

"TAXATION IN ENGLAND DURING THE INDUSTRIAL REVOLUTION":

A Comment

Donald N. McCloskey

Max Hartwell's paper gives us a picture of the good old days. Having just paid my taxes, or at any rate the federal-income-tax portion of them, I am not inclined to view favorably any level of taxes other than *none at all*. Still, the paper portrays the closest we've come in modern times to a large-scale Good Society, namely, Britain around the middle of the nineteenth century.

We learn, or are reminded of, many useful points by the paper. The early nineteenth-century hostility to government ("Retrenchment and Reform" was the battle cry) was strong enough to drive central-government spending down to a mere 11 percent of national income by 1851, about half being payment of the government debt accumulated over a century of fighting the French. The expenditure on goods and services was as low as it had been in 1700 (table 2), before Parliament had learned fully its new role as dispenser of patronage and protector of the empire. The level of local-government expenditure (table 3) was very small in the nineteenth century. The Napoleonic War (table 6) was very big. All in all, the paper is a most useful survey.

It does not pretend to be a complete survey of what work might be done in the history of taxes during the Industrial Revolution, or even of what has been done. Let me suggest some steps toward completion. The first is to recognize that official and admitted taxes are not the whole picture. The militia and other taxes in kind are one source of underestimation, the impressment of seamen being

Cato Journal, Vol. 1, No. 1 (Spring 1981). Copyright © Cato Institute. All rights reserved.

The author is Professor and Chairman of the Department of Economics at the University of Iowa, Iowa City, 52240.

This comment was prepared for the Cato Institute's symposium "Taxation and Society," held at the University of Chicago in April 1981.

the most colorful example. A more important source of underestimation is in neglecting the inflation tax, especially during the quarter century of the decisive war against the French. The inflation tax was large, but that we do not know how large shows that there is much to be done before we can claim to understand the period of the Industrial Revolution. Ideologues of both laissez faire and statism take note: We do not have (in this matter as in so many others) history certain enough to march and countermarch in your campaigns.

Furthermore, the official size of the tax is not a good measure of its burden. That is, a mere 11 percent of national income collected in taxes could have been collected so stupidly that its real burden was higher than an intelligently collected set of taxes of 33 percent. Much of the reform of the early nineteenth century had this in mind. Government spending was mainly war spending, on the face of it unavoidable. What could be done to reduce the burden of taxes was to reduce their deadweight loss in collection. Again impressment is a good example, as is the modern draft: The additional cost of collecting the tax and, most of all, the cost of evading it are large.¹ But again there are more important examples, such as excessive duties on imports. In 1785 the duty of 119 percent on tea was reduced to 12½ percent, and the amount legally brought into the kingdom tripled, presumably freeing many a bold smuggler for more productive labor than evading customs agents.²

In Hartwell's paper, as befits a preliminary survey, the various headings under which taxes might hurt are not examined in detail. The misallocative effects include not only the traditional triangle of surplus lost but also the evasions and rent-seeking just mentioned. *And taxes redirect the nation's consumption. One wonders whether policies that made possible the financing of wars to establish an empire that was itself (as recent work has shown) a drain on the exchequer, with no compensating advantage to the nation, should be described, as Hartwell describes them, as "sensible and successful."* The redirection of consumption has more direct effects, too, some of which Hartwell argues might even have been good. He makes the argument that war, especially the Napoleonic War, is hell but blows some good. Hartwell would not claim to have established this cheerful hypothesis himself; he would admit that in other in-

¹Larry Sjaastad and Ronald W. Hansen show how the calculation might be made, in "The Distributive Effect of Conscription," in *Redistribution to the Rich and the Poor*, ed. K. E. Boulding and M. Pfaff (Belmont, Calif.: Wadsworth, 1972), pp. 285-308.

²T. S. Ashton, *An Economic History of England: The Eighteenth Century* (London: Methuen, 1955), p. 165.

stances in which it has been examined closely it has proven false. The best case is the American Civil War, a "Second American Revolution" that is alleged to have begun the industrialization of the United States. In fact, however, it appears to have retarded industrialization, and to have had few if any of the effects attributed to it in the works of Charles Beard and Louis Hacker.³ The most radical point that can be made against Hartwell's optimism is that taxes, after all, are a compulsory evil, and that the British economy of the mid-nineteenth century was thus 11 percent evil, not unlike being 11 percent pregnant.

Hartwell is not to be blamed for failing to do what he does not attempt. He does not attempt to answer in full the question of incidence, or more generally the question of the consequences of taxation. In this he follows the other recent work on taxes in the period, "Taxation in Britain and France, 1750-1810" by his colleagues at Oxford, Peter Mathias and Patrick O'Brien.⁴ They most usefully compile the statistics of British and French government expenditure. But having their eye on bigger game, they, like Hartwell, go on to make arguments about incidence, such as that taxation of the rich slowed capital accumulation or that consumption taxes fell on consumers. The arguments, however, are unsupported in Mathias and O'Brien and in Hartwell. The questions asked are counterfactuals, that is, questions about what might have been. Did war and taxation slow down the rate of industrialization? Would the economy in 1830 have been radically different had there been no public debt? Would the poor have been richer or poorer had more taxes been taxes on income? Hartwell himself has been foremost in urging historians to adopt the economist's standard of proof in such matters. Economist, analyze thyself.

It is depressing testimony to the provinciality of scholarship imposed by sensory overload in the age of the photocopier that none of this company of Oxonians refer to the one attempt to do the job right, namely, Glenn Hueckel's "War and the British Economy, 1793-1815: A General Equilibrium Analysis."⁵ The question of incidence cannot be answered completely without such a model and

³Stanley L. Engerman, "The Economic Impact of the Civil War," *Explorations in Entrepreneurial History* 3 (Spring/Summer 1966) : 176-99, reprinted with revisions in *The Reinterpretation of American Economic History*, ed. R. W. Fogel and S. L. Engerman (New York: Harper & Row, 1971).

⁴*Journal of European Economic History* 5 (1976). See also my comment and their reply, in the same journal, vol. 7 (1978), and Mathias's essay on the British case, printed as chapter 6 of his *Transformation of England: Essays in the Economic and Social History of England in the Eighteenth Century* (New York: Columbia University Press, 1979).

⁵*Explorations in Economic History* 10 (Summer 1973) : 365-96.

cannot be answered partially without at least some model, however crude. It will not suffice to quote contemporary opinion and leave it at that. In his final section, for example, Hartwell gets to the matter of the incidence of taxes for war, but does not do any business; he culls opinions from Smith, Ricardo, Mill, budget speeches, and Sir Henry Parnell, but then leaves the matter of fact unresolved. Whether or not Hueckel's conclusion that land and labor were helped at the expense of capital during the Napoleonic War is believed, it does have the merit of going beyond qualitative opinions on quantitative facts.

From my own provincial point of view, his worst argument is that the substitution of an income tax for customs duties after the repeal of the Corn Laws enriched the nation: "The remarkable economic expansion of the midcentury must be attributed directly to those sensible tax policies." Now I am in favor of sensible tax policies, too. And I wish passionately to attribute to Free Trade everything laudable, including the mid-Victorian boom. But the assertion simply does not wash, historically or economically. A historian like Roy Church can point out, as he does in his book *The Great Victorian Boom 1850-1873*, that "whether free-trade policy was in a very large measure responsible for the trading boom is, in the present state of research, doubtful."⁶ An economist like Irving Kravis can point out that the experience of the past century suggests that trade is a mere handmaiden, not an engine, of economic growth.⁷ And an economic historian like me can point out that since Britain's monopoly of manufacturing at midcentury implied an optimal tariff well above zero, the move to free trade could have reduced rather than increased British national income.⁸ We do not know the incidence of Britain's tariff and therefore cannot assert boldly that dropping it was an important cause of economic growth. So, too, alas, with the other taxes during the Industrial Revolution.

Hartwell would surely join me in such expressions of doubt and in calls for further research. The beginning of true knowledge, it is said, is the admission of ignorance. Professional historians like Hartwell and me are painfully aware of our ignorance of the past. What

⁶London: Macmillan & Co., 1975, p. 78.

⁷"Trade as a Handmaiden of Growth: Similarities between the Nineteenth and Twentieth Centuries," *Economic Journal* 80 (December 1970) : 850-72.

⁸"Magnanimous Albion: Commercial Policy and British National Income, 1840-1880," *Explorations in Economic History* 17 (Spring 1980), reprinted in my *Enterprise and Trade in Victorian Britain: Essays in Historical Economics* (London: Allen and Unwin, 1981).

is mischievous, what I am sure Hartwell would not want his paper to encourage, is a confident belief that we are not ignorant. Let me repeat what I said earlier: We do not yet have sufficient historical materials to support any economic ideology. J. K. Galbraith's television series a few years back presented myths about imperialism as though they had the same status as the fact that the Indian Mutiny broke out on May 10, 1857. But Milton Friedman's series, most of which I agreed with politically and economically, had the same heavy emphasis on historical example as a method of proof and the same willingness to accept as fact what we would merely hope, without knowing, to be true about history. Lunch is necessary for the belly, history for the mind. But as there are no free lunches, there is no free history. With papers like Max Hartwell's we are beginning to collect the ingredients.