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**Economic ideas and tax policy: The introduction of progressivity in tax systems in Western Europe. The cases of France and Spain**

Javier San Julián Arrupe  
(Universitat de Barcelona)

**Adreça de contacte:**

Departament d'Història i Institucions Econòmiques  
Facultat d'Economia i Empresa  
Universitat de Barcelona  
Av. Diagonal 690  
08034 Barcelona  
Tf. +34 93 402 19 28  
jsanjulian@ub.edu

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## **Resumen**

En la última década del siglo XIX, Reino Unido, Francia y España establecieron tipos progresivos en sus impuestos de sucesiones. Este papel compara los procesos legislativos que dos de estos países, Francia y España, siguieron en esta cuestión. En ambos casos los argumentos de los representantes en los respectivos congresos de los diputados a favor y contra la imposición progresiva fueron muy similares y se apoyaron en la autoridad de doctrinas económicas y economistas bien conocidos y respetados. El proceso en Francia fue liderado por una mayoría de parlamentarios que creían que el impuesto progresivo era un herramienta necesaria para alcanzar la justicia en la distribución de la carga fiscal. En España no existió esta mayoría, y la reforma fue aprobada en el Congreso debido a otras causas. En los dos países este será un paso en la aplicación de nuevas perspectivas sobre justicia fiscal, aunque la proporcionalidad impositiva como técnica apropiada, y la negación de las atribuciones a los gobiernos para modificar la distribución de la renta eran aún posturas predominantes.

## **Abstract**

In the last decade of the 19<sup>th</sup> century, the United Kingdom, France and Spain established progressive rates in their succession taxes. This paper compares the legislative processes that France and Spain countries followed in this matter. In both cases politicians' arguments for and against progressive taxation were similar, and backed by well-known economic ideas and authors. The process in France was leaded by a majority of MPs believing that progressive taxes aided in the achievement of real justice in taxpaying. In Spain, there was not this majority, but the reform passed due to other circumstances. This would be one step in the application of new insights on tax fairness; however, proportionality as the right technique of taxation and government refrain from modifying distribution were still predominant.

**JEL Codes:** A11, B12, H24, K34, N43

**Key Words:** Political economy, liberalism, public finance, inheritance tax, progressivity, parliament.

## **Introduction**

The influence of economic ideas in politics is a crucial field in the study of the phenomena related to the diffusion of economic thought. The influence of economic ideas in politicians and its display in parliamentary discussions has been an important topic for research since the pioneering works by Fetter (1975, 1980) and Gordon (1976), and has been recently continued by Harris (1997), Gambles (1999), Augello and Guidi (2002, 2003, 2005), Schonhardt-Bailey (2003, 2006) and Bastien and Cardoso (2009) among other scholars.

In this framework, fiscal reform is probably one of the most appropriate fields to check the influence of economic ideas in politics. Taxation has immediate effects on citizenship, is deemed very slippery matter by policymakers and constituency, and raises passionate debates in which the idea of justice in the allocation of the burdens of the state is often at stake. This paper analyses this intersection between economics and politics taking as a case study the introduction of progressive taxes in some European countries at the end of the 19<sup>th</sup> century, the years in which the idea of tax justice grounded on equality of sacrifice was permeating politics in Western Europe, broadening the scope for progressivity. This technique was first tested in the succession tax. I am here studying the economic ideas lying behind the debates in the Parliament on the reforms of the succession taxes in France and Spain, which took place almost contemporarily in the last years of the century.

These debates showed the confrontation between two conceptions of progressivity, always in the liberal framework of proportionality taxation as the fair system to allocate tax burden among citizens. The vast majority of politicians rejected progressivity as a policy instrument to redistribute wealth, as it was not an attribution of the State. On the one side, supporters of progressivity believed that this was a useful tool applied to certain taxes (such as succession) in order to counteract the regressive effect of indirect taxes (especially consumptions). On the other side, detractors of progressivity (mainly conservatives) insisted that progressive taxation had no limits, and it entailed a risk to capital and therefore to the country's economic growth and welfare. Both parties grounded their positions on fiscal ideas, which reflected the debate that economists maintained at that time on the issue of taxation justice. Quotations of well-known economists were common, although to some extent instrumental, and insidiously imprecise. In any case, MPs taking part in these debates both in France and Spain knew the fiscal literature and praxis of other countries connected to the issue of progressivity. This paper attempts at showing how these ideas did show in the debates and therefore had trespassed academic boundaries and had arrived to political scene in the parliaments.

### **The reform of the succession tax: Two different stories**

Attempts to introduce progressive rates in the succession tax in France had been taken place since the mid decades of the 19<sup>th</sup> century: In 1848 the Finance Minister Goudchaux launched a bill proposing a progressive tax on successions and donations.<sup>1</sup> Other bills –sponsored by the

government, the parliament budget commission, or MPs— came out the following years, especially at the end of the decade of 1880 and early 1890s, generally demanding deduction of debts in the assessment of the tax bill and proposing progressive rates to compensate the consequent decrease in revenues.<sup>2</sup> In Spain, on the contrary, a progressive inheritance tax was quite a novelty included in the government's public budget bill for 1900.

The process leading to the definitive establishment of the progressive succession tax in France (Law 25 February 1901) started in 1894. Finance Minister Burdeau issued a bill (February 1894) which included the deduction of debts in the assessment of the tax bill, increasing current proportional rates to offset the decrease in tax receipts.<sup>3</sup> However, the report by the budget commission (July 1894) suggested establishing a progressive scale to be applied to the brackets of the inheritance received by every heir.<sup>4</sup> The chairman of the commission, Dupuy-Dutemps, justified progressivity on justice and utility: Every citizen should contribute on behalf of his ability to pay, but this was not proportional to his fortune and even less to his income. Contrary to the income tax (which required "humiliating inquisition"), succession tax had a good basis to set progressive rates. On the other hand, as a consequence of debts deduction, these progressive rates were necessary, not to harm the poor.<sup>5</sup>

By the time the report was issued, Poincaré was the new Finance Minister. While accepting the principle of progressivity ("[the Government] believes it is fair and wise"), he considered that the commission's project had flaws, particularly an excessive number of steps, which made the tax difficult to manage, and too high top rates, especially on direct successions. Poincaré's new bill (25 July 1894) kept the deduction of passive in the assessment of the tax bill, which he deemed a long-term aspiration of agrarian interests, with the aim of relieving transmission of real estate.<sup>6</sup> But its main peculiarity lied in the establishment of "graduate rates" on the wealth transferred, a radical change in French tax system and "a firmly democratic transformation".<sup>7</sup>

Poincaré however made it clear the idea that applying progressive rates in the inheritance tax did not imply accepting the general principle of progressive taxation. He justified progressivity in this case on behalf of the principle of ability to pay: He proposed "progressional rates" (as he called them), because ability to pay was bigger in the case of the inheritances, as it is the

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<sup>1</sup> The reasoning was that, as this was wealth acquisition consequence of chance and society guaranteed property right to the receiver, tax rates should increased as the amount received grew. Stourm (1905), pp. 222-240.

<sup>2</sup> Until the reform of 1901 and 1902, the inheritance tax rates were proportional, they charged a 5% rate on real estate and 1,25% on other assets, with 6 different categories depending on the degree of consanguinity. In each of these 6 schedules, tax rates were different, increasing from direct successions (1,25%) to inheritances to third parties (11,25%).

<sup>3</sup> *Annales de la Chambre des Députés. Documents Parlementaires* (from now on ACD-DC) (1894), Annexes t. I, Annexe 350, pp. 126-131.

<sup>4</sup> The commission set 7 degrees of consanguinity, each one divided into 17 progressive steps. Rates ranged from 1,25% to 10,25% for direct successions, and from 15,50% to 24,50% for successions beyond 6th degree. Brackets under 1000 FF would pay 0,5%. Donations would follow this schedule too.

<sup>5</sup> ACD-DC (1894), Annexes t. II, Annexe 770, pp. 452-466. Dupuy leant his discourse on J.S. Mill's ideas.

<sup>6</sup> This exemption had always been rejected on behalf of the difficulties to control fake debts, and therefore fraud. However, doctrinal basis for this rejection also existed, grounded on a radical version of the idea of taxation as payment in exchange for services supplied by the State.

<sup>7</sup> ACD-DC (1894), Annexes t. II, Annexe 885, p. 626.

case of wealth acquired with no effort, often unexpectedly.<sup>8</sup> Quoting Passy, this tax only reduced the advantages linked to the unexpected acquisition of wealth. Poincaré believed that taxes were not a mere insurance premium or payment in exchange for a service supplied by the state: In this case rates would not differ on behalf of consanguinity. On the contrary, rates grew as consanguinity decreased, as inheritance was increasingly unexpected. The increase in rates as the inherited share increases was grounded on the same basis. He however, put aside the question whether normal ability of taxpayers is strictly proportional to their resources and therefore taxes on every income should respect this proportionality, focusing only on the succession tax: In this case, the question was to assess the exceptional ability to pay, which is a consequence of a particular event, and to charge this accidental wealth increase. The largest this increase, the largest the advantage law guarantees the heirs, and the largest the ability to pay tax. Progressive rates should be moderate in order to be accepted by the public and to avoid fraud. It would also serve to make the tax burden of small inheritances lighter, particularly direct inheritances, which was the most common case.<sup>9</sup> Poincaré's progressive rates had 7 schedules, depending on the degree on consanguinity. Rates in the lowest schedule (direct successions) ranged from 1% to 2,50%. Rates in the highest (beyond 6<sup>th</sup> grade) ranged from 15% to 18,50% (compared to 1,25% to 10,25% and 15,50% to 24,50% in the Commission report). The degree of consanguinity was the main factor in setting the schedule, over the amount inherited: Therefore, progressivity –and thus ability to pay– was mostly not connected to the increase in wealth, but with the expectations of this increase of wealth.

The budget commission (November 1894), chaired by Doumer, worried by the public deficit, suggested increasing the progressive rates especially in the highest brackets (it also decreased them in the lowest brackets): They would rate between 0,5% and 3% in direct successions and 15% to 19,50% for third parties. The commission did not set a doctrine on progression –there was not agreement–, but the report stated that a large number of commissioners did believe that progressive taxes fulfilled better the requirement of ability to pay in proportion to one's faculties: Ability to pay was not proportional to wealth, but progressive, and they believed that all direct taxes should establish progressivity, as this would restore real proportionality destroyed by indirect taxes.<sup>10</sup> It deemed Poincaré's rates symbolic, as they were too small: Differences between degrees of consanguinity were high, but not inside the schedules: "It is like a staircase that doesn't go up".<sup>11</sup> This new scale of rates was accepted by Poincaré and

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<sup>8</sup> "Ces facultés sont ici plus grandes qu'en toute autre matière, parce que l'impôt frappe le redevable au moment où il s'enrichit sans effort, sans travail, souvent d'une manière inespérée». ACD-DC (1894), Annexes t. II, Annexe 885, p. 627. He also backed his argument on the opinions by Mill and Garnier.

<sup>9</sup> Actually, Poincaré's project benefitted mostly direct successions under 10.000 FF, they resulting better off than either with old proportional rates or the Commission plan. This allowed the minister saying that "according to us, this is the major reason why graduate system should be accepted". ACD-DC (1894), Annexes t. II, Annexe 885, p. 628. Donation tax rates remained proportional. Finally, Poincaré pointed out that the principle of progression was widely accepted in other advanced countries, England being the example, with the Harcourt reform. Besides, he expected an increase in succession tax revenues of almost 8%, which would be applied to balance the budget in the following year, 1895.

<sup>10</sup> ACD-DC (1894), Annexes t. II, Annexe 968, p. 416. It nevertheless stated that other commissioners rejected the principle of progressivity but accepted it for successions (as it was the case of Poincaré), and a small number of them rejected all progressivity.

<sup>11</sup> The report studied then how to limit the arbitrariness of progressive rates, trying to search a rational and mathematical method to set them. Finally the Commission posed the example of England, whose

included in the bill of the budget for 1895.<sup>12</sup> By then, MPs had started preparing for the debate in the Chamber. Some of them had issued bills against progressivity and others in favor of limiting the right to inherit.<sup>13</sup> At the end of January 1895 the Perier cabinet resigned. The new Finance Minister Ribot suggested postponing the debate on the succession tax, which was again slightly reformed.<sup>14</sup> Eventually, the debate took place in the Chamber in November 1895. After the passing of the bill, the project again delayed its discussion in the Senate, until it would be eventually discussed in 1910 and turned into a law in February 1902.

Contrary to the French case, in Spain progressive taxation started being debate with the project to reform the succession tax in 1899, in the framework of a broader reform in the tax system, launched by the conservative Finance Minister Villaverde.<sup>15</sup> This reform strove to improve tax system efficiency, and therefore public revenues, with the aim of reducing public debt and balancing the budget. The main innovations were a new tax on some income sources, new taxes on specific consumption goods (alcohol and sugar), and a reform of the general tax on property transmissions (including the succession tax). He completed these reforms with reductions in public expenditure and restrictive monetary policy. The *leitmotiv* of the plan was to increase revenues and reduce expenses without disturbing credit or public services.<sup>16</sup>

One of the most striking novelties in this reform was the introduction of progressive rates in the inheritance tax. Up to then, its fees were proportional and varied according to consanguinity. Rates ranged from 1% to 9%. Some extraordinary surcharges had been recently imposed on behalf of current economic crisis, making fees 40% higher. Villaverde's project established several scales of rates, depending on consanguinity, each one with five steps depending on the amount inherited. In the first schedule (direct successions) fees ranged from 1% to 2,50%.<sup>17</sup> In the last scale (inheritances to third parties), they ranged from 11% to 13%. So, Spanish progressive rates were milder than French. The inheritance tax did not furnish much to the Treasury: According to the budget project for 1900, its revenues were 2% of the budget. It was a small tax, but its significance was high, as it fell harder on wealthy citizens, well represented in the Parliament. Progressivity was not new, however: Two small taxes (officials' salaries and personal identification documents) applied progressive rates. Nor was it completely new in the Chamber, as some MPs had defended it before occasionally.<sup>18</sup> But the

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progressive rates were, according to Harcourt, "moderate", pointing out that the Commission's proposal was even more moderate.

<sup>12</sup> It readjusted the rates of progressivity increasing slightly marginal rates (main change was augmenting marginal rate in direct successions from 3 to 4%. ACD-DC (1895), Annexes t. I, pp. 9-12.

<sup>13</sup> See for instance ACD-DC (1894), Annexes t. III, Annexes 1030, 1117 and 1432.

<sup>14</sup> ACD-DC (1895), Annexes t. III, Annexe 1553, p. 7.

<sup>15</sup> Villaverde had been appointed minister in the Silvela cabinet formed after the war against the United States and subsequent loss of the last colonies 1898. This disaster led intellectuals and politicians to call for the regeneration of the nation. One of the key topics in this regard was healing public finances.

<sup>16</sup> Solé (1999), pp. 29-30. In spite of new fiscal trends spreading in Europe towards tax personalization, Villaverde kept the traditional product tax system, discarding fundamental tax reorganization in order not to jeopardize revenues. (Recently, Comín has stated that Villaverde's reform was conceptually obsolete, as new fiscal principles on taxation fairness were already circulating in Europe. Comín (2010), p. 231). It seems that Villaverde was an enthusiastic follower of the British income tax, although rejected the idea of introducing it in Spain due to the enormous difficulties he foresaw.

<sup>17</sup> Diario de Sesiones, Congreso de los Diputados (from now, DSC), 1899-1900, 14, appendix 9, pp. 11-12.

<sup>18</sup> Some public finance officials had also supported it. DSC 1899-1900, 118, p. 4044; and 119, p. 4059.

first general debate on this matter took place when Villaverde brought to the Chamber his tax reform plan, in the 1899-1900 campaign.<sup>19</sup>

Villaverde strongly committed himself to the defense of the progressive inheritance tax (against the opinion of many of his fellow conservatives), and he eventually got his project to pass the Chamber proceeding (conservatives, despite not sympathizing with the reform, voted for it, not to make the cabinet fall). However, as probably many MPs expected, it did not get the Senate pass, which opened an institutional crisis. The only progressive measure the Senate agreed to pass was a tax threshold for the lowest inheritances. The reform was settled by the Law of 2 April 1900. Although Villaverde did not succeed in his attempt to establish a progressive tax, he nevertheless had sowed a crucial idea: A real progressive inheritance tax was established by Cobián in 1910. In all, his general reform project faced hard opposition, and he eventually was constrained to mollify his proposals in order to get the Chamber pass.<sup>20</sup>

### **The parliamentary debates: Two similar stories**

The debate on the succession tax is quite parallel in France and Spain. Discussions in the Chamber of deputies followed similar patterns and the arguments for and against progressivity were almost coincident. Quotations of economic literature existed in both cases, sources being essentially the same. Both debates were long and tough. In Spain, despite it being a minor tax, this was the longest debate on Villaverde's reforms, and was extraordinarily controversial. In France, the Chamber also devoted many sessions to its discussion. There is a significant political difference, however. In Spain, the reform was proposed by the conservative cabinet. The republican party (moderate left) supported it. The liberal party (progressive) opposed. In France, it was the progressive republican cabinet that sponsored progressivity, supported by the left, whereas MPs from the centre-right led the opposition. Eventually, both projects passed the Chamber procedure but then faced difficulties: In France the reform was passed in November 1895; however, it was suspended and, after being discussed in the Senate in 1901, turned into a Law in 1902. In Spain the project was discussed in January 1900, and then aborted in the Senate, except for a tax exemption to lowest inheritances. A progressive succession tax would be eventually established in 1910.

The idea that proportional taxation should be the norm was not challenged by the vast majority of MPs in both countries. At most, progressivity in the inheritance tax was a way to restore real proportionality lost as a consequence of the regressive effects of indirect taxes. In France positions were more varied, due to the presence of a larger number of left MPs, some of who stood for a progressivity of much larger scope (and even the suppression of inheritances to distant relatives or limit the right to inherit). Debates were structured in two

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<sup>19</sup> Delay in the parliamentary discussion of economic bills led Villaverde to issue a new bill on the inheritance tax which would allow it to rule immediately on a provisional basis. In this new bill, the progressive steps had been slightly modified (steps were 8 instead of 5, and fees ranged between 1 and 2,75%; new rates hardly favoured medium-size inheritances. See DSC 1899-1900, 108, appendix 8.

<sup>20</sup> Villaverde linked his remaining in office to the general acceptance of his plans, which created difficulties to the cabinet, as many conservative MPs were reluctant to pass some reform bills. Martorell (2000), pp. 68-69. Having attained just a part of his plans, he resigned on July 1900. However, his measures eventually managed to balance the Spanish budget and to reduce the public debt.

main directions: Justice in taxation (whether a progressive succession tax could contribute to achieve a fairer allocation of citizen's total tax burden) and the utility or convenience of the reform. As for MPs intervention in the debate, patterns were similar: many MPs spoke occasionally, with mainly political discourses, and just a handful of MPs (around 10 in both cases) really went into the matter in depth, they showing a good degree of competence in fiscal matters. These parliamentarian economists were not in general linked to academic posts; their economic expertise was acquired through university Law degrees, long careers as public officials in economic-related positions, and as politicians specialized in economic discussions. Many of them had held significant economic posts in the public administration.<sup>21</sup> Ideas and writings by renowned economists often emerged, but, needless to say, MPs' political aims made arguments and quotations from economists as sources of authority often not strict.

*In support of progressivity: Attain a proportional tax system*

The immediate cause to set up progressive rates in the succession tax in France was the discount of debts in the assessment of the tax bill. The reduction in revenues should be offset increasing tax rates. It was decided to do it through a progressive scale on behalf of three reasons: First, it is a fairer allocation of tax burden, as the tax system is regressive, and thus it is a way of compensation. Second, succession tax is particularly harmful to small rural real estate; a tax relief to these successions should be applied. Third, inheritance is a free and unexpected increase in wealth, therefore ability to pay is supposed higher. As for Spain, the main reasoning to impose progressive rates was the first one (although it was never very clearly stated). It was also stressed the increase in revenues that the reform would supply, essential to balance the budget.

Compensating the structural unfairness of tax system was the most important argument. The French Finance Minister Doumer, mentioned it in some occasions: "Si l'on cherche l'ensemble des taxes pesant sur les contribuables, on peut dire que la répartition de l'impôt est en progression avec la misère de ceux qui le payent [...]. Ce que nous demandons, c'est de réparer les injustices qui existent, que tout le monde proclame [...] il faut, en se guidant sur un idéal de justice et de progrès, marcher vers une répartition des impôts qui soit plus juste, plus équitable que notre système fiscal actuel". This was a step to democracy based on a principle of justice.<sup>22</sup> Almost all MPs defending progressivity pegged to this argument, which implied that tax justice lied in a proportional system. This broad argument combined with the idea that progressive rates affected the inherited wealth, and not income (the product of work and saving): Citizens should contribute according to their ability to pay; as inheritances are an

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<sup>21</sup> In the Spanish case, a significant group of these MPs had been (or would be) appointed Finance Ministers: Liberals Moret, López Puigcerver, Gamazo, Suárez Inclán and Canalejas; and conservatives Bergamín and Villaverde. This confirms Almenar's view that, since 1891, the participation of university professors in politics decreased sharply in a context of political professionalisation and divorce between academia and politics. Almenar (2005), pp. 86-92. The high quality of the debate was praised by some of its participants: Azcárate, Laiglesia and Gamazo. DSC 1899-1900, 119, p. 4058 and 4073 ; 120, p. 4093.

<sup>22</sup> *Annales de la Chambre des Députés. Débats Parlementaires* (from now on ACD-DP) (1895), t. 47, pp. 219-220. "Je disais que la plupart de nos impôts et de nos taxes pèsent sur le contribuable en proportion inverse de son revenu; ils frappent la propriété au rebours de son importance. Comme compensation, nous demandons une taxe légèrement progressive sur les successions". ACD-DP (1895), t. 47, p. 267.



accidental and free wealth increase, ability likewise increased.<sup>23</sup> Actually, this was the reason why, according to many MPs, progressivity was acceptable in the succession tax but not in the income tax: It taxed property, not individuals.<sup>24</sup> And this was also the reason why progressivity should not apply to other taxes. According to Darlan, "this project does not imply accepting the principle of progressivity in general. Therefore it does not contradict any principle of political economy".<sup>25</sup> In no way supporters of progressivity believed it should be a distributive instrument. As Trouillot said, "this is not a threat to property or wealth, it is not an indirect expropriation, this is not a leveler of fortunes" (which he believed would only bring equal poverty, and end of welfare). "These worries are chimerical, not real".<sup>26</sup>

MPs standing for progressivity used other arguments too: The project helped rural property, (a point in which all French MPs agreed).<sup>27</sup> Defenders of the progressive system also believed that it was financially sound: revenues would be enough to offset the decreases caused by the exemption of debts and the reduction in rates for small inheritances (worries to balance the budget were also behind the struggle to increase fiscal revenues).<sup>28</sup> The argument of a widespread fiscal use was present many times, especially making reference to the British case whose rates were higher.<sup>29</sup> Some left MPs suggested further reforms beyond the government's bill: Darlan proposed suppressing inheritances beyond the 6th grade, using these revenues to discharge transfer of rural real estate properties. Jaurès and other socialists also suggested using the revenues to discharge property transfer of small rural real estate and to finance retirement pensions to workers.<sup>30</sup>

In Spain, the preamble of the inheritance tax reform bill stated that the introduction of progressive rates was a means to compensate a reduction in the fees of the other major item of the tax on property transmission, *inter-vivos* transfers (done in order to encourage trade). The new progressive structure of the inheritance tax would benefit poorest classes by reducing the actual rates they paid, whereas the tax burden would fall comparatively harder on large inheritances, as their beneficiaries had a larger ability to pay. This "fits better the principles of equity and distributive fairness, which call for alleviation of levies on small capitals, in order to

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<sup>23</sup> Darlan stated that rates charging more high inheritances than small correspond to a sense of equity; this does not violate any economic principle. "It is a principle of democratic justice". ACD-DP (1895), t. 47, p. 134. Doumer insisted people had to pay taxes in proportion to their faculties; in the succession tax, this proportion was given by progressivity: "It is a matter of justice". ACD-DP (1895), t. 47, p. 219. Actually, this argument was behind the variable rates according to consanguinity, which existed in the old succession tax.

<sup>24</sup> Trouillot, ACD-DP (1895), t. 47, p. 173. He was the spokesman of the budget commission.

<sup>25</sup> Darlan ACD-DP (1895), t. 47, 134 and 137.

<sup>26</sup> Trouillot, ACD-DP (1895), t. 47, p. 172.

<sup>27</sup> Many MPs stressed this, for instance Darlan or Lhopiteau. ACD-DP (1895), t. 47, p. 263. However, some MPs in favor of progressivity still acknowledged that land resulted overcharged. Turrel (radical republican) said: "Depuis l'école des physiocrates on semble croire que la terre seule est la source de tout et doit tout payer". ACD-DP (1895), t. 47, p. 332.

<sup>28</sup> Cochery, the chairman of the budget commission, and also Trouillot were very insistent on this point. ACD-DP (1895), t. 47, p. 172. Trouillot pointed out that the main objective of the reform was to subtract passive in the assessment of the tax bill. ACD-DP (1895), t. 47, p. 259

<sup>29</sup> Doumer highlighted that the English succession tax reform was much more progressive: Direct successions arrived to a rate of 8%, but adding the succession duty to the Estate duty, this rate increased up to 9,5%. ACD-DP (1895), t. 47, p. 219. Also Darlan, ACD-DP (1895), t. 47, p. 134.

<sup>30</sup> ACD-DP (1895), t. 47, p. 292-293 and 334.

make taxpaying less onerous and easier”.<sup>31</sup> Surprisingly enough, Villaverde and his fellows did not have unified criteria to defend the reform bill and sometimes contradicted themselves.<sup>32</sup> They struggled to convince the Chamber that the new progressive rates were not redistributive nor a threat to wealth.

Villaverde tried not to cling to the argument of progressivity as compensating device. His main line of reasoning was simply rejecting the existence of any progressivity in his reform: It just involved what he called “progressional proportionality”, the system of limited progressivity devised by Garnier.<sup>33</sup> He was thus trying to distance from the distributive (and socialist) connotations of progressivity. However, he ended up acknowledging that relief of poor classes was a matter of correction of unfair allocation of tax burden: Villaverde claimed that he needed to charge direct inheritances with a fee of 1,70% to balance the budget. By using progressive rates, he relieved poorer classes, fulfilling the Constitutional requirement of establishing a proportional tax system. Then, the succession tax turned out to be not progressive, but *degressive*: its goal was to reduce the tax burden on small fortunes.<sup>34</sup> Thus Villaverde’s plan of a limited progressivity was the result of combining public finance requirements and constitutional justice commands, but it was also a consequence of his fidelity to the fiscal principle of ability to pay in the allocation of tax burden to attain tax justice. In order to accomplish this –what he called “proportionality of faculties”–, it was necessary to implement a progressive system in some taxes.<sup>35</sup> Republican Azcárate also interpreted the constitutional “proportionality” as “proportionality of faculties”, an idea that allowed him to support the progressive system in the Garnier fashion: The “progressional” tax fitted well with the values of freedom and justice, the pure proportional system being unfair. Its application in some taxes was in order to achieve the equality of sacrifice in taxpaying.<sup>36</sup>

Villaverde insisted on the limits of his reform by other means. First, he rejected the idea of using taxes as a mechanism to modify wealth distribution, as a socialist tool to equal fortunes.<sup>37</sup> Azcárate agreed: using taxation as an instrument for social reform was a mistake.<sup>38</sup>

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<sup>31</sup> DSC 1899-1900, 14, appendix 9, p. 2.

<sup>32</sup> Villaverde had to rectify the argument used by his fellow MP Fernández Hontoria, who had said that the progressive scale was a device to correct the overall regressivity of the tax system. The reform was a mechanism to achieve tax justice, looking for the real proportionality commanded by the Constitution. DSC 1899-1900, 118, p. 4029.

<sup>33</sup> This was a powerful reason, as it was grounded on an idea by a famous liberal economist, which had been adopted by authors as J.B. Say and J.S. Mill. See Garnier (1846).

<sup>34</sup> DSC 1899-1900, 118, pp. 4036-4039. Laiglesia called Villaverde’s proposal of progressivity as a “modern proportionality” and remarked that liberals’ suggestion to establish a tax threshold was a real progressivity. DSC 1899-1900, 119, p. 4075.

<sup>35</sup> DSC 1899-1900, 118, p. 4040. In another occasion, Villaverde stated that taxes were citizen’s contribution in proportion to wealth, so that the State could exist: This “proportion” was sometimes better achieved through a graduated scale. This, he said, was Léon Say’s doctrine, which he assured to follow. DSC 1899-1900, 119, p. 4060.

<sup>36</sup> He stated that the constitutional order to pay taxes according to the individual ability should not be interpreted restrictively, as if it stood for pure proportionality. DSC 1899-1900, 119, p. 4061 and 4068.

<sup>37</sup> “This is not a progressive tax; a progressive tax [...], as it has been defended by the Chair Socialists in their books and lectures, and as it has been defended by action socialists in their programs, is a fiscal device with which the State intervenes in the distribution of wealth. It entails a constant, continuous and practical progression, equal or bigger than the progression of wealth; it tends to make fortunes

He only considered progressivity legitimated in the framework of the theory of compensation: Progressivity was not really fair, but it served to compensate the tax burden excess on lower classes caused by indirect taxes.<sup>39</sup> Second, Villaverde also denied that progressivity had been established as a compensatory device: Although the “progressional” technique of taxing used direct taxes to counteract the relatively greater harm caused to low-income economies by indirect taxes, there was no need of this effect of compensation in Spain. This was because, in his opinion, taxes on consumption turned out to be mostly direct taxes, as in practice they were managed as surcharges on the main direct taxes on agricultural and industrial activities returns. Here he seemed to contradict his argument on constitutional real proportionality, probably with the aim of guaranteeing the Chamber that the reform would not lead to an extension of progressivity to other taxes.<sup>40</sup> Third, progressivity supporters denied that the inheritance tax could hamper capital accumulation or threaten economic growth, because it was extremely small.<sup>41</sup> The lack of tax threshold (claimed by some parliamentarians, including Azcárate, and described by Villaverde as a true progressivity) was a sort of contradiction in Villaverde’s plan, he being aware of this. Fernández Hontoria acknowledged that a tax exemption would be desirable, but it was not possible to apply because the Treasury could not dispense with those revenues.<sup>42</sup> The ultimate aim of the whole fiscal reform –to reorganise the tax system in order to increase revenues– was always present. As Laiglesia pointed out, the object of the entire project was both to strengthen direct taxes and to find new fiscal resources, mainly taxing activities that so far had escaped taxation.<sup>43</sup>

#### *Arguments against progressivity: Jeopardise capital*

The arguments that MPs used in both countries to oppose progressive taxation were similar, although in every country opposition stressed them differently. They took several directions: First, the problem of arbitrariness;<sup>44</sup> second, the problem of the expansion of progressivity; third, fears of the effect of high taxation on investment and economic growth. Finally, there was the problem of justifying progressivity on behalf of fiscal justice.

First problem of progressivity was arbitrariness of rates. The project replaced a fixed base with another which could be modified indefinitely: The limits between moderate and excessive

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equal [...] This is not, therefore, a fiscal mechanism to intervene in wealth distribution; it is a financial tool, seeking proportionality”. DSC 1899-1900, 118, p. 4040.

<sup>38</sup> “There is a school [...] which supports progressive taxation, what for? Wagner has stated it, he making a glaring error; he has stated that time has arrived for this tax to cease to be a mere fiscal device; it must become a tool for social reform. And this is a fundamental error: this tax will never be other than a fiscal device”. Social reforms should be done through laws, not taxes. DSC 1899-1900, 119, p. 4060.

<sup>39</sup> In his opinion, this was the idea supported by Leroy-Beaulieu and Léon Say. Azcárate explicitly rejected Wagner’s idea of using taxes for social transformation through wealth redistribution. DSC 1899-1900, 119, p. 4060.

<sup>40</sup> DSC 1899-1900, 120, p. 4106.

<sup>41</sup> Laiglesia, the chairman of the budget commission, estimated that this tax amounted just 1,26% of the total tax base, according to 1890-91 statistics and assuming that domestic product had remained constant. Villaverde believed that a maximum tax rate of 2,75% could hardly damage capital. He insisted that his project did not raise tax rates, but, on the contrary, lowered them (he was taking into account the effect of the temporary surcharges). DSC 1899-1900, 119, pp. 4064-4065; and 120, pp. 4105-4112.

<sup>42</sup> DSC 1899-1900, 118, p. 4029.

<sup>43</sup> DSC 1899-1900, 119, p. 4075.

<sup>44</sup> It has remained the main flaw of progressivity. Neumark (1994), pp. 189-197; Slemrod (1994), pp. 1-4.

rates are vague.<sup>45</sup> In narrow connection to this question there was the issue of the extension of progressivity: This reform could be an open door to the establishment of progressivity in other taxes.<sup>46</sup> In particular, there was fear that progressivity could be applied to the income tax, which had been already discussed in the French Chamber and would be soon established. According to Ramel, this was an attempt to introduce progressivity in the whole tax system, particularly in income taxation, “with all its humiliating and odious consequences”. In his opinion, shared by many other MPs, the 1789 Constitution stood for proportionality as the best system to achieve equality and fairness in taxpaying.<sup>47</sup> Alleged compensatory effect was also arguable. Labat said that the inequality caused by indirect taxes was essentially local, and very diverse; a national tax could not solve this problem.<sup>48</sup> To Cochin, it was not clear that indirect taxes fell always harder on the poor; some fell just on property. Therefore there was no need for compensation.<sup>49</sup>

Arguments stressing the excess in tax burden to capitals also emerged. Capitals would flee to other countries, hindering the nation’s wealth and economic growth.<sup>50</sup> As a consequence, only land property will pay the tax. This was quite a strong argument, and some supporters of progressivity reckoned it: Financial assets would escape taxation, whereas rural real estate would support the entire tax burden. Those most charged would be small rural proprietors. Méline alerted of a fall in prices of rural real estate, and of the effect of liquidizing part of the heritage to pay for the succession tax.<sup>51</sup> Moreover, eventual revenues will decrease.<sup>52</sup> Actually, inefficiency of the reform was another big question. One of its objectives was to increase revenues in order to balance the budget. But according to Labat, this would require very high marginal rates, confiscatory rates which can lead the economic system to disorder and chaos. But this would not produce enough revenues, as there were few high inheritances. The tax would just result a leveller of fortunes.<sup>53</sup>

Many opponents to progressive taxation issued diverse proposals to try to replace it. Some of them suggested a special tax on financial assets, to avoid them committing fraud: Lemire; Rey; Gamard. Labat directly proposed keeping proportional rates, although increased (and devoting

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<sup>45</sup> Labat and Rose supported this idea. Lasteyrie also suggested a system limiting progressivity, that he called degressive. ACD-DP (1895), t. 47, p. 268.

<sup>46</sup> Labat and Say agreed in this. Rose pointed out the contradiction of accepting progressive succession tax but not income tax. A progressive income tax was more easily justified, as the idea of progression should be applied to total income, as this shows well taxpayer’s ability to pay. Rose rejected both, but stated that it was preferable on income. Some MPs pointed out that the progressivity had the same difficulties in the income tax as in the succession tax, essentially inquisition. ACD-DP (1895), t. 47, p. 175.

<sup>47</sup> Ramel, in ACD-DP (1895), t. 47, p. 222-223.

<sup>48</sup> Labat ACD-DP (1895), t. 47, p. 127.

<sup>49</sup> Cochin, ACD-DP (1895), t. 47, p. 174.

<sup>50</sup> Labat stressed that the interests of employers and workers were not opposed, quite a common reasoning in conservative circles at that time. ACD-DP (1895), t. 47, p. 131.

<sup>51</sup> Méline, ACD-DP (1895), t. 47, pp. 260-264. “Vous faites une expérience des plus hasardees et qui peut être désastreuse». The more increment in succession rates, the more land will lose value.

<sup>52</sup> Rose, Cochin Gamard, in ACD-DP (1895), t. 47, pp. 169-170, 176, 255. Labat also insisted on small taxes as the key to high revenues: leaving capital circulate and taxing them smoothly every time they change proprietor would render higher revenues to the government. ACD-DP (1895), t. 47, p. 130.

<sup>53</sup> ACD-DP (1895), t. 47, p. 266.

revenues to public assistance in rural areas).<sup>54</sup> All these motions were rejected, but annoyed the Finance Minister Doumer, who accused Gamard and Méline of trying to postpone the passing of the law.<sup>55</sup> Finally, the project was passed 397 to 123. Despite some members of the majority did not agree with the progressive rates, they accepted the project as it allowed debts to be deducted and also lowered rates to small inheritances, thus aiding small rural property. On the other side, socialists supported it as a step in the direction of fortune levelling.

The strategy of the Spanish opposition in the succession tax reform debate was to prove that progressivity was not a fair system of allocating tax burden. Their chief argument was that progressive taxes implied wealth redistribution, which was unacceptable: this was a socialist idea that bestowed the State with prerogatives it should not have at all. López Puigcerver maintained that tax progressivity was not justified by any theory on fiscal justice, but by the (socialist) theory of the redistributive State, which deemed taxation to be a major tool to eliminate social inequalities, not just instruments for the State to fulfil its duties.<sup>56</sup> Moret stressed that tax relief for small fortunes, which progressivity entailed, should not imply higher tax rates for the rich. In his opinion, tax relief for the poor was not a matter of social justice but of fiscal techniques: cost-benefit calculation (collecting costs were higher than the revenues supplied), and the principle of not destroying taxpaying capacity.<sup>57</sup> Liberal MPs also attacked the argument of compensatory progressivity: Gamazo and López Puigcerver, stated that, at least in the case of Spain, there was no need to compensate lower classes, because there were several taxes that were paid only by the top-income group, which already generated this compensatory effect.<sup>58</sup>

The third big argument against progressivity, linked to the distributive reason, showed the social question beneath this issue and perhaps the chief controversy of the reform: Progressive tax rates put property and wealth at risk. López Puigcerver openly feared that applying it to new taxes would be very dangerous. He ardently warned that this matter transcended politics; what was at stake was the fundamentals of the political system of the Restoration: propriety,

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<sup>54</sup> Lemire, ACD-DP (1895), t. 47, p.225. ; Rey, p.234; Gamard, p.255-256. Also left MPs suggested a surcharge on financial assets, in addition to progressive rates. For instance, Bascou, ACD-DP (1895), t. 47, p. 290.

<sup>55</sup> “Je m’étonne que l’honorable M. Méline soit venu ici, quelque qualifié qu’il soit, nous parler, à propos de cette loi, de l’intérêt de l’agriculture». ACD-DP (1895), t. 47, p. 262.

<sup>56</sup> “Whatever the theory might be to justify or explain this tax [...] you will not find any idea of justice to justify it; you will only find a single theory to explain it; and this is the theory of those who believe that the State must intervene in the distribution of wealth; the theory of those who believe that taxes are not a means for the State to fulfill its duties and to meet the budget expenditure; the theory of those who believe that taxes are something to make social inequalities to be eliminated”. DSC 1899-1900, 118, p. 4032. However, some liberals accepted a certain degree of anticyclical fiscal policy: Gamazo and Moret believed that the government could never use taxes to create the economic cycle, but the latter admitted that it could “steer” it. DSC 1899-1900, 119, p. 4072; and 120, p. 4097.

<sup>57</sup> “This is not progressive, regressive or progressional: This is, simply, a matter of common sense”. DSC 1899-1900, 119, pp. 4071-4072.

<sup>58</sup> Gamazo considered that the taxes paid only by upper classes amounted more than 20% of the total tax revenues. In his opinion, it would be good to implement other measures, such as a tax threshold to achieve a higher degree of equity, but a progressive tax on capital, as he considered the inheritance tax, should be never established. DSC 1899-1900, 120, p. 4095. López Puigcerver believed that the tax structure in Spain compensated lower and upper classes, although he admitted that, in other countries, circumstances could be different, such as in England. DSC 1899-1900, 119, p. 4068.

wealth, capital and business. López, who explicitly grounded these beliefs in the works of Léon Say and Leroy-Beaulieu, tried here to invoke all MPs to defend the essence of the social system. His appealing to general class interest shows the intersection of vested interests and politics in the Chamber.<sup>59</sup> Canalejas, a radical liberal MP stated that passing Villaverde's bill implied truly sanctioning the principle of progressivity, which many fellow conservatives feared, but did not dare to express frankly.<sup>60</sup> Azcárate, also believed that, despite the fact that progressivity already existed in the tax system, it has only caused concern when applied to property.<sup>61</sup>

Last, liberals also clung to a range of other reasons: The tax on property transmission was illegitimate as it levied capital, not incomes, violating the principle that taxes should never destroy future taxpaying capacity. This kind of taxes prevented capital accumulation, hindering economic growth and thus harming the working class. Progressive rates made these state of affairs worse, and besides resulted in lower tax revenues, as they stimulated fraud.<sup>62</sup> Progressivity could not be fair, as rates were always arbitrarily established, and it did not take into account taxpayer's personal circumstances (this reasoning could also be applied to proportionality, but, as Suárez Inclán pointed out, progressivity aggravated it).<sup>63</sup> Finally, the lack of tax threshold was deemed a strong contradiction in the reform, as Villaverde had said that his progressive plan backed low-income groups.<sup>64</sup>

### **Economic ideas in the debates**

Both in France and Spain, MPs debating the issue of progressivity in inheritances taxes resorted to well-known economists' ideas in order to support their lines of reasoning. Even if quotations were in many cases instrumental and therefore not strictly accurate, MPs had generally an acceptable –and in some cases deep– knowledge of contemporary fiscal literature and also of policies applied in other countries. In the case of Spain, quotations of economists were larger than in France. The reasons might be two: In Spain sources were mostly from foreign economists, especially French. It is expectable that these quotations might have a

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<sup>59</sup> DSC 1899-1900, 118, p. 4032. All the opposition joined this argument: Gamazo deemed the progressive inheritance tax as confiscation, and also did Moret. Suárez Inclán believed that progressivity discouraged capital accumulation. DSC 1899-1900, 117, p. 4005; 119, p. 4070; and 120, p. 4096

<sup>60</sup> This shows that Villaverde did not have the support of his own parliamentary group. These opinions were not unanimous: Romero Robledo, contrary to progressivity, denied that Villaverde's plan would cause a general introduction of fiscal progressivity in Spain. DSC 1899-1900, 120, p. 4101 and 4104.

<sup>61</sup> DSC 1899-1900, 119, p. 4060.

<sup>62</sup> López Puigcerver was the main supporter of this position. In his opinion, property transfer taxes existed just because they were easy to implement. DSC 1899-1900, 117, p. 4005; and 118, p. 4030. Azcárate, a defender of progressivity, also believed that taxes on property transmission were unjustified, as they only represented government eagerness to tax every human activity. DSC 1899-1900, 119, pp. 4058-4060.

<sup>63</sup> Moret insisted that progressivity was arbitrary, and therefore, unfair. DSC 1899-1900, 117, p. 4005; and 119, p. 4072.

<sup>64</sup> Other reasoning used by liberals was that progressive taxes were forbidden in the Constitution of 1876. This was quite a restrictive interpretation of the constitutional text: It just stated that the population should contribute to the expenses of the public administrations proportionally to their wealth. At the end of the debate, López Puigcerver uttered that the progressive inheritance tax was not necessary even for revenue collecting reason: projected revenues could be easily raised with the old proportional system. DSC 1899-1900, 118, pp. 4023, 4029 and 4044; 119, p. 4062; and 120, p. 4102.

larger impact than in France, where these economists were more well-known. Second, in France the issue of progressivity had already emerged in the Chamber during discussions on the income tax; whereas in Spain this was the first big debate on progressivity.

Were there direct quotations or not, the big idea at debate in both parliamentary discussions was the notion of tax justice, namely the ability to pay taxes linked to the idea of equality of sacrifice, and whether the latter might call for progressive taxation. In both countries, the vast majority of MPs believed that the tax system should be proportional. However, the presence of indirect taxes, especially on consumption goods, prevented this proportionality. A form to correct this unfair circumstance was to implement progressive rates in some taxes. Income tax was regarded with great suspicion (it would require inquisitive methods to assess tax debt, it would discourage work and investment, it charged the industrious leaving the idle untaxed, etc.), but succession tax seemed suitable to implement this taxation technique. Actually, this debate reflects well the economic doctrines on the role of the government sustained by most liberal economists at that time. The state should not have redistributive functions, and taxes should be small, just to finance state's basic services. These authors stood for proportionality as the right way to allocate tax burden, but also considered compensatory devices if the tax system resulted regressive.<sup>65</sup> Many of these economists belonged to the French liberal school, and their ideas emerged in the debates: Garnier, Leroy-Beaulieu, L. Say.<sup>66</sup> Other authors had different perspectives, but were not so appreciated by political elites in parliaments: Mill, or Wagner and the Chair Socialists.

Reports and bills preceding the debate on the succession tax already quoted some economists to support the arguments there stated. The Dupuy-Dutemps report on the Burdeau proposal of 1894 leant J.S. Mill to defend progressive rates in the inheritance tax: Ability to pay taxes was neither proportional to fortune nor to income. Poincaré's bill was more profuse in his regard. Leroy-Beaulieu's ideas were used to justify the deduction of debts in the assessment of tax bill, in a pompous style: "It is impossible to find a more monstrous abuse of public authority".<sup>67</sup> As for the establishment of progressive rates, this same bill stated that applying them in the inheritance tax did not imply accepting the principle of progressive taxation,<sup>68</sup> Poincaré justifying this position clinging to the opinion of J.S. Mill, who supported a strong progression in inheritance tax rates but not in income tax, and Garnier, who, also supported this tax, but in a much milder version. However, Poincaré was careful to distance himself from Mill's radical position of limiting the amount inherited as a way to avoid unmerited wealth accumulation: This was "contrary to the modern notion of individual proprietorship", which represents freedom and progress, because it would entail a shared right of property between the individual and the state.

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<sup>65</sup> This was described by Seligman as one of the most powerful motives to defend a very limited progressivity. Seligman (1894), 224.

<sup>66</sup> On the ideas of French liberal economists on progressive taxation, see for instance Silvant (2010) and Le Van-Lemesle (2006).

<sup>67</sup> Poincaré (1894), Annexe 885, p. 622.

<sup>68</sup> Poincaré's tax did not match the ordinary objections to progressivity: It did not entail surcharging hard-working individuals, while being relatively less lenient to the lazy, as inheritance was not the outcome of one's activity (he quoted J.S. Mill and Carrel)

Supporters of progressivity in the debate in the French Chamber hardly used quotations from economists, thus renouncing to this effective way of underpinning their reasoning. However, they were following the widespread argument of liberal authors that a sound fiscal system should be proportional, but accepted progressive rates in some taxes in order to attain overall proportionality. Among French fiscal authors this was the case of Leroy-Beaulieu and Garnier. As it has been said, Mill's authority was invoked to support the progressive succession tax, but exclusively on the conceptual field, as Mill's ideas on inheritances were far more progressive than the plans debated in either of the Chambers. It is remarkable that French most radical supporters of progressivity did not invoke the doctrines by Wagner or other Chair Socialists, who were so fond of using public finance as active policy instruments for redistribution.

French opposition to progressivity used many quotations to back their arguments. Cochin leant on Adam Smith to question the legitimacy of the succession tax itself: This was unfair, because it was unequal. It charged fortune as a consequence of the random of death, but the same fortune might be taxed several times in a few years. This criticism also applies to proportionality; however, progressivity aggravates this situation. Cochin also quoted Proudhon against progressive tax: The idea of equality of citizens concerning taxation referred clearly to proportionality, as the tax should be charged on the thing, and not on the person.<sup>69</sup> Adaptation of authors to MP's strategies had a case with Adam Smith: Bascou quoted him (however he acknowledged that he was also invoked by opponents of progressivity) to defend progressivity. Bascou could not find anything in Smith's doctrine against progressive tax: At most, Smith said that there might be some objections.<sup>70</sup>

Interventions in the French debate by Léon Say, a reputed specialist in public finances, who would be very quoted by Spanish MPs, are of particular interest. There Say summarized his beliefs concerning progressive taxation. In his opinion, taxes are a necessary evil, therefore they should be as small as possible, and serve exclusively to face public expenditure, not having redistributive aims. Equality in taxation means equality in the eyes of the Law, and this means proportional taxes, as it was the commandment of 1789. Thus Say summarized taxation ideas in two doctrines: First, taxes should serve to collect money for public expenditure; second, taxes should serve to modify wealth distribution. The proportional tax is the tax that better ensures an equal allocation of the tax; progressive tax is, on the contrary, the most efficient means of redistributing wealth, this is, the most efficient tool of socialist doctrines. Progressivity meant opening to socialism, and the government was serving socialism by considering progressive taxation.<sup>71</sup> Say used other arguments (in some occasions demagogic): The government intention to use the increase in revenues to balance the budget would mean that, as succession taxpayers were only a very small fraction of all French taxpayers, they would hold the burden of the adjustment.<sup>72</sup> He also quoted Bentham to say that capitals were being destroyed by taxes and that it was necessary to avoid that a large part of the inheritance be absorbed by succession tax. Finally, he warned that the British example would not work in

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<sup>69</sup> Cochin, ACD-DP (1895), t. 47, pp. 175-176. Cochin added that in the problem of progressive tax there were two points of view: That of progressive and radical MPs (a limited progressivity), and that of socialist and communists (progressivity as a tool for redistribution and equalizing wealth measure)

<sup>70</sup> Bascou, ACD-DP (1895), t. 47, p. 209.

<sup>71</sup> Say ACD-DP (1895), t. 47, pp. 208-212. His interventions were extremely hostile to the socialist group.

<sup>72</sup> Say ACD-DP (1895), t. 47, pp. 214.



France: England's rates were higher than the French project, but in England real estate property was half of the French. Therefore, this tax would harm much more French taxpayers than English, where larger proportion of property was financial assets. French capital was represented by land much more than in England.<sup>73</sup>

Doumer dared to quote Léon Say himself. According to Doumer, Say stated that progressivity in the succession tax presented less problems than progressivity in the income tax (and therefore, it was possible to implement). Doumer said that Say's works quoted Smith, showing that he justified progressivity in successions. Later, Doumer again quoted Say and Smith to justify the idea that it is fair to establish taxes to correct unfairness caused by other taxes. This suited Doumer's bill, as it exempted small properties and surcharged big properties. His conclusion was that the government's financial policy was a policy of fairness.<sup>74</sup> Deschanel's intervention at the end of the debate, using Mill's ideas, also insisted that objections against a progressive income tax were not present in the succession tax.<sup>75</sup>

In Spain, MPs in the debate clearly tried to reinforce their lines of reasoning referring to renowned economists. Both sides mentioned Leroy-Beaulieu and Léon Say's ideas profusely; Garnier's limited progressivity was the crucial reference for Villaverde and fellows; and J.S. Mill and J.B. Say were also quoted. Socialist theories of taxation emerged in the debate: Wagner was quoted to discard his ideas on taxation as a mechanism of wealth redistribution. In all, French liberal authors were the most quoted, it mirroring Spanish economic thought framework, pegged to economic liberalism and very influenced by French economists.<sup>76</sup>

Opponents to progressive taxation grounded their arguments on the theoretical framework supplied by Leroy-Beaulieu and Léon Say, particularly Moret and López Puigcerver. Leroy-Beaulieu clearly stood against tax progressivity, rejecting its theoretical foundations (the theory of equality of sacrifice) for being "sentimental" and not reasonable. In his opinion, progressivity was useless if it was mild, and extremely harmful if it was heavy. The diffusion of progressivity would create impossible and unfair situations, leading to confiscation of every increase in income. For this reason, mathematical progressivity was impossible to apply, and some techniques had been devised to limit it.<sup>77</sup> Leroy highlighted the arbitrary characteristic of progressivity and its tendency towards the correction of social inequalities, which he deemed "dangerous".<sup>78</sup> Léon Say agreed with Leroy in the principle of "national solidarity" as the base for allocating tax burden, rejecting the theory of equality of sacrifice, and also in the

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<sup>73</sup> Say ended up his interventions warning the government against anarchy that its fiscal inclinations might bring about. ACD-DP (1895), t. 47, pp. 215-216.

<sup>74</sup> Say, ACD-DP (1895), t. 47, pp. 218-220. Say was also quoted by Jourdan, in the opposite direction.

<sup>75</sup> Deschanel, ACD-DP (1895), t. 47, p. 357.

<sup>76</sup> Historicists and Chair Socialists were also known, but their ideas were mostly rejected as they postulated a wider scope for State intervention in the economy. Krausist economists at first seemed to sympathize with Chair Socialism, but later distanced from this school as its ideas on progressive taxes and government intervention in the economy became more apparent. Malo (2005), 36. On the Spanish economic thought in the 19<sup>th</sup> century, see Almenar (2000) and Serrano *et al.* (2001).

<sup>77</sup> Leroy-Beaulieu (1906), pp. 178 and 186-189. Leroy said that J.B. Say's system to limit progressivity avoided the whole income to be absorbed by the tax, but, anyway, rates made it intolerable.

<sup>78</sup> Leroy believed that progressive tax was not useful because the wealth taxed to high rates was not big enough so as to provide large revenues, and rich people would try to commit fraud. Leroy-Beaulieu (1906), pp. 182-183, 190, 200-202 and 214.

impossibility of a mathematical progressivity: It had been replaced with a “rationally limited progression” (Garnier’s “progressional tax” style), which applied progressive rates not to the whole tax base, but to the increases of tax base. In Say’s opinion, it was impossible to scientifically determine the rate of progressivity, as the inequality of sacrifice could not be measured in money. Like Leroy, he feared the consequences of progressive taxation: if rates were high, it destroyed capital; if moderate, they did not supply but very short revenues.<sup>79</sup> All these ideas were put forward by liberal MPs in the debate, they closely following these two authors, particularly Leroy. This influence was openly acknowledged: López Puigcerver followed Leroy’s *Traité de la science des finances* in his discourses, whereas Moret used Say’s *Les solutions démocratiques de la question des impôts*.<sup>80</sup>

MPs in favour of progressivity grounded their argumentation on ideas by J.S. Mill, Jean-Baptiste Say and Garnier, but also on Leroy-Beaulieu and L. Say’s exceptions. Villaverde justified his progressive tax project on Mill’s theories, which rejected tax progressivity in general, but accepted it for inheritance taxes (although Mill’s reasons to apply progressive rates in inheritances were far from Villaverde’s).<sup>81</sup> He also leant on J.B. Say’s *Traité*.<sup>82</sup> Villaverde claimed that his concrete plan was inspired on Garnier’s “progressional proportionality” (actually he only used the word “progressivity” to refer to redistributive taxes defended by Wagner and the Chair Socialists). Azcárate based his support to progressivity on Garnier’s model, also explicitly rejecting Wagner’s redistribution. He recognized that Leroy and L. Say discarded progressivity in general (even the “progressional” form), but he justified a limited progressivity as the exception those authors accepted in order to compensate systemic regressivity caused by indirect taxation.<sup>83</sup>

A good example of misuses of economists’ ideas is actually Leroy and L. Say: These authors accepted the compensatory exception for progressivity in systems with indirect taxes. Leroy called this *impôt dégressif*, which would relieve totally or partially low tax bases, but then charging the rest of taxpayers with a uniform tax rate. L. Say also accepted this idea, suggesting a tax relief to the lowest tax bases.<sup>84</sup> Leroy’s ideas could perfectly support arguments against progressivity (López Puigcerver quoted him), but not the opposite position, as his *dégressif* exception did not fit Villaverde’s reform (Azcárate was not right when using Leroy’s exception). Neither was López Puigcerver when quoting Proudhon’s censure of progressive taxes (this author deemed all taxes, as they were currently constituted, unfair);<sup>85</sup> nor Villaverde’s quotation of Mill’s inheritance tax. In any case, many liberal economists were rather ambiguous in their ideas about taxation, which allowed politicians to make use of these sources quite comfortably. As it has been said, Villaverde did not back his reform with the argument of compensation. Garnier was the author that best fitted his project, with his “progressional” system. Probably the only clear support for progressivity would be Chair

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<sup>79</sup> Léon Say (1886), pp. 172-173 and (1894), p. 365

<sup>80</sup> DSC 1899-1900, 118, p. 4044; and 119, pp. 4067-4068 and 4072. López Puigcerver stated that L. Say had opposed Poincaré’s progressive tax reform in France 1894.

<sup>81</sup> DSC 1899-1900, 118, pp. 4039-4040; and 120, pp. 4108-4109. See Mill (1987).

<sup>82</sup> “Taxation cannot be equitable, unless its ratio is progressive”. J.B. Say (2001), p. 455.

<sup>83</sup> DSC 1899-1900, 119, pp. 4060-4061 and 4069.

<sup>84</sup> Leroy-Beaulieu (1906), pp. 203-205; Léon Say (1894), p. 366; (1886), pp. 180, 185 and 190-192.

<sup>85</sup> DSC 1899-1900, 118, p. 4040; Proudhon (1868), p. 185.

Socialists. But this source could not be used, because of the widespread rejection of socialism among upper classes in Spain. The absence of quotations of Spanish economists to support MPs' arguments is remarkable, in spite of the facts that public finance was a fashionable topic in contemporaneous Spanish economic literature and that some valuable works on fiscal matters had been produced in this period. Probably quoting first-rate international economists served more MPs' goals.<sup>86</sup>

## Conclusions

At the end of the 19<sup>th</sup> century some Western European countries introduced progressive rates in the succession tax. The main reasoning was that their fiscal systems failed to achieve proportionality (as they should be), as a consequence of indirect taxes. Progressive rates in the succession tax would be a compensative device to restore the general proportionality in the system. Following the example of England, the governments of France and Spain brought to their national parliaments projects in this regard, opening lively debates.

These debates show that new perspectives of tax justice were entering European politics at that time. Ideas that ability to pay was proportional to the individual income or wealth, and that taxes should fall on things and not individuals were still predominant and well supported by numerous economists, but the introduction of progressivity in the inheritance tax was a first step in the acknowledgement that equality of sacrifice might call for progressive taxes. The political processes towards it were hard, but eventually both countries succeeded almost contemporarily. The expansion of progressivity to other taxes, particularly the income tax, which was being debated often, would be a matter of time.

Almost all these MPs shared a common economic thought framework, that of economic liberalism, with the only exception of French socialists. These economic ideas were present in the parliamentary discussions: MPs incorporated fiscal ideas and debates of economists in their discourses, invoking them as sources of authority to underpin their lines of reasoning. In many occasions they used direct quotations, however, even if they did not do that, the ideas they used to support or attack progressivity were easy to identify. Liberal economic thought ideas on taxation and the role of the state were absolutely predominant in both Chambers, particularly those by French liberal economists. Leaving apart the socialist group, all MPs believed that the right allocation of tax burden was through proportional taxation. However they acknowledged that indirect taxes broke this rule, on behalf of which many of them accepted progressivity as a compensatory effect, succession tax supplying with suitable characteristics. Justification of progressivity was set on behalf of larger contributing faculty based on the unexpectedness of wealth accrue, and less on ideas on equality. In this regard, the debates can be said to have been just technical, on the pros and cons of establishing progressive rates in the succession tax. There was not a debate on social justice implications of progressivity, as progressivity as a device for economic policy, namely redistribution, was

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<sup>86</sup> The only exception, although his name was not cited, was Piernas Hurtado. His ideas were mentioned, not on the issue of progressivity, but concerning the general taxation model. Piernas referred to the progressivity debate in the 1900-1901 edition of his *Tratado de Hacienda Pública*: He stated that neither progressivity nor proportionality could really achieve tax equity. Piernas (1900-1901), pp. 291-300.

unthinkable as an attribution of the government. This makes sense in the liberal parliaments at the end of the 19<sup>th</sup> century, with its limited representativeness. MPs (socialists the only exception) were defending the values of the liberal system grounded on property rights, a limited state and economic freedom.

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