevertheless remained a key plank in the platforms of workers' and agrarian movements. The reform would be sectional, declared one Populist supporter, 'because the people of a certain section of this country have the greatest number of incomes that are taxable'. The national Greenback party of 1880, the Knights of Labor in 1886, the Populist parties of the South and West, and the Democratic candidacy of William Jennings Bryan all considered a tax on wealth and large incomes to be an essential part of reform. Several income tax bills were introduced into the Congress between 1873 and 1892, all sponsored by representatives from the southern and western states.²⁷

Popular movements supporting the progressive income tax were joined in the years before the First World War by a small but influential group of reformers within the bourgeoisie. These 'Progressives' campaigned for a regular means of providing revenue to the federal government besides 'political' measures such as the tariff or excise taxes. The National Civic Federation and other business reformers advocated some new mechanism of revenue raising for the growing needs of the state. Theodore Roosevelt joined in when he called in 1906 for a system of progressive taxation upon 'those fortunes swollen beyond all healthy limits'. Roosevelt noted that most industrialised countries had imposed income and inheritance taxes and called for their adoption in the United States in order to maintain the nation's competitive balance with Europe.

This odd coalition supporting the progressive income tax achieved a major victory in 1913.²⁸ The pressure for more revenues and the sectional politics of taxation led Congress to pass a constitutional amendment for an income tax. This seemed at first a safe alternative, for the possibility of getting two-thirds of the states to ratify the amendment seemed very remote. But the very same sectional logic that has so often frustrated reform efforts in America worked so as to ensure its passage, for most local legislators believed the tax would be borne by a handful of wealthy businessmen in the Northeast. The result surprised both supporters and opponents. In the end, of course, opponents managed to keep the new income tax rates very low and to restrict its range.

This compromise proved quite temporary, however, for the First World War greatly increased the government's need for revenues. Combined with the decline in tariff revenues—again a product of the war—this fiscal crisis of wartime forced the Wilson administration into further alterations of the tax code. In the ensuing Congressional debates it was, curiously enough, those most opposed to participation in the war that were the most determined advocates of the revenue measures designed to pay for its mobilisation. Southern Democrats and disaffected Republicans thought they could dampen enthusiasm for the war by 'taking the profits out of war', that is, by taxing businessmen who stood to profit by it. As Warren

Bailey (Dem., PA.) stated, 'if the forces of big business are to plunge this country into a Saturnalia of extravagance for war preparedness at a time of peace, it is my notion that the forces of big business should put up the money.' Such sentiments were behind the substantial tax increases imposed during the war.²⁹ Two major revenue bills—in October, 1917, and November, 1918—were passed raising the maximum personal income tax rate to 77 per cent, eleven times the rate originally set in 1913. In effect, the brief span of time during America's war effort saw the first real progressivity in American tax history: although less than 1 per cent of the returns filed by American taxpayers reported income over \$20,000, that group paid an average of 70 per cent of the income taxes. In less than two years, the income tax had permanently replaced the tariff and the excise tax as the primary method of generating federal revenue.³⁰

Capital was consequently put in a defensive position during the war. The subsequent 'Red Scare' immediately after the war, however, allowed the business community to campaign for tax reduction under the banner of anti-communism. The National Industrial Conference Board and the National Taxpayers' Association were the most conspicuous of a host of groups that blamed the 'High Cost of Living' and post-war unemployment on high taxes. The United States Chamber of Commerce also led the campaign for the replacement of the income tax by a national sales tax. There was a general consensus after the war that corporate tax rates should be reduced. 'Unnecessary taxation', said the Republican presidential candidate Warren G. Harding in 1920, 'only halts and hampers the needed activity of capital.'

The 1920s was thus a period of retrenchment in the matter of taxation. The income tax remained, but diminished in scope and significance. Maximum income tax rates were reduced to 24 per cent by 1928. The political dynamic to cut taxes stemmed from two sources: the relatively small size of the federal government and a Treasury surplus of \$2.3 billion by 1924. The phasing out of war-time taxation—the excess profits tax and other anti-profiteering measures—was achieved by 1921. After a bitter fight in Congress, a national sales tax and higher tariffs were passed to make up for revenue lost by reduced corporate rates. The Revenue Act of 1926 was marked by greatly diminished tax rates on large inheritances and the repeal of the gift tax. The political coalition behind progressive taxation had fallen on rough times. The business wing of the Republican Party, represented by well-organised 'tax clubs' on a state and national level—was strong enough to govern almost by itself in the 1920s.

The conservative course of tax politics affected Democrats as well. After successive defeats in presidential and congressional elections in the early 1920s, Democrats bid with Republicans in cutting tax rates, proposing a tax cut in 1925 larger than the \$330 million sought by the Republican Secretary of the Treasury, Andrew Mellon. This revived fiscal

conservatism and prevailing attitudes to taxation found their clearest expression in Treasury Secretary Andrew Mellon's treatise, *Taxation: the People's Business* (1924). According to Mellon, high levels of taxation drove investment funds away from productive use and discouraged free enterprise. In maintaining that high taxes were inimical to sustained growth, Mellon articulated a view on the relationship between taxes and prosperity eerily similar to that of Arthur Laffer and other recent 'supply-side' theorists.^{3Y}

The depression of 1929 ushered in a process of political realignment that gave the Democrats the presidency for nearly two decades. Nevertheless, the tax policy of the New Deal changed the basic approach by the federal government to taxation surprisingly little. Federal tax policy under both Hoover and Roosevelt largely emphasised taxes on consumption. Roosevelt financed the range of programmes under the title of the National Recovery Administration through a package of sales and excise taxes. Aside from his largely symbolic (and politically timed) effort to 'soak the rich' in 1935, Roosevelt was content to follow the lead of Congress in its sporadic attempts to close loopholes and modify the existing system.

The Social Security System best exemplifies the ambiguities of the Roosevelt administration towards taxation. The eventual Social Security Act of 1935 represented a compromise to appease demands for reform while funding the system through a payroll tax. A payroll tax theoretically matched taxes on employees' earnings with those of the employer or the employing institution. Nevertheless, the payroll tax was attacked at the time as a 'regressive' tax that would reduce the worker's earnings and sap spending power (an opinion shared by many experts on Social Security). No other nation in the world drew exclusively from a payroll tax to finance its old age pension fund. Many of the nation's leading social insurance experts urged a more progressive financing scheme, but they lost.^{3Z}

Only with the onset of the Second World War was the American tax structure changed, and even then the changes were limited. World War II turned the income tax from an elite to a mass tax. Income taxes were raised to an unprecedented level. Corporations were taxed at a rate of 40 per cent, in addition to an excess profits tax based on the 1917 model. Again, a consensus for mutual sacrifice lay behind this movement. The CIO proposed in 1942 that 'to win the war, no American citizen ought to have a nett income, after he's paid his taxes, of more than \$25,000 a year'. The real expansion of the tax base, however, occurred on the lower end of the economic ladder. The first war tax bill of 1940 added a 10 per cent tax on incomes between \$6,000 and \$100,000 and significantly lowered exemptions (from \$2,500 to \$1,500 for married couples and from \$2,000 to \$750 for single people). This change was seen in the change between 1939, when 4 million individuals or families were eligible

for the income tax, to the 43 million plus paying the tax in 1944. The average American worker thus felt the income tax for the first time and married couples were especially hard hit. Wealthy taxpayers and corporations, by contrast, paid less. The top corporate rate of taxation stood at about 40 per cent from 1940 to 1945—as compared to the 77 per cent rate during World War I. An 'excess profits' tax was essentially written with the goal of easy business approval in mind. A variety of consumption taxes added to the financial impact of the war upon working people.

Even during wartime however, resistance to progressive taxes remained strong in the US. A particularly striking example was the fate of Roosevelt's 1944 tax plan. By June 30 1943, the national debt stood at \$136.7 billion, compared with \$41.1 billion in 1939. Inflation had risen 25 per cent since 1941 and was far higher for many necessities. The administration proposed the removal of nearly \$16 billion of purchasing power from the economy (through sales and consumption taxes). The bill that Roosevelt supported in Congress also asked for large increases in corporate and real estate taxes. A conservative coalition in Congress composed of southern Democrats and northern Republicans made the actual tax bill, in the words of Roosevelt's veto, 'not a tax bill but a tax relief bill, providing relief not for the needy but the greedy'. Roosevelt was forced to make do without his tax **proposals.**³³

As in Britain, the immediate aftermath of the World War II witnessed a showdown over the methods and goals of post-war 'Reconstruction'. Before his death Roosevelt had stated his intention to implement an 'Economic Bill of Rights' in regards to full employment, national health insurance, and sufficient housing. The Truman administration's 'Fair Deal' was an attempt to fulfill some of these intentions. Politically, however, the shift away from progressive reform visible during the war intensified after 1945. The major tax issue immediately after 1945 was the matter of tax reduction and its effect in inflation. The conservative coalition in the 1946 Congress introduced a bill for a 20 per cent across-the-board tax cut. They aimed at the dismantling of government programmes created by mobilisation, the creation of investment capital, and the curtailment of any future extension of social legislation. Whether to reduce or maintain wartime levels of taxation became a critical issue in the broader debate over the shape of the economy after 1945. For the Republicans, as Senator Robert Taft argued, "The best reason to reduce taxes is to reduce our ideas of the number of dollars that government can properly spend in a year, and thereby reduce inflated ideas of bureaucratic authority.'

The response of the Truman administration to these proposed cuts was that 'this was the wrong kind of tax deduction at the wrong time'. It looked as if the debate over taxation would be resolved in favour of Truman's opponents in 1948–49, when they managed to override Truman's veto. The Republican proposal was, in the words of Senator Milliken

(R-Colo.), 'deliberately contrived to attract votes, because we wanted to reduce taxes'. An existing government surplus of \$6.8 billion made it difficult for the Truman administration to resist this effort.³⁴ However, the Korean War disrupted any full-scale revision of the tax code. Defence expenditures were projected to more than double to \$41 billion in 1952, and the resulting deficit at existing tax rates was estimated at \$16.8 billion. Consistent with fiscal policy during World War II, Truman called for raising taxes \$10 billion by raising personal and corporate taxes and introducing an extremely mild form of the excess profits tax. Business opposition was largely mollified by concessions to specific interests—e.g., real estate—and benefits were also granted to key constituencies, like veterans. By the early 1950s, therefore, the movement toward sustained tax reductions was blunted.

Keynes, the Welfare State and Taxation

After World War II, both Britain and the United States had in place systems of direct taxation capable of sustaining expenditure at relatively high levels. The pressure to reduce taxation after the War had been formidable, but the Labour government and the Truman administration had resisted the pressures more or less successfully. The outbreak of war in Korea put an effective end to this pressure and served to institutionalise the changes of war and post-war into a stable, tax system.

The tax systems of the 1950s were, of course, critical components in the overall stabilisation of state/society relations, embodying Keynesian styles of economic policy-making and a public commitment to full employment and to the broad outlines of social policy as elaborated by previous Labour and Democratic administrations. But what precisely did this Keynesian compromise mean in terms of taxes and spending? Many commentators, neoconservatives in particular, claim that Keynesianism meant high taxes, deficit spending and inflation. If this was ever true, it was certainly not true of the 1950s. In Britain, historians of economic policy have shown convincingly that the 'Keynesian revolution' did not translate in any direct fashion into government deficits. Rather, the first policy uses of national income accounting were designed to illustrate the 'inflationary gap' between expected demand and anticipated output. In 1947 the exercise led to the adoption of 'Keynesian' policies aimed at creating a surplus.³⁵ Very similar policies, in which taxes were kept high in order to control inflation, were followed in the US.³⁶

The use of taxes to dampen inflation did not imply that Keynesians were consistently in favour of tax increases. Indeed, Keynesian policy explicitly relied upon tax decreases to stimulate demand during slumps. In the 1950s demand was usually buoyant enough so that in neither country was there a strong case to be made for general tax cuts. Even so, the Keynesian predisposition toward selective manipulation of the tax

code to encourage economic activity took hold among policy-makers. Leon Keyserling, head of the Council of Economic Advisors, explained that his goal was to '... use tax policy selectively to bring about improvement in the distribution and balanced use of income'.³⁷ In Britain, it was the director of the Economic Section of the Cabinet, Robert Hall, who sought ways to give tax breaks to productive investment while denying them for unproductive uses. It was Hall, too, who took it upon himself to ensure that the case for capital was put before the Royal Commission on Taxation. Writing to a colleague, Hall acknowledged that 'there is undoubtedly a conflict between the objectives of social equality and industrial efficiency. . . . At present, however, we cannot do very much because it is politically so difficult to lower the top levels of taxation.' The problem was how to find means of relieving business taxes that would somehow '... get over the political difficulties of doing anything at all for the capitalist'.³⁸

This willingness to treat taxes as a tool of economic management had highly contradictory effects. In the first instance, it produced a newly instrumental, and thus less ideological, view of tax policy.³⁹ This undoubtedly helped to remove taxes from the top of the agenda of high politics and, in this way, probably contributed to the maintenance of high taxes. But the Keynesian approach to taxation also led to the growth of what might be called the 'lower politics of taxation'. While earlier tax theorists largely dismissed the claims of businessmen that taxes diminished savings, investment and effort, Keynesians had a strong reason for believing that tax policy could influence economic behaviour. The Keynesian compromise therefore gave business a licence to seek out preferential treatment. The logic of this new, 'lower politics of taxation' was the selective granting of exemptions from tax—tax expenditures, as some have labelled them—for various constituencies, and a consequent narrowing of the tax base.⁴⁰

In the short term, Keynesian tax policy allowed the state in both Britain and the United States to maintain or even expand social services, to pursue selective intervention in the economy and to support a large military establishment. Over the long term however, the contradictory aspects of the system—and the logic of tax politics to which it gave rise—combined to undermine its legitimacy and to call forth renewed opposition to taxation. Let us look in some detail at these long-term consequences in the United States and in Great Britain.

The 'Lower Politics of Taxation' in America

In the United States, the delegitimation of the tax system progressed much faster and went further than in Britain. One major reason was the 1954 revision of the tax code. Shortly after taking office, the Eisenhower administration began work on a major rewriting of the federal income tax

code. Eisenhower's 'Modern Republicanism' embraced both deficit spending and the progressive income tax—key elements of Keynesian policy on expenditure and taxation. But the Republicans' traditional ties to capital also led to modifications in taxation aimed at helping business. Thus many of the most important elements of the 1954 tax revisions affected the treatment of business income. Large deductions were given for research and development, for example, and revenues from foreign subsidiaries were given special deferments.

The progressive income tax continued in form under the 1954 Act. Over time, however, the adding of one exemption after another made it more and more an empty shell. The process was pushed forward by Republicans and Democrats alike. Just as Republicans gradually accepted deficit spending and government 'pump-priming' of the economy, so liberal Democrats became reconciled to supply-side tax incentives to maintain and accelerate the pace of economic growth. The Kennedy administration, for example, responded to the 1960–61 recession by offering a special exemption for investment. Even more significant was the Kennedy tax cut of 1964. Liberals praised the tax cut as a triumph of Keynesian policy, but its practical effect was to give still more breaks to business and the rich.⁴¹ Tax policy had begun to shift from the principles of income redistribution and 'the ability to pay' to a means of aiding the private sector.

The war in southeast Asia and the extension of the entitlement state in the mid-1960s exacerbated the problem of tax revenues. The Johnson administration's decision to opt for a 'guns and butter' policy and not raise taxes contributed to an inflationary spiral. Inflation further weakened the ability to pay principle even more. When inflation began climbing in the 1970s, Congress failed to make sufficient adjustments in the tax code to keep tax bills from rising faster than real income. By the late 1970s, the majority of taxpayers faced sharply increased tax rates as their incomes grew. 'Bracket Creep', as Thomas Edsall has noted, 'once the problem of the rich, became the problem of the working man and woman.'⁴²

As inflation continued to mount during the 1970s, Congress did adopt a number of 'tax reform' proposals. But changes in the tax code were heavily influenced by the lobbying efforts of business groups. As a result, while total federal tax revenues grew no faster than the gross national product during the 1970s, the way in which the tax burden was shared changed dramatically.⁴³

1. Corporate taxes actually fell by 14 per cent in constant dollars from 1969 to 1980, and the effective rate of tax on corporate profits was slashed at least a third.
2. The amount foregone in revenue because of tax loopholes grew at an extraordinary rate—twice as fast as the economy of federal revenues.

3. Individual tax rates, on the other hand, began creeping up in 1977, and by 1980 were 15 per cent higher than their 1970-1976 level. In addition, these increases in individual tax rates did not affect all taxpayers equally. Treasury data indicate that from 1978 to 1981 the effective income tax rate on the bottom half of the population increased by over 50 per cent, and the rate on the next 30 per cent of the taxpayers went up by 14 per cent, while the effective rate paid by the wealthiest taxpayers (those making over \$200,000 a year) went down by 16 per cent. This Federal income tax shift was reinforced by increases in Social Security taxes. From 1969 to 1980, Social Security taxes on wages doubled in real terms.

By the end of the 1970s, therefore, the majority of taxpayers were paying a larger share of their income in taxes and receiving little more in services. With the tax shift away from large corporations and affluent individuals largely hidden, enough voters were ready to believe Political Action Committees representing the business community who said tax increases were caused simply by burgeoning expenditures for a federal government 'out of control'. Programmes recently created during the 'Great Society' could be isolated and their recipients stigmatised as the culprits.

The disenchantment with the tax system did not at first find much of a reflection in party politics. The Democrats, as would be expected, were happy enough to reap the benefits of inflation-induced tax increases and reluctant to take on those who benefitted from tax breaks. The Republicans, traditionally the party of fiscal conservatism, were surprisingly slow to respond to the growing electoral potential of popular resentment against taxes. One major reason, it would seem, was the idiosyncratic nature of Richard Nixon. Eager to maintain domestic support for the war in Vietnam, Nixon adopted much of the programme of liberal Democrats. He was committed in particular to building up the national capacity of the American state, partly out of a genuine desire to overcome its incapacity in key areas of policy and partly to aggrandise himself and his administration.⁴⁴ Under Nixon then, the anti-tax and anti-state elements in Republicanism were played down temporarily. Instead, Nixon's strategists sought to build a Republican majority on an ethnic and regional basis. The key issue around which such a majority would coalesce, of course, was race, which at the time threatened to tear apart what was left of the old 'New Deal' coalition.⁴⁵

It was thus not the parties, but the largely autonomous tax revolts of the late 1970s that showed the promise of a new tax populism. The most visible of these revolts occurred in California, the centre of the campaign for 'Proposition 13' led by Howard Jarvis. Skyrocketing home owner property assessments had created deep resentment against the property tax. Although California localities cut property tax rates and the state provided more than \$750 million in residential property tax relief, home owners still found themselves facing extremely large tax increases. The

key problem was that half of the rate cuts automatically went to business property. At the time Proposition 13 was passed in 1978, home owners were facing average property tax increases since 1975 of 92 per cent (even in constant dollars, a 61 per cent rise). Taxes on commercial, industrial, and agricultural property were down 5 per cent in constant dollars over the same period.

Like their colleagues elsewhere in the nation, Californian Democrats were slow to respond to the issue. By failing to halt California's tax shift, they allowed a resurgent right to capture the issue and blame soaring property taxes on government spending and 'waste'. To taxpayers, who saw only what they were paying—not what others were not paying—the Jarvis theory seemed plausible. Government, many people concluded, must be the problem, not the answer. 'Politically,' as Robert Kuttner has argued, 'the shift of the tax burden onto the average. . . American taxpayer led to a perverse windfall for laissez-faire economics. . . The heavy tax burden on ordinary people reinforced the illusion that taxes had killed growth.'⁶⁶

The forces unleashed by the tax revolts were to prove crucial elements in the Reagan victory in 1980. In social terms the Republican majority of 1980, or of 1984, was very much a Nixon-style coalition of mostly middle-class whites. Politically, though, the Republicans has learned a great deal from Proposition 13 and similar movements in other states, and they managed to position themselves effectively as the opponents of high taxes and 'big government'. Hence the Reagan campaign was able to manipulate the tax issue to their advantage. Ignoring the regressive nature of the shift in taxation, Reagan promised to root out 'waste, fraud, and abuse' in government and thus make possible general tax relief. Although polls showed that few people were convinced of the supply-side economics Reagan championed, voters were ready to blame inflation and their tax burden on excessive government spending.

The actual tax policies of the Reagan administration—and the tax politics in which they are embedded—have changed considerably from 1980 through 1986. The tax cuts of 1981 were a combination of two different styles of tax policy and tax politics. To some extent, they were a continuation of the 'lower politics of taxation' of the 1960s and 1970s, magnified by the increased political clout of business. They also marked a new departure, however, in the sense that the selling point of the entire tax programme was the prospect of tax reductions all around. There is no doubt that, for some—like David Stockman—general reductions were merely the ruse by which the administration engineered massive reductions for the well-off. But it also represented a new logic of populist tax politics. The more recent initiatives of the Reagan administration, moreover, owe much more to this new politics of taxation than to the 'lower politics' of tax breaks and exemptions. A review of the two major stages in the

administration's tax policies should make this development a bit clearer.

The first stage of Reagan tax policy centred on the adoption of the **1981** tax bill. That bill had two major features: across-the-board cuts in tax rates and massive tax breaks for large corporations and the wealthy. Its most widely advertised feature was its three-stage reduction in individual tax rates totalling 23 per cent. Equally significant, though, were the adoption of a new approach to business depreciation—the so-called Accelerated Cost Recovery System (ACRS)—and other breaks for corporations and private investors.⁴⁷

These two features were produced by the confluence of two powerful political forces. One was the logic of tax populism, as demonstrated in the tax revolts and picked up by Reagan strategists. That logic led directly to the proposal for broad reductions in rates. The second was the waxing power of organised business. The growing clout of American business allowed the 'lower politics of taxation' to be pushed to new lows, with high returns for businessmen. As William Winpisinger, president of the International Association of Machinists and Aerospace Workers argued in his testimony to the House Ways and Means Committee:

The Reagan tax plan clearly demonstrates to corporate America that the rate of return—in the form of tax subsidies and other benefits—on its relatively modest investment in campaign contributions and lobbying expenses is far greater than any they can obtain by exercising their entrepreneurial skills in the market-place.

Since **1976**, the politicisation of the business community on matters of taxes can be seen in several forms. Corporations and trade associations fund extensive lobbying staffs, including tax attorneys, former government officials and 'think tank' research centres to help form opinion on economic issues. The rising phenomenon of 'grassroots' lobbying operations utilising media advertising and direct mail services was at least as important to tax issues as it was to other concerns of the 'New Right'. The power of the business community is shown by the growing volume of campaign contributions. In **1976**, **450** corporate and trade association political action committees (PACs) contributed **\$6.7** million to incumbents and challengers in races for federal office. By **1980**, **1,885** committees were contributing **\$67.7** million. Between **1976** and **1980**, the number of corporate and trade association Political Action Committees grew by more than **300** per cent and their contributions mushroomed by **900** per cent.⁴⁸

Thus enhanced, the political power of businessmen as a class was greater than ever. It was also highly concentrated and effective. This is perhaps best demonstrated by the role of certain key groups and individuals in the actual shaping of the **1981** tax bill. One such group was the so-called Carlton Club (its name deriving from the location of its weekly strategy

sessions). Its members included Charls Walker who, through the Council for Capital Formation, represents over a dozen multi-nationals; Richard Rahn of the United States Chamber of Commerce; and Ernest Christian, a lawyer representing the American Retailers' Association and Chrysler. The Carlton group first formed into a political lobby in the mid-1970s. In 1978, they helped put together a tax package that significantly widened some major loopholes—most notably, the special treatment of capital gains income.

This organisation established two criteria for designing a 'unified' business position: the approach had to cut taxes significantly for virtually every segment of capital, and it had to be simple. The plan chosen by these business lobbyists in 1979 was called '10-5-3', after its respective write-off periods for structures, equipment, and automobiles. Almost every kind of business investment was to be depreciated much faster than under the existing law, and the investment tax credit also was to be increased in some categories. When first introduced in the House, '10-5-3' was treated by tax policy analysts with more scepticism than the 1978 proposal to cut capital gains. By the middle of 1980 however, a majority in both the House and the Senate had signed on as co-sponsors. 'Yes, of course it's bad economics and for too costly, but I can't afford to be anti-investment,' admitted a Democratic Senator from the Midwest. By the fall of 1980, President Carter and the Democrats submitted their own variation of '10-5-3' with the hope of getting the support of the business community in an election year. It therefore became clear that a major reduction in corporate taxes was in store for 1981—no matter who occupied the White House.

The Carlton group and the tax populists around Reagan, who advocated across-the-board tax cuts, clashed over a tax strategy for the new administration. Reagan resolved the conflict by giving in to both: in February 1981, the President proposed both The Kemp-Roth general cuts and '10-5-3' (renamed the 'Accelerated Cost Recovery System'). As it turned out, the tax bill which was passed went even further, due to the 'bidding war' that ensued between Democrats and Republicans. As 1981 began, the Democratic tax strategy was reasonably simple: get the President to compromise on the size of individual and corporate tax cuts, provide a little more tax relief to 'middle income' tax payers, and add specific tax breaks for which there was strong congressional support. When negotiations over the tax bill between House Democrats and the White House broke down, an all-out corporate lobbying campaign began. In response, Congressional deliberations over Reagan's tax plan were turned into a competition for the support of various business interests. The 'Christmas tree' of special interest provisions grew apace with the debate: windfall tax breaks for oil interests; more tax breaks for multinational corporations; an All-Savers Certificate for the savings and loans companies; more

baubles for utilities, high tech firms, and the trucking industry.

Theoretically, the **1981** tax bill rested upon the main premise of 'Supply-side' economics—that the sacrifice of tax equity would produce prosperity. The corporate share of the federal income tax was thus purposely reduced and, in effect, the share of federal revenues received from individual taxpayers increased. By **1987**, according to the projections of the **1981** tax reform, **85** per cent of all federal tax receipts would have come from the personal income tax and Social Security taxes, compared to only **61** per cent in **1965**. Corporate income taxes, which provided **25** per cent of federal revenues in the **1950s**, fell to **8** per cent of the revenues raised in **1982** and were projected to be even lower by the end of the decade.⁴⁹

For almost three years after the **1981** tax changes the incipient tax populism of the Reagan administration was not much in evidence. The recession of **1981-2** called into question the entire rationale of Reaganomics, including the supply-side tax cuts, and forced the administration to accept a variety of tax increases in **1982**. Reagan did hold fast to a schedule of reductions put in place in **1981** and he certainly kept repeating the rhetoric of **1980-81**, but further initiatives on tax policy were few. In **1984** however, the issue of taxes came back onto the agenda. During the **1984** election campaign, two national events demonstrated the symbolic and ambiguous role of taxes in American politics. Walter Mondale's public announcement that he would raise taxes if elected—and his crushing defeat—demonstrated the continued saliency of the tax issue. This rediscovery of the electoral potential of tax populism stimulated a renewed interest in taxation among Republicans. But there was a growing momentum for some kind of structural overhaul of the tax system among Democrats as well. On October **5 1984**, a labour-funded group called the Citizens for Tax Justice detailed how General Electric, Dow Chemical, W.R. Grace and Company, among others, had paid no income taxes for at least one of the years between **1981** and **1983**, despite a combined **\$56.7** billion in profits. Newspapers, media reports and publications soon focused upon this glaring disparity. Democratic Senator D.H. Pryor, a member of the Senate Finance Committee, commented upon the public reaction: 'We'd all go home to town meetings and you'd see some postal clerk get up and say, "Why is General Dynamics paying no taxes and I'm paying **30%** of everything I make to the federal government?" You couldn't answer a question like that except by saying, "I'm going back to Washington. . . I'm going to close those loopholes".'

Equally important, the shape of the debate about tax reform was in large part determined by a Democratic initiative. In **1982**, two years before tax reform became a major issue, Senator Bill Bradley and Representative Richard Gephardt introduced a bill to restructure the personal and corporate income taxes through a programme entitled the 'Fair

Tax'. Their proposal would eliminate most tax breaks and raise the same amount of revenues as current policy, but with lower rates. The Bradley-Gephardt plan, of course, ratified the Reagan tax shift by leaving in place the existing distribution of taxes. It also began a race between competing versions of tax reform. Reagan's advisers quickly came up with their own plan to eliminate some corporate and individual tax breaks and to slash maximum personal tax rates from 50 to 35 per cent. Not surprisingly, many of the features of both plans were similar. All proponents of tax reform were thus trying to tap a potentially huge constituency for their own proposal by stressing the simplification of the tax code and rate reductions. In the Reagan camp, tax reform came to be seen as the last chance to use Reagan's personal popularity to build the Republican party into the permanent 'majority party'. To Richard Darnham, then Reagan's Deputy Chief of Staff, the tax issue 'extends beyond stereotypical "blue-collar" and "redneck" Americans—well into the world of the "white collars" . . . Here, I think, is a legion of quiet populists."

By 1986, the constituencies and parties involved in tax reform were many: a Republican president who wanted to go down in history for his tax cuts; Democrats like Bradley who were unwilling to have the tax issue exploited by anyone else; legislators like Rostenkowski and Packwood, who wanted to make their respective parties into the publicly-perceived champions of tax reform. Washington politics turned into a race to determine which party—or presidential contender—would wear the mantle of tax populism.

Tax reform has thus spawned unusual alignments. On the surface, the populist rhetoric looked like a serious challenge to the business community. In fact, a serious split had developed in the united front of business PACs that was elemental to the development of tax reform as an issue. While the 1981 tax cut looked like an unqualified triumph for corporate America, retail, service industries and high tech firms had in fact gained comparatively little. The loophole had benefitted investment, basic manufacturing, and real estate firms, which had reduced their taxes to practically zero. Retail, wholesale and high-tech firms were paying up to 46 per cent (the maximum rate) of their income in taxes. For such corporations, lower tax rates were more valuable than an array of loopholes. The bottom-line argument for tax reform was thus quite simple: remove loopholes which benefit 'special interests' and force all to compete—and pay—on equal terms.

By late 1985, the schism within the Washington-based business lobbies was complete. A group calling itself Tax Reform Action Committee (TRAC) was organised to represent 'high tax' firms. TRAC, in turn, was joined in their endorsement of the Reagan tax plan by IBM and General Motors. Nick Calio of the Wholesalers' Association said, '[We] made it difficult for people to say business was monolithically against this bill. . . In our view, we were paying high rates and subsidizing other people's

tax preferences. It wasn't fair.'

Reagan's tax plan soon found sufficient allies in Congress. A tax reform bill would provide 'all the pluses for people—get poor people off the rolls; revise the tax code, and make it more fair.'" An unlikely coalition of high-tech lobbies, 'populists' of left and right, and other reform elements have thus made tax reform of some sort inevitable in 1986.⁵⁰ The logic of tax populism has proved very strong indeed in America.

The New Politics of Taxation in Britain

In contrast to the US, tax politics in Britain since 1955 appear quite staid. Still, a similar process of delegitimation occurred, and the eventual outcome was a government every bit as anti-state and anti-tax as that of Ronald Reagan. Once again, the roots of the process go back to the late 1950s.

British Conservatives were especially lucky in the tax system they inherited from Labour in 1951. High and progressive tax rates, made more productive by rapid economic growth, allowed the Tories to expand social services and to lower taxes marginally. Conservatives were careful, of course, to give away only small amounts of tax in successive budgets, and to grant the biggest reductions in election years. They were also careful not to concentrate all of these tax gifts on the middle or upper classes or on business. Thus while the well-to-do undoubtedly did better out of Conservative tax policy than did the workers, the Conservatives continued to operate a reasonably graduated tax system.

Only later, then, did the process of delegitimation begin. The main factor was inflation. In the early 1950s about 30 per cent of the working population paid no income tax, and virtually all of those that did paid at the standard rate. Surtax remained a levy on the rich. But creeping inflation brought more and more people into the tax net—approximately 90 per cent of households paid some tax in the early 1960s—and pushed many middle-class people into payment of surtax. The rapid inflation of the 1960s and 1970s made almost the entire workforce liable to tax and forced even more into the higher bands. (The separation between surtax and ordinary tax was abolished in 1973.) Two features of the rate structure of income tax made this change very explosive politically. The first was the lack of genuine progression at the bottom: that is, once income passed the threshold at which it was liable to tax, it was taxed at the full standard or basic rate. In 1979, for instance, the marginal tax rate for a single person jumped from zero for income below **£1,000** to 25 per cent for the second **£1,000** and to the full rate of 33 per cent for income tax. This abrupt leap in tax rates made workers very conscious of the moment when they became liable to the standard rate; and between 1950 and 1960 a very large number of workers made precisely this leap. Second, rates above the standard rate were extremely steep. Thus, again for a single

person in 1978–79, income above 610,000 was liable to a 40 per cent tax, income over **£15,000** to a rate of 60 per cent and income over 625,000 to the maximum rate of 83 per cent.

Inflation therefore eroded public support for the progressive income tax in several ways. Because many indirect taxes were fixed at flat rates that did not rise with prices, the income tax bore an increasing share of government finance." In turn, this burden **fell** less and less on the wealthy. For the middle class, inflation raised fears of being pushed into ever higher brackets, making it extremely difficult to accumulate savings for the purpose of buying a home or even for maintaining existing standards. For the working class, the difficulties were compounded. Workers were forced into paying a much higher price for the services they obtained from the welfare state. No longer was income tax primarily a levy on the middle and upper classes; and no longer was it possible to make do with only modest increases in wages. Wages had to increase much faster in order for **after-tax** income to increase.

Overall then, the UK tax system lost credibility over the same period as the American system. But the reason was different: in Britain there were far fewer special exemptions and deductions and there was far less of a narrowing of the tax base and far less of a shift from business to the ordinary taxpayer. What tax breaks there were in Britain did, of course, disproportionately benefit the middle and upper **classes**.⁵² Mortgage relief, for example, is far more valuable to the middle and lower-middle classes than to workers, even granting the spread of home ownership to many better-paid workers. There was also the notorious difference in the rules governing deductions on Schedule D, which was typically filled out by businessmen and professionals, and on Schedule E, filled out by most other employees. Still, there was nothing in Britain comparable to the grab-bag of special breaks tacked onto the American code over the same years. Moreover, with the imposition of capital gains tax in 1965, a major means by which capital had escaped taxes was removed. What undermined the British system was the way the growth of money incomes changed the distributional consequences of relatively invariant tax **rates**.⁵³

The loss of public support for the tax system, and particularly for income tax, was revealed in the changing responses to opinion polls. Historically, the progressivity of the income tax made it preferable to indirect taxes as a means of raising revenue. In April 1939, for example, the public favoured the use of direct over indirect taxes to pay for rearmament by a two-to-one margin. This support for income tax persisted through the early **1950s**, with most people favouring reductions in purchase taxes over decreases in income taxes as the best method for cutting tax. Already by the mid-fifties, however, this had begun to change, with slightly more people wanting income tax reductions than cuts in purchase tax. Over the next decade and a half, income tax continued to lose favour:

by 1969, sales taxes were considered fairer than income taxes by a two-to-one margin.⁵⁴

The disenchantment with income tax did not, fortunately, translate very quickly into a popular critique of the welfare state. It did, though lead to a revival of that strand of Conservatism antipathetic to the state. During the 1950s, the paternalistic or 'corporatist' tradition among Conservatives remained predominant, with only a few embarrassing voices, like Enoch Powell's, echoing the laissez-faire doctrines of the past. In the early 1960s, with the embrace of planning by the Conservative government, the statist tradition seemed even more powerful.⁵⁵ But the defeats of 1964 and 1966 allowed Conservatives to back away from responsibility for the actions of the state and to distance themselves from its growing failures. The critique of the state gathered force during the 1960s, as groups like Aims for Industry and the Institute for Economic Affairs began to get a new hearing. By 1969, anti-state and anti-tax sentiments had become very strong inside the party, and the Heath government at first seemed anxious to incorporate such sentiments into its policies.⁵⁶

Heath was unable, however, to maintain the promises and initiatives with which he came to power. Overwhelmed by inflation and economic decline, the Heath government reverted to a corporatist style of crisis management. Still more important, Heath's defeat at the hands of the miners and the electorate in 1974 seemed to demonstrate the bankruptcy of such policies. In the aftermath of the 1974 election, the party lurched to the right. The choice of Margaret Thatcher as party leader in the following year was something of an accident; what was no accident was that the new leader, whoever it was, would be on the right of the party and would reject corporatism and the policies that accompanied it.

What did the Thatcherite capture of the Conservative party mean in social and political terms? Political commentators have tended to view Thatcher as an anomaly, and her triumph as a sort of hijacking of the party by the extreme right. In comparative and historical perspective, it looks rather different. Compared with the United States, the rise of the new right in Britain was much more a matter of a shift in ideology within the traditional party of the right than its capture by external forces. The weakness of all parties in the US ensures that most political shifts begin outside the party system and only later move in, or are brought in, to the parties. In contrast, the Thatcher victory was very much the work of politicians at the centre, and it built upon anti-state traditions within the Conservative party that stretched far back into its history.

Looking at the history of the Conservative party over the course of the twentieth century in fact raises the question of whether the true anomaly was not the corporatist era of 1951–54 (repeated as farce in 1972–74?). It is probably best, however, not to regard either moment as anomalous and to recognise the contradictory nature of British conservatism. The

middle and lower middle classes who were brought into an alliance with the Tory Party's narrow circle of upper class, often aristocratic, leaders were for a very long time kept from wielding decisive influence by the highly undemocratic structure of the party. The old leadership continued to have considerable influence in the party through the 1960s and early 1970s, and some of this 'old guard' were around to take part in the move to oust Heath. The elevation of Thatcher, however, represented a break with the paternalistic, upper-class domination of the Conservative party. Thatcher was the authentic voice of middle and lower-middle class Conservatism—and that Conservatism was much more hostile to rates and to taxes, to the unions and to the state in general than the Conservatism it replaced. Thatcher of course, has no more fondness for internal party democracy than did her predecessors; nevertheless, there can be no denying her popularity with the rank-and-file of the party.

The tax policies of the two Thatcher governments reflect both the roots of her support among Conservatives and the opportunities offered by the changing political climate governing taxation. Much like Ronald Reagan, Thatcher made electoral pledges to reduce taxes and spending. Unlike Reagan, however, Thatcher's appeal was addressed largely to sections of the middle classes already within the orbit of Tory politics. Occasional flashes of populist rhetoric aside, it remains true that, as Webber and Wildavsky put it, 'In Britain, tax politics is class politics.'⁵⁷ Hence the stress was upon reduction of income tax—the particular bogey of middle class Tories—rather than upon generalised reductions in the amount of taxation. Reagan's tax promises were, it is true, just as appealing to the middle classes and to business, but they were also pitched to a broader, popular audience. There was no equivalent in Britain to the tax populism let loose by Proposition 13, and thus little incentive for Thatcher to propose an especially populist variant of tax reform. On the other hand, the diminished popular support for income tax made it possible for Thatcher to get away with her, essentially class-based programme.

The class nature of Thatcher's tax policy was made clear from the moment the Tories took power. In its first budget, the new government reduced the standard rate of income tax from 33 to 30 per cent and the top rate from 83 to 60 per cent. To pay for these reductions the Conservatives opted for increases in more regressive, indirect taxes: a huge rise in VAT (Value Added Tax) from 8 to 15 per cent, and a jump in petrol tax of 10p per gallon. The effects of these policies were mainly distributive—overall levels of taxation were not reduced, but a greater share of the burden was henceforth to be borne by the working class.⁵⁸ Changes in tax policy since 1980 have been even less democratic. There have been reductions in capital gains tax, in the investment income surcharge and most recently, in inheritance and gift taxes. Special concessions have also been granted to the City, supposedly aimed at making

British finance more competitive internationally but, in the process, conferring enormous benefits on those who needed them least.

Several other factors have combined to keep the thrust of Thatcher's tax policies more class-based than populist. The first was the depth and duration of the economic downturn, which began in 1981 and continues, in the form of 14 per cent unemployment, in mid-1986. The second was the monetarist fetish over the level of government borrowing, as measured by the PSBR (Public Sector Borrowing Requirement). In this respect, the traditional preoccupations of the Treasury and the City with the burden of debt and the value of the currency have interacted with Thatcher's desire to lower inflation to prevent further reductions in taxes. "

A third factor is that for most of its history the Thatcher regime had not been pushed by electoral necessity toward a programme of populist tax cutting. It has not, for example, been confronted with a popular and effective political rival, but by a highly-fragmented opposition. The Conservatives have benefitted further from their good fortune in the Falklands War. Before the Falklands, Thatcher's approval rating in the polls was at the lowest level for any Prime Minister since 1937 (when polling of this sort began). Now that the Falklands factor has diminished in saliency, the government's standing is again very low. But in between, the Falklands War allowed Thatcher to be re-elected without her being forced to change ~~her~~ fiscal and economic policies. Even Reagan, for all his personal appeal, was impelled to seek re-election on the basis of both further tax reduction and maintaining the integrity of the social security system. Thatcher, had no compelling reason to indulge in such populist posturing.

The final reason why the Thatcher regime has not adopted a tax policy comparable to that of Ronald Reagan is the strength of the resistance to Conservative attacks upon the state. Public opinion polls, for example, reveal that very few people share the government's desire to lower taxes at all costs. When asked whether they favoured tax reductions and fewer services, the same level of taxes and services, or more benefits even at the cost of higher taxes, respondents have consistently rejected the first—Thatcherite—option. In February, 1980, 52 per cent chose higher benefits and taxes and only 22 per cent supported tax cuts at the expense of services; in November, 1984 fully 58 per cent were willing to pay more for increased services while a mere 12 per cent favoured cuts that would reduce services. This diffuse resistance to cutting taxes and services has been backed up by an array of rear-guard actions taken against Conservative policies by social service professionals, civil servants, doctors, nurses, teachers and, most important, local authorities. As the demise of the Greater London Council and the unhappy fate of local councillors who refuse to enforce spending cuts or to raise rates demonstrate, such actions have not stopped or reversed the attack upon the state, but they have slowed it a good deal. Certainly, by comparison with the feeble efforts of

client groups, service providers and their Democratic allies to protect the American welfare state, the strength of this resistance has been impressive.

Overall then, Conservative tax politics under Thatcher have been far less innovative, far less populist and far more narrowly class-based than Republican tax politics in the US. The lack of a populist thrust has been particularly evident in the battle over local government. The rise in local rates created deep resentment among the middle and lower-middle classes in Britain. In addition, many local Labour councillors have been on the left of the party and this was fuelled in the 1970s by the revelation that safe Labour-controlled councils had been badly infected with the sorts of corruption endemic to urban local governments in capitalist societies. Although some of these were replaced by local Labour councillors on the left of the party who introduced imaginative and radical policies, this upset the Tory middle classes even more. Thus was launched the Tory campaign against local government spending.⁶⁰ Despite its all-too-real effects, the Thatcher government's attack on local government did little to unleash populist agitation behind it and instead came to be seen as an attack upon democracy.

The new politics of taxation in Britain has therefore not been marked, nearly as much as in America, by the mobilisation of popular sentiment and activity against the state. In this sense, the new politics of taxation in Britain involves primarily the elevation of taxation itself as an issue and an outpouring of rhetoric about the 'taxpayer'. It is still possible, of course, that in the run-up to the next election the Tories might begin to adopt a more genuinely populist style of tax politics. There are indications of this in the 1986 budget, with its penny off the basic rate and its flirtation with notions of people's capitalism through wider share ownership, and in the hints that keep coming out that Thatcher and Lawson want to fight the next election on the promise, if not the reality, of a basic rate of 25p.⁶¹ But it seems unlikely that these initiatives will do much more than consolidate the Conservatives' position among the middle classes, and it is by no means clear that the government will have sufficient scope for tax reductions in 1987 to make its gestures towards tax populism at all credible. In short, class politics will most likely continue to prevail in Britain.

Tax Politics Old and New

At the centre of this analysis of changes in tax policy has been an emphasis on the various styles of tax politics from which policies flow and to which different policies contribute. The point of this emphasis has been to suggest that taxation, while intrinsically a matter of social and economic policy, is best understood politically, as something that is first and foremost a matter of setting agendas and building coalitions and only secondarily a matter of finding the best way to finance expenditure. By setting limits on

the fiscal capacity of the state and by structuring class coalitions within the state, taxation indeed takes priority over most other aspects of policy. Understanding the shifting politics of taxation, then, is essential to understanding the social character of the state and the possibilities for social and economic policy within the polity.

No single style of tax politics has characterised Britain or America over the course of the twentieth century. Earlier in this essay we referred to the old politics of taxation, by which we meant the politics of taxation dominant from about 1955 to 1975 and from which the tax politics of recent years so clearly departs. Upon closer examination, however, it turned out that some aspects of the new politics of taxation under Reagan and Thatcher were not totally different from what prevailed in both countries before 1950, at least in years not marked by war or rearmament.

What this analysis has not turned up however, are successful examples of left-wing tax politics. Labour in Britain and the Democrats in the US have typically sought to make taxation more progressive, but they have not been able on their own to raise taxes significantly or to implement their vision of a just tax system. Instead they have had to rely upon wars, rearmament or inflation to get taxes up to the level needed to fund the welfare state. This failure stems in part from the theoretical weakness of the left, but only in part. The Labour party for example, has not been without expertise on the issue: figures like Webb, Dalton, Evan Durbin and Nicholas Kaldor have all made notable contributions, and Labour as a party never succumbed to that pandering to business interests characteristic of the Democrats in the US. But Labour has been no more successful than the Democrats in winning battles over taxes when political and economic circumstances put the issue at the top of the political agenda.

Can they do so in the future? If the past is a reliable guide to the future, then they probably cannot. If however, parties of the left can learn from the present disasters about the importance of taxation and the need for a popular and progressive alternative, they might be able to reshape the political agenda.

NOTES

1. See David Heald, *Public Expenditure: Its Defence and Reform* (Oxford: Martin Robertson, 1983), pp. 270-274 for a review of some of these arguments.
2. Brian Barry, 'Does Democracy Cause Inflation? Political Ideas for Some Economists', in L. Lindberg and C. Maier, (eds.), *The Politics of Inflation and Economic Stagnation* (Washington, D.C.: Brookings Institution, 1985), p. 317.
3. On this pattern see Richard Rose, 'Maximizing Tax Revenue While Minimizing Political Costs', *Journal of Public Policy*, Vol. 3, (1985), pp. 289-320.
4. On theories of taxation, however, see Harold Groves, *The Tax Philosophers* (Maxison: University of Wisconsin Press, 1974).
5. Attention here will be devoted to developments since 1900. For previous eras, see among others, Michael Mann, 'State and Society, 1130-1815: An Analysis

- of English State Finances', *Political Power and Social Theory*, I (1980); and Gabriel Ardant, 'Financial Policy and Economic Infrastructure of Modern States and Nations', and Rudolf Braun, 'Taxation, Sociopolitical Structure, and State-Building: Great Britain and Brandenburg-Prussia', in Charles Tilley (ed.), *The Formation of National States in Western Europe* (Princeton: Princeton University Press, 1975), pp. 164-242, 243-327.
- Geoffrey Ingham, *Capitalism Divided? The City and Industry in British Social Development* (London: Macmillan, 1984), provides a very useful account of these forces and resulting policies.
7. Sidney Webb, *How to Pay for the War* (London: Fabian Society and Allen & Unwin, 1917), p. 222.
 8. The most detailed account is F. Shehab, *Progressive Taxation: A Study in the Development of the Progressive Principle in the British Income Tax* (Oxford: Clarendon, 1953).
 9. J.A. Kay and M.A. King, *The British Tax System*, 3rd ed. (Oxford, Oxford University Press, 1983).
 10. See R. Douglas, *Land, People and Politics* (London: Alison & Busby, 1976); H.V. Emy, 'The Impact of Financial Policy on English Politics before 1914', *Historical Journal*, XV (1982), pp. 103-127; Bentley Gilbert, 'David Lloyd George: The Reform of British Landholding and the Budget of 1914', *Historical Journal*, XXI (1978), pp. 117-141; E.P. Hennock, 'Finance and Politics in Urban Local Government in England, 1835-1900', *Historical Journal*, VI (1963); N. McCord, 'Ratepayers and Social Policy', in P. Thane (ed.), *The Origins of British Social Policy* (London: Croom Helm, 1978), pp. 21-35; A. Offer, *Property and Politics, 1870-1914* (Cambridge: Cambridge University Press, 1981); and H. Perkin, 'Land Reform and Class Conflict in Victorian', in *The Structured Crowd* (Brighton: Harvester, 1981).
 11. B. Murray, *The People's Budget* (Oxford: Oxford University Press, 1978).
 12. G. Ingham, *Capitalism Divided? The City and Industry in British Social Development* (London: Macmillan, 1984).
 13. See D. French, *British Economic and Strategic Planning* (London: Allen & Unwin, 1982).
 14. Britain was not alone, of course, in doing a poor job of financing the war. In fact, the war clearly brought about a critical situation in the financial affairs of all the belligerents. See for example, the classic article by Joseph Schumpeter, 'The Crisis of the Tax State', (1919), translated and reprinted in *International Economic Papers*, by A. Peacock (ed.), et al. (New York: Macmillan, 1954). For a useful comparative survey, see Carolyn Webber and Aaron Wildavsky, *A History of Taxation and Expenditure in the Western World* (New York: Simon and Schuster, 1986), pp. 436-445.
 15. Josiah Stamp, *Taxation during the War* (New Haven: Yale University Press, 1932); and Francis W. Hirst, *The Consequences of the War to Great Britain* (New Haven: Yale University Press, 1934).
 16. Data on tax rates can be found in B.E.V. Sabine, *A History of Income Tax* (London: Allen & Unwin, 1966).
 17. See the Report of the Committee on National Debt and Taxation. Cmnd. 2800 (1972), *British Parliamentary Papers* (1927), XI; and 'Industry and the Weight of Taxation', Memorandum by the Board of Inland Revenue, January, 1922, Public Record Office, T171/203, C.P. 3649.
 18. A. Booth and M. Pack, *Employment, Capital and Economic Policy: Great Britain, 1918-1939* (Oxford: Basil Blackwell, 1985); R. Middleton, 'The Treasury in the 1930s: Political and Administrative Constraints on the Acceptance of the "New Economics"', *Oxford Economic Papers*, XXXIV (1982),

- pp. 48-77; G. Peden, 'The "Treasury View" on Public Works and Employment in the Interwar Period', *Economic History Review*, XXXVII (1984), pp. 167-181; and R. Skidelsky, *Politicians and the Slump* (London: Macmillan, 1967).
19. G. Peden, *British Rearmament and the Treasury, 1932-39* (Edinburgh: Scottish Academic Press, 1979); R.P. Shay, *British Rearmament in the Thirties. Politics and Profits* (Princeton: Princeton University Press, 1977); and B.E.V. Sabine, *British Budgets in Peace and War, 1932-1945* (London: Allen & Unwin, 1970).
20. B. Pimlott, *Hugh Dalton* (London: Jonathan Cape, 1985), pp. 454-455.
21. On the theoretical ambivalence of Conservatism toward the state, see N. Harris, *Competition and the Corporate Society: British Conservatives, the State and Industry, 1945-1964* (London: Methuen, 1972); and W.H. Greenleaf, *The British Political Tradition*, Vol. I: *The Rise of Collectivism*, Vol. II: *The Ideological Heritage* (London: Methuen, 1983). On the electoral base and imperatives of the Tories, see Martin Pugh, *The Tories and the People, 1880-1935* (Oxford: Martin Robertson, 1985); Bill Schwarz, 'Conservatism and "Caesarism"', in Mary Langan and Bill Schwarz (eds.), *Crises in the British State, 1880-1930* (London: Hutchinson, 1985); Kenneth Morgan, *Consensus and Disunity: The Lloyd George Coalition Government* (Oxford: Clarendon, 1979); K. Young, *Local Politics and the Rise of Party. The London Municipal Society and the Conservative Intervention in Local Elections, 1894-1963* (Leicester: Leicester University Press, 1975); and J. Ramsden, *The Age of Balfour and Baldwin* (London: Longman, 1978).
22. See Elizabeth Durbin, *New Jerusalems: The Labour Party and the Economics of Democratic Socialism* (London: Routledge & Kegan Paul, 1985).
23. See James Alt, 'The Evolution of Tax Structures', *Public Choice*, 41 (1983), pp. 181-223, for comparative data.
24. On the history of taxation in the United States, see Sidney Ratner, *Taxation and Democracy in America* (New York: Wiley, 1967); R.G. and C.G. Blakely, *The Federal Income Tax* (New York: Longman, 1940); R.E. Paul, *Taxation in the United States* (Boston: Little, Brown, 1954); and, most recently, John Witte, *The Politics and Development of the Federal Income Tax* (Madison: University of Wisconsin Press, 1985).
25. Citations taken from Ronald F. King, 'From Redistributive to Hegemonic Logic: The Transformation of American Tax Policy, 1894-1963', *Politics and Society*, XII, 1 (1983).
26. On the general importance of sectionalism, see Richard Bensele, *Sectionalism and American Political Development* (Madison: University of Wisconsin Press, 1984), especially chapters 3 and 8.
27. King, 'From Redistributive to Hegemonic Logic', p. 9. See also T.S. Adams, 'Ideals and Idealism in American Taxation', *American Review*, XVIII, 1 (March 1928).
28. See Jerold Waltman, *Political Origins of the US Income Tax* (Jackson, Miss.: University of Mississippi Press, 1985).
29. Witte, *Politics and Development of the Income Tax*, pp. 79-87; and Charles Gilbert, *American Financing of World War I* (Westport, CT: Greenwood, 1970).
30. Gilbert, *American Financing of World War I*, p. 87; and Ratner, *Taxation and Democracy*, pp. 372-393.
31. Blakely and Blakely, *The Federal Income Tax*, chapters 8-12; D. Burner, *The Politics of Provincialism: The Democratic Party in Transition, 1918-1932* (Cambridge, Ma.: Harvard University Press, 1986); and Andrew Mellon, *Taxation: The People's Business* (New York: Macmillan, 1924), p. 129.
32. Mark Leff, *The Limits of Symbolic Reform: The New Deal and Taxation, 1933-1939* (Cambridge, Ma.: Harvard University Press, 1984); and Jerry Cates,

- Insuring Inequality: Administrative Leadership in Social Security, 1935-1954* (Ann Arbor: University of Michigan Press, 1983).
33. Witte, *Politics and Development of the Income Tax*, pp. 110-130; Richard Musgrave and Tun Thin, 'Income Tax Progression, 1929-1949', *Journal of Political Economy*, 56 (1949); Roosevelt quoted in the *Congressional Record*, 78th Congress, 2nd Session, V. 90, pp. 1958-9.
34. Witte, *Politics and Development of Income Tax*; and A.E. Holmans, *United States Fiscal Policy, 1945-1949* (London: Oxford University Press, 1961).
35. Alan Booth, 'The "Keynesian Revolution" in Economic Policy-Making', *Economic History Review*, XXXVI (1983), pp. 103-123; Neil Rollings, 'British Budgetary Policy 1945-54: A "Keynesian Revolution".' Paper presented to the Economic History Society, 1986.
36. See John Snyder, 'The Treasury and Economic Policy', in Francis Heller (ed.), *Economics and the Truman Administration* (Lawrence: Regents Press of Kansas, 1981), pp. 23-24; and R. Alton Lee, 'The Truman-80th Congress Struggle over Tax Policy', *The Historian*, XXXIII (1970), pp. 68-82; and Robert Collins, *The Business Response to Keynes, 1929-1964* (New York: Columbia University Press, 1981), pp. 115-141.
37. Leon Keyserling, 'The View from the Council of Economic Advisors', in Heller, p. 88.
38. Hall to Plowden, 18 May 1950, in PRO T171/427.
39. See Groves, *The Tax Philosophers*, Chapter 14.
40. See Howard Glennerster, *Paying for Welfare* (Oxford: Basil Blackwell, 1985), pp. 31-33; and Margaret Wilkinson, 'Tax Expenditure and Public Expenditure in the UK', *Journal of Social Policy*, XV, 1 (January 1986), pp. 23-49. Robert Collins, *Business Response to Keynes, 1929-1964*, pp. 173-195; and Herbert Stein, *The Fiscal Revolution in America* (Chicago: University of Chicago Press, 1969), Chapters 15-17.
42. Thomas Edsall, *The New Politics of Inequality* (New York: Norton, 1984), p. 211.
43. This summary is based largely upon Robert S. McIntyre and Dean Tipps, *Inequity and Decline: How the Reagan Tax Policies Are Affecting the American Taxpayer and the Economy* (Washington, D.C.: Center on Budget and Policy Priorities, 1983).
44. See Otis Graham, *Toward a Planned Society* (Oxford: Oxford University Press, 1976).
45. The main apologist for this strategy was Kevin Phillips, who laid it out in *The Emerging Republican Majority* (New Rochelle, N.Y.: Arlington House, 1969), which deals with politics solely in terms of ethnic, racial, religious and regional splits and which does not even mention taxation in the index.
46. Robert Kuttner, *The Economic Illusion* (Boston: Houghton-Mifflin, 1984), pp. 189-90. For an account of the tax revolts see Kuttner's earlier book, *Revolt of the Haves: Tax Rebellions and Hard Times* (New York: Simon & Schuster, 1980).
47. McIntyre and Tipps, *Inequity and Decline*, pp. 21-31.
48. Edsall, *The New Politics of Inequality*, pp. 107-140.
49. McIntyre and Tipps, *Inequity and Decline*, pp. 49-60; Witte, *Politics and Development of Income Tax*, pp. 220-243.
50. Dale Russakoff, 'The Day the Tax Bill Was Born', *Washington Post National Weekly Edition*, Vol. 3, No. 37 (July 14, 1986), pp. 14-15.
51. As Rose argues, the income tax is extremely 'buoyant' in times of inflation. See Rose, 'Maximizing Tax Revenue While Minimizing Political Costs'; and also Karran, 'The Determinants of Taxation in Britain'.

52. See the analysis in Wilkinson, 'Tax Expenditure and Public Expenditure in the UK'.
53. A.R. Prest and N.A. Barr, *Public Finance*, 6th edition (London: Weidenfeld & Nicolson, 1979), Chapter 13; and David Heald, *Public Expenditure: Its Defence and Reform* (Oxford: Martin Robertson, 1983), Chapter 12.
54. Poll figures taken from G.H. Gallup, *The Gallup International Public Opinions Polls: Great Britain, 1937-75*, 2 vols. (New York: Random House, 1976).
55. See Harris, *Competition and the Corporate State* (London: Methuen, 1972).
56. See Greenleaf, *British Political Tradition*, Vol. II, pp. 326-346. For a critical review of the neoconservative arguments that apparently won over many Conservatives, see Paul Johnson, 'The Historical Dimensions of the Welfare State "Crisis"', Discussion Paper #3, London School of Economics Welfare State Programme (October, 1985).
57. Webber and Wildavsky, *History of Taxation and Expenditure*, p. 544.
58. On the regressive effects of the combined tax and benefits changes under Thatcher, see Andrew Dilnot and Graham Stark, 'The Distributional Consequences of Mrs. Thatcher', *Fiscal Studies*, VII, 2 (May, 1986), pp. 48-53, who found that 67 per cent of working households are worse off by more than 1 per cent under the changes wrought by the Conservatives, fully 36 per cent worse off by more than 3 per cent. The well-to-do have, by comparison, made considerable gains.
59. J. Tomlinson, *Monetarism: Is There an Alternative?* (Oxford: Basil Blackwell, 1986), pp. 17-19.
60. The Conservative case is made effectively in Martin Holmes, *The First Thatcher Government, 1979-1983* (Brighton: Harvester, 1985), pp. 116-121.
61. See John King (ed.), *Budget Briefing 1986: The IFS Green Budget* (London: IFS, 1986); and the extensive discussion in the *Economist*, March 22, 1986, pp. 15-16.21-30.