

WHEN LAWMAKERS MET
PROGRESSIVES. DEBATING THE
AMERICAN FEDERAL INCOME TAX
OF 1894

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When Lawmakers met Progressives. Debating the American Federal Income Tax of 1894

Introduction

Economic, social and political transformation in Western nations in the second half of the 19th century triggered an increase in the role of states and further provision of public services. Growing financial needs made it apparent that tax regimes had become obsolete. Economists and policymakers started feeling that old indirect and product taxes were no longer adequate and that a direct tax on incomes should be the cornerstone of a modern fiscal system. Some nations, after the example of England, enacted income taxes on individuals and corporations in successive reforms: Prussia, New Zealand, the Netherlands, Australia and some Swiss cantons broke through. Reforms should apportion resources but, after social demands, bring about greater justice in distributing the weight of taxation.

The Progressive Era in the United States was not alien to this trend. State taxes fell essentially on real estate, thus charging farmers, and federal revenues were grounded on tariff duties, felt to benefit Northeastern industries and harm workers and farmers, constrained to pay consumption articles dearer. In an economy where massive economic growth coexisted with blatant inequality, the generation of American progressives led the campaign for tax reform under the banner of a conceptual shift in taxation from the benefit principle to the ability to pay (or faculty) principle. This shift called for income as the base for taxation, instead of property or consumption. Reformers like the group of Wisconsin and Edwin R.A. Seligman led the way. They held a new view of the government, conceiving taxation as an instrument of social policy.¹ The income tax would be a sign of civilization and morality.

The decade of 1890 exacerbated pressures for reform. Hit by deflation, farmers conflicted with the industrial and financial classes. This reflected in the antitrust act and the free silver movement, but also in a shift in farmers' attitude to the tariff and the income tax (Seligman 1911, p.493-95). This change was seized by political representatives, and under the promise

¹ See the contribution by Marianne Johnson in this same issue.

to reduce tariffs, Democrats won the 1892 election. They issued a bill (the Wilson bill) which not only reduced its rates, but also included a 2% tax on incomes over 4,000 US dollars. However, having passed the parliamentary procedure, the Supreme Court struck the income tax down, alleging unconstitutionality.²

This paper analyzes the debate of the 1894 income tax bill in the House of Representatives, in order to study how the political discourse of lawmakers effectively incorporated the ideas on tax reform of progressive economists. The interaction between economic ideas and politics is a slippery terrain, as the process of reception, appropriation and adaptation of economic ideas to politics is complex and can answer to diverse motivations. This analysis follows the methodological stances of Grampp (1965) and Coats (1971), renovated by Augello and Guidi (2017),³ which focus on the policy-making process, to investigate how a set of ideas is mobilized in the parliamentary debate and incorporated by some actors to their discourse, and how they shape the debate or a part of it.

The findings of this research is twofold: First, representatives backing the income tax incorporated the ideas of reformers, and supported the new income tax on behalf of tax justice, a fiscal mark of the Progressive Era. The transmission of economic ideas from progressive intellectuals to lawmakers took place efficiently. Secondly, political economy played a crucial role to confer legitimacy and reputation to lawmakers' arguments in favor of the income tax and build consensus for tax reform. Lawmakers appealed to the authority of renowned and credited economists. They also claimed that their reasoning fitted sound economic and fiscal principles.

America towards the income tax

Concerns for equity in taxation increased all along the second half of the 19th century. Public finance experts gradually acknowledged that indirect taxes (consumption excises

² Only in 1913 the Sixteenth Amendment to the Constitution allowed a graduated federal income tax. This was the first change in the Constitution since the Civil War.

³ Grampp advised to check sources like government documents and newspapers, and Coats spoke of the different ways through which economic ideas can influence policy, from "vague influences on the climate of opinion to specific instances where an economist was directly involved in politics".

and custom tariffs) turned out to be regressive, and direct product taxes were inefficient and insufficient to finance the increasing services supplied by governments. Traditionally a resource for emergency financing – it was enacted during the Civil War – the income tax started to be viewed as a modern fiscal instrument. It epitomized the long transition from the old benefit principle for taxation, supported by liberal economic schools, to the ability-to-pay principle, grounded on equal sacrifice. This entailed a new approach to citizens' financial duties. Taxes should not be paid on behalf of the benefits received from the state, but of the individuals' faculty to contribute. This was the principle of justice in taxation.

American progressives endorsed this ideal. Richard Ely (1888, p.238) expressed it clearly:

Equality of taxation, therefore, as a maxim of politics, means equality of sacrifice. It means apportioning the contribution of each person towards the expenses of government, so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his.

One of the main characters in this shift, Seligman, stated it all over his public finance work. For instance (1890, p.42):

A tax is not paid for any particular service ... is paid as a forced contribution to the general public needs of the commonwealth. Everyone is equally interested in the State, because he cannot exist without the State. The principle of contribution becomes shifted from that of benefits to that of ability, of faculty of capacity.

Seligman himself stressed the importance of ability in tax reform (1890. p.96): "Ability to pay is the ideal basis of taxation. It lies instinctively and unconsciously at the bottom of all our endeavors at reform". John Commons (1893, p.112) also expressed it clearly: "A tax is exacted for the general services of government, and is based on ability to pay".

These authors believed that faculty principle naturally called for an income tax. Ely (1888, p.80 and 1888b, p.7) pioneered:

"Another accepted canon of taxation is that its amount should be measured in each case by ability or the revenue which a citizen of the commonwealth enjoys. This is

what is called equality of taxation. Government should exact equality of sacrifice of us all. An income tax honestly assessed and honestly collected, meets the requirements of this canon”.

Seligman (1895, p.18) followed: “Just as a man’s ability to support himself or his family is seen in his income or revenue, so, in the same way, it is recognized that the test of a man’s ability to support the state is to be found in this same income or revenue”.

Progressives moreover heralded a modern vision of the state as an agency of human progress. As Marianne Johnson shows in this same issue, their calls for a fair distribution of tax burdens incorporated a new mission of taxes as tools to check wealth accumulation and enhance social welfare and morality. The income tax would play a role in this transformation. Thomas S. Adams envisaged a tax on incomes as the inevitable outcome of a modern society fiscally centralized.⁴ For Seligman (1895, p.18-22), a tax system based on ability to pay had become “a demand of modern civilization” and the personal income tax presupposed “an advanced stage of social morality and political probity”. Years later, in his address to the American Economic Association (1908), Seligman (1921, p.335-41) highlighted the emphasis that theory and practice of taxation had placed on social considerations, rather than individual. As he put it, the modern theory of political science held an organic conception of the relation between the individual and the state. Citizens were brethren animated by the same ideals and sense of cooperation to common interest. “The essence of taxation is a moral, as well as a legal, obligation”.⁵

Claims for tax reform was gaining momentum too. Farmers, affected by the fall in the prices of silver and wheat, bitterly complained about the unfairness of the tax system.⁶ Their leaders and conventions all over the country demanded relief in indirect and state property taxes, advocating direct taxes capable to hit big fortunes. Since the decade of 1880 political groups as populists, anti-monopolists, socialists or the Greenback Party had supported reforms of property taxes and the implementation of inheritance taxes and a

⁴ See Johnson in this issue.

⁵ Progressives were conscious that social conditions furnished the opportunity for the reception of the income tax (Mehrotra 2005, p.1855-56).

⁶ On farmers’ distress and social antagonism in America, see Mehrotra (2013).

progressive income tax (Mehrotra 2013, p.81). Demands such as that by N.B. Ashby (1892, p.178), lecturer of the National Farmer's Alliance, claiming "the fairest tax, and the one which brings least hardships, is a graduated income tax", became common. This popular unrest was seized by progressives. Seligman (1888, p.371) warned: "The question of tax reform is becoming a burning one with us ... The discontent is growing loud and general".⁷ Property tax, usual in many states, was a source for conflict because it taxed visible property – land. Again Seligman (1890b, p.62) pointed how it failed to apprehend new sources of wealth: "The property tax is faulty because property is no longer a criterion of faculty or tax-paying ability ... the much decried income tax ... was and is, however, infinitely superior in practice". Richard Ely (1888, p.7-8) warned that with the advancement of democratic thought, the idea of direct progressive taxation was increasingly favored.

In fact, the reform of local and state tax systems had been addressed since the war. During the decades of 1880 and 1890 states appointed commissions to propose reforms, where the progressive footprint emerged. The Massachusetts 1875 report supported "vigorously" the doctrine of faculty. Richard Ely himself contributed to the Baltimore 1886 report, where he supported a tax on corporations and an income tax as the main sources of public revenues of states, and to the Maryland 1888 report, defending a proportional income tax and a tax on inheritances and the exemption of real estate (Ely 1888, p.251, 289 and 318).⁸ The Ohio 1893 report held that the ability principle was the only fair and advocated a tax system resting on a tax proportional to income or earnings.⁹

The income tax had been considered much earlier, however. Some of the most credited American economists of the second half of the century praised it as a theoretically adequate financial resource, but indicated the enormous difficulties of implementation. Francis Amasa Walker (1866, p.322-25) wrote: "This tax is in perfect accordance with the first maximum laid down by Adam Smith ... Of all modes of taxation this is the most just and

⁷ Seligman called attention on mounting social unrest many times: "The feeling of equity in the public consciousness cannot be put down" (1890, p.43); "signs of discontent with our system of state and local taxation are multiplying" (1891, p.182).

⁸ Writing on these commissions Seligman (1891, p.186) warned of the formidable obstacles to tax reform, and endorsed gradual strategies for the sake of pragmatism.

⁹ See Seligman (1921, p.598-606).

equitable”, but its objections made him not advocate its adoption as a substitute for all other modes of taxation. Arthur Latham Perry (1874, p.522) stated that if income could be well assessed, “would be a perfectly unexceptionable form of taxation”. Robert Ellis Thompson (1882, p.182-89) proclaimed that it was “the most modern, and theoretically the fairest, form of taxation”, because it made everyone contribute to the State in proportion to revenue, fell equally on all and was not distorting. However, its big flaws led him to prefer a land tax. These economists would be profusely cited in the debate in the House to support the reform.

The 1894 income tax in the House

The opportunity for reform came with the Democratic victory of 1892, with its pledge to reduce tariffs. On December 19th 1893 the House Committee on Ways and Means introduced what would be known as the Wilson bill to reduce the rates of the McKinley tariff. Some days later, Democratic representative Benton McMillin (TN) introduced an amendment to include a 2% tax on all net incomes over 4,000 US dollars, on individuals and corporations. The income tax was to make good for the decrease in revenues, but it soon became apparent that this purpose was unimportant. The anticipated deficit gave the Western and Southern representatives their opportunity, but their aim was not so much increasing revenues but correcting tax inequality. “Revenues to cover the decrease in tariffs were the pretext, not the cause” of the income tax (Seligman 1894, p.619-21). Opposition came from Eastern cities representatives. The divide in the discussion was not along party lines, but class interests: Financial and industrial interests v. the working class and the farmers of the South and West.¹⁰ There were doubts whether the income tax would pass the parliamentary procedure.¹¹ Having succeeded, opposition turned hopes to the Supreme Court, where “plaintiff’s attorneys were all corporation lawyers with a personal stake in

¹⁰ Again Seligman (1911, p.508 and 521) recalled: “It was not so much a movement of the South and West against the North and East, as of the agricultural class against the industrial and moneyed class ... If any class antagonisms are discernible, they were primarily economic and only incidentally sectional”.

¹¹ *The Literary Digest* of 13 Jan. 1894 published that it was not believed that the bill would pass the Senate, and casted doubts about the House.

invalidating the tax” (Buenker 1985, p.16). Some representatives voted for the tax hoping it would be declared unconstitutional (Weisman 2002).¹²

The income tax amendment was discussed in the House at the end of January 1894. It was narrowly linked to the tariff debate, the central matter in the legislature.¹³ As representative John Davis (KS) said earlier in January: “For days and days we have been discussing the tariff ... We go round and round in a ring which has neither beginning nor end”.¹⁴ Virtually all interventions on the income tax included statements on the effects of the tariff. The main argument in favor of the income tax was tax justice, addressed from the faculty perspective, and from the practical matter of inequality that the tariff entailed. Reasoning against the income tax were its alleged negative effects on thrift and investment, low efficiency and technical unfeasibility and a defense of the tariff as a protection to American industry and labor.

The presence of economic ideas was chief in this debate, playing a double crucial role. First, lawmakers supporting the income tax had assumed the arguments of progressives: The income tax was necessary not only to advance towards tax justice interpreted as ability to pay, but also because it fitted well to a new view of the state as a community of interests. The transmission of economic ideas from economists to lawmakers was effective and efficient. Secondly, political economy constituted an essential element to confer reputation to lawmakers’ arguments and build consensus to pass the bill. Seeking theoretical background for their reasoning, representatives struggled to show that their arguments were in accordance with renowned political economists. A vast range of them was invoked, sometimes with long verbatim quotations: the classics (Adam Smith and John Stuart Mill), popular American economists, as Amasa Walker, Latham Perry or Ellis Thompson, and – less often – contemporary economists addressing tax reform in books and journals (Ely, Howe, Shearman, Clark...). Ely was the only progressive mentioned in the debate. The

¹² Debates on the constitutionality of the income tax immediately emerged. See Foster and Abbot (1895, p.18-83). Seligman (1894, p.633) played down the objection of unconstitutionality, feeling confident that the same provision that applied in 1862 for the Civil War income tax would apply again.

¹³ The Appendix to the *Congressional Record* shows that out of 248 speeches delivered in the House and the Senate in the 53rd Congress, 128 were on the tariff. Nine more dealt specifically with the income tax. Out of 178 representatives and senators delivering speeches, 126 spoke on the tariff and/or the income tax.

¹⁴ *Congressional Record, 53rd Congress, Second Session, Appendix* (1894) (from now on Appendix), p.370.

strategy of income tax supporters was backing their arguments on authority sources difficult to rebate. This contributed to generate consensus for the reform. Some lawmakers also claimed that their positions agreed with sound economic principles. Another source of credibility was statistical evidence, supplied to prove that tariff generated inequality.

The quest for tax justice: The tariff and the faculty principle

The tariff was the biggest subject in the 53rd Congress.¹⁵ Many representatives adduced that it shifted the tax burden to the poor, failing to fulfil tax equality. Examples of this position were plentiful in the debate, from Democrats and Populists, starting with the sponsor of the income tax amendment McMillin (Dem-TN): “Want, not wealth, pays the taxes ... Put more tax on what men have, less on what they need”.¹⁶ McDannold (Dem-IL) believed that “the toilers of this country pour gold in to the coffers of the protected interests”.¹⁷ Elijah V. Brookshire (Dem-IN) said: “The idea of laying nearly all of the burdens of taxation upon the ordinary necessary articles consumed by the poor and middle classes of our people is a monstrous proposition”.¹⁸

Some stressed how harmful the tariff was to farmers, mirroring a growing feeling in public opinion. James R. Williams (Dem-IL) said: “Let the farmers understand that the same walls of protection which keep out foreign goods will keep their surplus products within the United States, and leave them without a market.”¹⁹ McMillin held this opinion too:

Have our agricultural lands risen in price? Have their products risen in the mart?

No! You have but to look around you to see the utter ruin and devastation that have

¹⁵ Ely (1893, p.283-84) however, played down the debate on protectionism, saying that the importance of the tariff was exaggerated, but it had taken so deep root in America that could not easily be eliminated.

¹⁶ Appendix, p.413.

¹⁷ *Congressional Record, 53rd Congress, Second Session (1894)*, p.1614 (from now on CR). Commons (1893, p.252) showed however, that, according to a research on inequality published in 1892 by the *New York Tribune*, it was monopolies and not tariffs, the origins of wealth concentration in a few hands.

¹⁸ Appendix, p.315.

¹⁹ Appendix, p.212.

followed in the wake of this system of taxation by which so many were robbed for the enrichment of the few.²⁰

To discredit the tariff was key to justify a reduction in its rates and the enactment of the income tax to make good for the drop in revenues.

The quintessence of tax justice was the faculty principle, a strong theoretical support for the income tax, incorporated in many of lawmakers' discourses. This was one of McMillin's chief arguments:

One of the best things that can occur for all classes of this country is to inaugurate a system by which each individual shall pay to carry on the Government in proportion to the wealth he has and in proportion to the blessings he derives from the Government ... with the ability to pay.²¹

Others followed, like Andrew J. Hunter (Dem-IL): "All intelligent men know that a tax on the necessaries of life imported into this country is a tax on the consumer, without reference to his ability to pay, and is necessarily unequal. That which is unequal is unjust".²² Income tax fulfilled this principle, as Josiah Patterson (Dem-TE) said: "The justice of an income tax cannot be successfully controverted ... It will fall on those who are best able to pay, and who in a large measure have heretofore belonged to a favored class".²³ Henry A. Coffen (Dem-WY) also praised the income tax for recognizing the ability principle.²⁴

The injustice of the tariff called for a reform, and the income tax seemed the appropriate instrument.²⁵ Such a revolutionary reform required solid foundations. A strong justification for the faculty principle was provided by Adam Smith's arch-famous albeit confusing

²⁰ Appendix, p.412.

²¹ Appendix, p.415.

²² Appendix, p.182.

²³ Appendix, p.76.

²⁴ Appendix, p.290.

²⁵ Some representatives actually complained that the Wilson bill was specifically designed to impose the income tax. Lewis Sperry (Dem-CT) said: "In my judgment the bill has been so drawn as to produce a deficit of large proportions for the purpose of making an income tax a necessity". Conservative democrat William J. Coombs (NY) observed: "It is strongly asserted that this state of things is brought about for the purpose of making it necessary that there should be an income tax" (Appendix, p.59 and 108).

passage in the *Wealth of Nations*: “The subjects of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of the state”. It was mentioned in several occasions: Osee Hall (Dem-MO), William Baker (Pop-KA), William Bryan (Dem-NE) and Andrew Hunter (Dem-IL) quoted it.²⁶

Sources of authority immediately diversified. Baker quoted Smith, Stuart Mill and Fawcett to support the equal sacrifice principle: “Adam Smith says that ‘taxes ought to be levied so as to involve equality of sacrifice on the part of the subjects’. Mill and Fawcett held to the same opinion. Smith says equality means equality of sacrifice”. In Baker’s opinion, equality of sacrifice called for an income tax... not proportional but graduated!²⁷

Populist John Davis (KS) supported the income tax on traditional American sources instead. First, he leant on Jefferson’s famous Fontainebleau letter, where he stated that Americans should preserve the equality of wealth among people “in accordance with their earnings in the creation of wealth by taxing large wealth heavily, smaller wealth lightly and the least wealth not at all”.²⁸ Then he quoted at length three credited American economic works. First was Amasa Walker’s well-known *The Science of Wealth*. Davis quoted a passage where Walker stated that the income tax was “in perfect accordance with the first maxim laid down by Adam Smith ... Of all modes of taxation this is the most just and equitable”.²⁹ Second was the popular *Elements of Political Economy* (1874) by Latham Perry: “An income tax, if the exact amount of income could in all cases be ascertained,

²⁶ CR, p.1607, 1653, 1656; Appendix, p.503.

²⁷ Appendix, p.504.

²⁸ Davis leant on this source to support minimum exemption and point at progressivity: “Another means of silently lessening the inequality of property is to excerpt all from taxation below a certain point and to tax the higher portions of property in geometrical progression as they rise”. Appendix, p.371. This letter was also cited by Brookshire (Appendix, p.315).

²⁹ CR, 1663-1665. But Amasa Walker (1866, p.324-25) continued “we do not advocate the adoption of the income tax as a substitute for all other modes of taxation; our purpose is to show that, so far as practicable, it is the most just and economical mode of raising a revenue”. This work was edited six times between 1866 and 1871. A new edition in 1872 ended this passage differently: “An important consideration, showing the justice of the income tax, is this, that, if removed, the amount that has hitherto been raised by it must be thrown upon consumption, and, of course, to a great extent, upon the laboring classes” (1872, p.352-53). It referred to the imminent expiration of the war income tax of 1864, which raised tough debate, whether to keep it or not.

would be a perfectly unexceptionable form of taxation”.³⁰ Finally, Frederick C. Howe’s latest article in the *Annals of the American Academy of Political and Social Science*: The income tax “has much to defend it, and theoretically it appears to be the most equitable of taxes” (Howe 1894, p.68).³¹ Hunter, besides Smith, also supported the income tax on the same texts by Latham Perry and Amasa Walker quoted by Davis.³²

Hall quoted Stuart Mill’s *Principles* to support the faculty principle (“equality of taxation as a maxim of politics means equality of sacrifice”) and the tax reform (“an income tax fairly assessed on these principles is, in point of justice, the least objectionable of all taxes”). Then he resourced to more updated sources, namely the mentioned article by Howe, which he quoted too: “[Income tax] satisfies most thoroughly that canon of taxation which prescribes equality of sacrifice on the part of citizens” (Howe 1894, p.68); and Ellis Thompson’s *Elements of Political Economy* (sic): “The most modern and, theoretically, the fairest form of taxation is the income tax” (Thompson 1882, p.185).³³ Hall proved to the House that some states were already taxing incomes, using Ely’s 1888 comments on the income tax in Pennsylvania (Ely 1888, p.302).³⁴ George Fithian (Dem-IL) also leant on this passage by Thompson to hold that “the income tax is the most just and equitable tax that can be levied”. He acknowledged that it fell on the wealthy, but “they have the means and ability to pay”.³⁵

John S. Williams (Dem-MS) also claimed that equal sacrifice was the key to equal taxation: “All the doctors of finance and economy, and chief among them John Stuart Mill, lay that down as a canon”. He linked it to the income tax quoting a long passage of Ely’s *Taxation*

³⁰ CR, p.1665. The *Elements* was a very popular text, edited originally in 1865 and having 22 editions until 1895.

³¹ CR, p.1666. However, Howe did not approve the income tax.

³² Appendix, p.183.

³³ Thompson published *Social Science and National Economy* in 1875. The third edition’s title (1882) was *Political Economy with Especial Reference to the Industrial History of Nations*, most probably the reference Hall was using. Thompson was however a protectionist, so this source was difficult to rebate by tariff sponsors. o reduce the tariff rates.

³⁴ CR, 1607-14. Hall named a vast list of economists seeking support for equality of sacrifice (Mill, Bastable) and progressive tax rates (J.B. Say, Garnier, Sax, Wieser, Cohn, Sismondi...) His discourse was quite surreal, as he mixed up supporters and detractors of the income tax, and quotations ranged from the Letters of Saint Paul to the most modern economist. Hall published a brief article in *The Forum* (1894, p.14-18) supporting the income tax with the ideas of Smith, Bastable, Senator Sherman, Thorold Rogers, Thompson and Ely.

³⁵ Appendix, p.71. Fithian had already supported the income tax in the previous Congress.

in *American States and Cities* entitled “Equality of taxation is impossible in any community without an income tax” (Ely 1888, p.287).³⁶ Maddox (Dem-GA) also sought support for the income tax on Stuart Mill’s *Principles*: “The best of taxes, if people were all honest. As it is, it falls most heavily on the conscientious. Should be reserved for an emergency”. But Maddox stated that the emergency that Mill mentioned had come with the tariff system: “The South to-day is nothing more than an outlying province to be taxed for the benefit of the North ... I think the emergency exists for an income tax. Let us have it by all means”.³⁷

The connection between the tariff and the income tax was discussed under another standpoint, which raised a vivid debate: its effects on wages. Supporters of the tariff *statu quo* argued that it benefitted American workers with higher wages, sheltering them from foreign competition; the income tax as a correcting measure was therefore not necessary.³⁸ Supporters of the income tax denied this statement, like Fithian, Davis or Maguire.³⁹ John T. Dunn (Dem-NJ) proved with data that wages in the protected industry had fallen.⁴⁰ More interesting was the energetic answer of John S. Williams (Dem-MS), who displayed a vast range of political economist’s texts to refuse protectionists’ arguments. He started with Ely’s *Problems of To-day* (“Our protectionists are helping to increase the supply of labor and to keep its price down ... Do not federal consuls encourage emigration from Europe to America?”) (Ely 1888b, p.71-72),⁴¹ and followed with some texts compiled in the collective work *The National Revenues* (1888): Carroll D. Wright, John Bates Clark and Amasa Walker.⁴²

³⁶ CR, p.1605.

³⁷ CR, p.1666-70. Mill (1965, II, p.830-32) famously stated that, if subjected to some conditions, the income tax “would be, in point of justice, the least exceptionable of all taxes”. However, due to the impossibility of ascertaining the real incomes of taxpayers, this tax, “is in practice unequal in one of the worst ways, falling heaviest on the most conscientious”.

³⁸ Walker (Rep-MA) uttered that a protective tariff “gives the poor double what they would get under free trade”. CR, p.1648.

³⁹ Fithian said that labor was “on the free list”. Appendix, p.68. Davis had the same argument (Appendix, p.371). Maguire went on: “Labor is homeless and ragged and hungry at the end of thirty years of protection, because protection has not protected it; because monopoly controls the sources of production, and takes the lion’s share of what labor produces”. Appendix, p.590-91.

⁴⁰ Appendix, p.1154.

⁴¹ Ely (1893, p.282) stated that the argument that protection was beneficial to the wage-earner was not conclusive.

⁴² CR, 1619-20. According to Wright (1888, p.200-201), the commissioner of Labor Statistics, evidence did not support the claim that protection raised wages. Clark (1888, p.101-103) held a neoclassical approach:

Inequality and undeserved wealth

The growing problem of inequality in America was another chief justification for tax reform. James R. Williams (Dem-IL) acknowledged:

Our present system of taxation, which compels the poorer classes to pay a much larger share of their incomes for the support of the Government than it does the rich, has been an important factor in bringing about the present unnatural division of property in this country.⁴³

Nicholas N. Cox (Dem-TE) also observed: “There is, however, not only a concentration of wealth in individuals, but a concentration in certain localities ... [which] is found where the protected industries are found, and the individual concentration as a rule is found among those engaged in the protected industries”.⁴⁴ Baker (Pop-KA) followed: “Owing to the protection that has been enjoyed by New England, New York, and Pennsylvania for the last thirty years we find to-day in those States a wonderful accumulation of wealth”.⁴⁵

Supplying statistical evidence was a powerful way to strengthen arguments for tax reform on behalf of inequality. Bryan (Dem-NE) cited an article by George K. Holmes, of the Census Department, published in the *Political Science Quarterly* in 1893 to denounce unequal distribution of property. He quoted: “91 per cent of the 12,690,152 families of the country own no more than about 29 per cent of the wealth, and 9 per cent of the families own about 71 per cent of the wealth” (Holmes 1893, p.592).⁴⁶ Thomas G. Shearman’s estimates on inequality in America, published in *The Forum* in 1889 were mentioned

Wages were gauged by the productivity in industry. “Protection has lessened the reward of labor. It follows that protection necessarily inflicts an economic loss on the country that resorts to it, by diverting labor and capital from industries that create a real product to those that create a smaller one”. Amasa Walker (1888, p.148-51) forecasted an economic war between those engaged in sheltered industries and those not engaged in them.

⁴³ Appendix, p.213.

⁴⁴ Appendix, p.502.

⁴⁵ Appendix, p.506.

⁴⁶ CR, p.1657-58. Bryant supported the 4,000 dollars threshold of the income tax with these data.

several times along the debate. Talbert, Fithian, Pence and Kem did that.⁴⁷ William Talbert (Dem-SC) quoted Shearman's words (1889, p.42):

In no other country have railroad managers, manufacturers, oil refiners, mine owners, bankers, and land speculators accumulated fortunes so rapidly as they have in this. In no other country ... during the last thirty years, has the burden of taxation been cast so exclusively upon the working class or the machinery of public taxation been used so unscrupulously for private profit.⁴⁸

Wealth cumulated without effort or risk, the consequence of increases in demand, was particularly unsupportable to some representatives, particularly those sympathising with Georgism and the single land tax. Tom Johnson (Dem-OH) stated that any individual "ought to pay taxes on what he takes belonging properly to the whole people – that unearned increment of land value which springs, not from individual exertion, but from the common growth". He suggested a tax on the unearned increment of land values, as far as these were special benefits arising from common growth, not individual exertion, quoting *Progress and Poverty*.⁴⁹ Davis leant on Amasa Walker's *Science of Wealth*, to suggest that if lands appreciated due to increases in population, they should be estimated yearly according to its increasing value and assessed to contribute for the income tax (Walker 1866, p.324-25).⁵⁰ Baker suggested that George's reasoning on the increase in value of land should be expanded to industry: "We find the state is a partner in all industrial undertakings, and is therefore entitled to a share in the proceeds."⁵¹ James G. Maguire (Dem-CA) went further and proposed an amendment to replace the income tax with a direct land tax, so charging unearned wealth. He struggled to prove that land tax could not be

⁴⁷ Appendix, p.71, 297 and 606. Pence quoted Holmes's data too.

⁴⁸ CR, p.1672-73. Shearman considered that his estimates were far below actual inequality. He was a Georgist, an active supporter of the single land tax (he presented a project to to the Ways and Means Committee; CR, p.1652), and condemned the federal tax system grounded on indirect taxation as "crooked taxation" (1891, p.88).

⁴⁹ CR, p.1654-55.

⁵⁰ CR, p.1665.

⁵¹ Appendix, p.504.

shifted to the tenants, with quotations from Smith, George, J-B Say and Stuart Mill; and that the single tax was fair, leaning on Mill and Spencer among others.⁵²

Some Populists openly supported a graduated income tax. Omer Kem (NE) believed that the bill did not “contemplate the whole scope of the income-tax principle, and nothing short of a graduated tax will do it”.⁵³ Lafe Pence (CO) made an extensive defence of graduation, suggesting a scale from 1% to 5%. He backed his arguments on Francis Wayland’s *Political Economy* (1886, p.257):

Theoretically, this is the most equitable of all taxes, since it touches men exactly according to their abilities. But, as we have seen, if the percentage is uniform for all incomes it involves an inequality which bears heavily on those whose incomes are small. To relieve this, two measures are employed. The first is to exempt all incomes below a specified amount. The other is to establish two or three grades of income, and make the percentage greater on the larger incomes.⁵⁴

Sound economics

Not only political economists’ quotations were important as arguments of authority. Both sides in the debate struggled to prove that their positions grounded on sound economic principles. Walker (Rep-MA), attacking the income tax, claimed: “When you study it carefully you find no warrant for it upon the principles of sound economics”.⁵⁵ Bartlett (Dem-NY) said that certain provisions of the income tax “contravene every principle of political economy”.⁵⁶ Joseph Hendrix (Dem-NY), qualified proposals like free trade, silver coining, George’s single tax and the income tax as

⁵² Appendix, p.329-36.

⁵³ Appendix, p.293. The People’s Party platform adopted at Omaha in 1892 had declared in favor of a graduated income tax.

⁵⁴ Appendix, p.601-10. Originally published in 1837 and enlarged in successive editions, Wayland’s was the most used economic text in the decades before the Civil War (Fetter 1943, p.57).

⁵⁵ CR, p.1650.

⁵⁶ CR, p.1645. The 1894 bill was criticized for its flaws. Seligman (1911, p.522-29) listed them, coinciding with Bartlett that some of its provisions infringed economic principles.

... harmless and amiable sort of extreme social Democracy, [which] confused by the vagaries of political economy as filtrated through the minds of its teachers, has a conception of the force and efficiency of legislation to remedy human ills which is simple enough to be pathetic and childish enough to be amusing.⁵⁷

In the other side of the trench, Johnson (Dem-OH), confronting protectionists, cried: “You read political economy backward! You ignore its first and clearest principles”.⁵⁸ Bryan (Dem-NE), with a calmer tone explained:

I desire to here enter my protest against the false political economy taught by our opponents in this debate and against the perversion of language which we have witnessed. They tell us that it is better to consider expediency than equity in the adjustment of taxation.⁵⁹

Hunter and Davis quoted Latham Perry’s text where he stated “the complete harmony of an income tax with the general principles of taxation”.⁶⁰

Sound economic principles were naturally provided by celebrated economists. Hence, the importance of stuffing the discourses with these authorized sources. We have mentioned the sources used in favor of the income tax, but opponents also resourced to them, even if much less extensively. Bartlett said that Smith “believed an income tax to be both inquisitorial and burdensome”, following British historicist Thorold Roger’s alternative interpretation of Smith, and quoting an excerpt from the *Wealth of Nations*.⁶¹ He also quoted Mill, to forecast that owners of stock would seek a foreign shore to evade taxation.⁶² Stephen A. Cockran (Dem-NY) also quoted Smith to criticize that the income tax assessment, left to individuals, would prompt corruption.⁶³ Northway (Rep-OH) made it

⁵⁷ Appendix, p.396.

⁵⁸ CR, p.1653.

⁵⁹ CR, p.1658.

⁶⁰ CR, p.1665; Appendix, p.183.

⁶¹ This quotation, from book V, part 2, was clearly misleading, as there Smith (1904, II, p.333) states that ascertaining the amount of capital stock an individual possesses is more difficult than ascertaining land. Hence, inquisition would be necessary, but troublesome. It is difficult to justify Bartlett’s allegation that the income tax was inquisitorial and burdensome.

⁶² CR, p.1643-45.

⁶³ Appendix, p.464.

print in the Appendix to the Congressional Record 20 pages of George Gunton's *Principles of Social Economics* supporting indirect taxation and against the income tax. Grosvernor (Rep-OH) printed another 40 pages of that same work to support protection.⁶⁴ On the other side of the debate, Davis epitomized this strategy of resourcing to renowned economists to confer reputation to the discourse:

Now, I have here a large number of the very highest authorities on political economy, which I will publish with my remarks. They all agree that a tariff should be superseded, or at least supplemented by some more equal form of taxation, and they all agree that the income tax is the best to compensate for the inequalities of tariff taxation.⁶⁵

A moral tax?

It has been shown that morality was a pillar of the ideas on the renewal of the tax system of progressive economists. Whether the income tax was a sign of society's higher moral standards was hardly addressed in the debate, but it did emerge. Williams (Dem-MS) said that equality of sacrifice, the income tax and the inheritance tax were proofs of advancement of democracy. On the contrary, tariffs led to "thriftlessness, carelessness, and extravagance of taxation". He added a long quotation of Ely's *Taxation*, to dismiss the alleged dangers of evasion and difficulty of assessment and claim its economy in collection.⁶⁶ Maguire in turn linked direct taxes and free trade to democratic values:

The people are beginning to understand that freedom of production and freedom of exchange are both absolutely essential to their well-being and happiness. They are beginning to realize that the more highly developed the industry and commerce of a nation become, the more essential is it to the well-being of the whole people to maintain in all of their relations that fundamental principle of Jeffersonian Democracy, "Equal rights to all;

⁶⁴ Appendix, p.261-63 and 398-404.

⁶⁵ CR p.1663.

⁶⁶ CR, p.1619-20.

special privileges to none,"... Emblazoned upon the banner of Democracy in all future campaigns must be the motto, "Free trade and direct taxation".

Maguire also justified his proposal of a land tax on the moral right of the community to appropriate the rental value of land, as it had been created by it.⁶⁷ Coffeen (Dem-WY) considered the income tax "a wise move, considered politically, socially, or morally".⁶⁸ On the contrary, Hunter spoke of the "immorality of protection", listing its moral drawbacks and its anti-democratic bias,⁶⁹ and Fithian said that it was "wrong" from a moral standpoint.

Concluding remarks

The discussion on the income tax in the House was a debate on tax justice at a historical moment in which America started to face some changes that would shape the country in the 20th century. Progressive economists were pushing for a view of taxes linked to a new concept of the state, not as a mere supplier of benefits, but a community of interests. This required a renewed public finance where all citizens take part in equal conditions, opening the door to the ability to pay principle and to a federal tax system relying less on indirect taxes and more on a direct tax on incomes. Experiences at state level, in Wisconsin and elsewhere, paved the way.

Lawmakers slowly became conscious that a new era was starting. The enormous economic success of America could not hide growing social problems. Inequality was rampant, triggering discontent among the working class, and lately among farmers harmed by the economic crisis and a policy of a strong US dollar. They perceived themselves as the dupes of protectionism, which compelled them to pay dearer their consumption articles. A reduction in the tariff, accompanied by an income tax to the wealthy, seemed fair to them. Following this public opinion trend, lawmakers adopted many of the progressive ideas and took them to the income tax debate. Their footprint was evident.

⁶⁷ Appendix, p.600 and 336.

⁶⁸ Appendix, p.290.

⁶⁹ Appendix, p.33-34.

It was important to supplement such a revolutionary reform with the economic science blessing. The political process in the House showed the need that representatives felt to dress their tax reform with the cloak of economic science and (to a lesser extent) statistical evidence. Data proved American unbearable inequality, and economists of all times endorsed the new approach to tax justice and the income tax. Political economy was not just an ancillary rhetorical artifice in the political debate; it played an important role for justification, discourse reputation and consensus building.

Representatives assumed the ideas of progressives, but were shy to quote them. With the only (but relevant) exception of Richard Ely, references to back reform were taken from other political economists: Smith, Mill, Amasa Walker, Perry, Thompson. They were however extremely credited economists, whose authority was difficult to dispute. Reformist representatives defended the ideas of the progressives, but used incontrovertible sources. This strategy would aid to build consensus for the reform, the passing of which was not secured.⁷⁰

This reform, albeit frustrated, marked the path to the future. As Seligman (1895, p.21-22) said slightly later:

The recent attempt to introduce a federal income tax, however defective the measure may have been, is a significant evidence of the trend. That this attempt will ultimately be followed by others ... is by no means improbable ... If the history of taxation teaches any one lesson, it is that all social and moral advances is the result of a slow process and that while fiscal systems are continually modified by the working out of ethical ideals, these ideals themselves depend for their realization upon the economic forces which are continually transforming the face of human society.

Time proved him right.

⁷⁰ It is interesting what Seligman (1921, p.651) said in the occasion of the struggle over the ratification of the 16th Amendment: It "was so acute in important states like New York that any advocacy of a state income tax would surely have killed the prospects of ratification". A low profile might be advisable to ensure the success of the project.

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