

Review of Kenneth Scheve and David Stasavage's *Taxing the Rich: a History of Fiscal Fairness in the United States and Europe*. Princeton: Princeton University Press, 2016, 288 pp.

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Like analogue radio, progressive taxation is a creature of the twentieth century: After enjoying a rapid rise in the early decades of the century, it suffered a marked decline as the century came to a close. Unlike analogue radio, progressive taxation might still be worth having. This motivates an inquiry into what force can account for its varying fortunes over time.

An intuitive explanation for the emergence of proportionately higher taxes on the rich appeals to the development of universal suffrage and the associated move towards representative democracy. Most countries that have practiced progressive taxation tend to have undergone a process of 'democratization' prior to raising taxes on their wealthier citizens. The late Industrial Revolution saw a growth of labour movements that finally upset the historical monopoly that the economic elite (and, then, only its male members) had with respect to effective political influence. As legislators began to represent the wider public, governments started taxing the rich just because that's what voters demanded. This intuitive view seems equally able to explain the subsequent fall of progressive taxes as the century wore on: legislation has once again become steadily captured by the influence of wealthy individuals and corporations, depriving the masses of their representation among policy makers.

The hypothesis that progressive taxation rides on the back of representative democracy typically goes unexamined, though I suspect that most people—insofar as tax policy is something they think much about—are disposed towards accepting some version of it. I was certainly so disposed myself, prior to reading this excellent book. Over nine chapters, Kenneth Scheve and David Stasavage take a proper look at what actually explains the fast growth followed by the slower but

certain decline of progressive taxation, and how this should guide our expectations about taxation in the future.

Based on an extensive study of available data, they show that the intuitive hypothesis—the idea that taxing the rich is merely a by-product of effectively representative democracy—is false. Instead, the more decisive factor is shown to be the mass mobilization of the population that occurs (or used to occur) in the event of a state embarking on a large-scale war. Such mobilization is precisely what took place in various countries in the early twentieth century, specifically those that participated in the wars of 1914-1918 and 1939-1945. These wars were fought in ways that exposed very large swathes of the general public to being killed. Just as crucially, the changing nature of conflict since the mid-twentieth century—with less emphasis on manpower and more on sophisticated weapons technology—has meant that governments can project military force without calling on their populations to make the ultimate sacrifice. These facts, according to the authors, account for both the rise and fall of taxes on the rich within the same century.

The more precise view that Scheve and Stasavage defend goes something like this: On the whole, progressive taxation becomes politically viable when a sufficiently compelling “compensatory argument” (33) becomes popular. Broadly speaking, such an argument exploits the idea that progressive taxation is a way of correcting for whatever privileges the state grants to people, at least when there is no easy or desirable way of removing the source of the privilege in question. The World Wars of the twentieth century enriched a small class of people who owned capital (which became profitable due to the war effort) and were generally too old to fight. It was considered grossly unfair to conscript the manpower of young men without also introducing the “conscripting of wealth” (150). The important consideration, according to the authors, is that it takes something as dramatic as large swathes of the population getting killed before compensatory arguments become compelling enough to cause a serious increase in progressive taxation. While the viability of progressive taxation is apparently dependent on a moralized concern about fairness rather than one about efficiency, the unequal treatment of citizens needs to become rather severe before taxing the rich will become a serious goal for policy makers.

A brief synopsis of the book will give a sense of how the authors develop and defend this claim. Chapter 1 identifies the intuitive

hypothesis about the dependency of progressive taxation on political representation, and separates it from the logic of compensatory arguments. Chapter 2 then traces the intellectual origins of compensatory arguments, distinguishing them from the superficially similar idea of ‘ability to pay’ as a principle of tax justice. It then discusses some experimental evidence suggesting that fairness norms are embedded in human practice in ways that dispose us to treat compensatory arguments as compelling when certain conditions obtain.

Subsequent chapters get stuck into reviewing the data on actual tax policy. Chapter 3 examines the history of the income tax, which was pioneered by the British in 1799. With the partial and temporary exception of the American civil war, it took over a century before income taxes were designed in ways that made them progressive. Data for belligerent nations after 1918 shows a clear spike in income tax progressivity. Data for non-belligerent countries shows no such spike, though some of these countries adopted progressive taxation in the years after World War I. Chapter 4 examines inheritance taxes, for which the data are somewhat parallel: Again, inheritance taxes stayed low in the nineteenth century (often single rates that stayed within single percentage digits) and rose among belligerent nations at the onset of World War I.

Chapter 5 turns to the details of what made compensatory arguments forceful in the context of the First World War, with reference to such things as the growth in war profits (where owners of certain forms of capital gained a windfall from government spending on the war) and the general discrepancy between those who were most at risk of being killed (typically young men) and those who tended to own capital (typically older men). Chapter 6 then examines how these conditions obtained in slightly different ways in the various belligerent nations.

Chapter 7 deals with the evolution of technology associated with waging war in the second half of the century. Here the emphasis is on the fact that transportation technology evolved ahead of weapons technology. This created a period during which the projection of military force remained dependent on human labour, as opposed to missiles, aeroplanes, and the like, but where technology was available to greatly improve governments’ ability to move human labour around. According to the authors, this explains why mass mobilization arose

after the introduction of railways, before declining with the emergence of precision weaponry after the Second World War.

Chapter 8 moves on to the decline of progressive taxation in the second half of the twentieth century, as compensatory arguments lost their popular force. Finally, chapter 9 offers some brief suggestions about the prospects under which compensatory arguments might make a comeback without the help of mass mobilization for war.

In appraising this book, I might begin with a caveat: By and large, this book's main claims are about causation in fiscal policy. The author of this review is a philosopher whose training lies more towards the analysis of concepts and moral arguments, not in asking what sort of historical data provides what sort of evidence. Accordingly, I will not try to dispute the authors' central hypothesis. I should say that the authors have done an excellent job of making their project accessible to non-specialists and I would heartily recommend this book to any philosopher (or other outsider) who works on anything to do with progressive taxation. It is worth mentioning that Scheve and Stasavage frequently connect their claims with philosophical principles or ideas about tax justice, which philosophical readers will appreciate.

That caveat made, I will nevertheless raise some critical reactions to this book. First, there is the question of whether the huge level of sacrifice associated with mass mobilization is both necessary and sufficient to bring about progressive taxation, or merely necessary. At times, the book gives the impression that mass mobilization is all it takes, that is, that the former claim is true. The latter claim—that mass mobilization is merely a necessary condition—is still an impressive conclusion. But it allows that other factors remain important.

Relevant here is an important complication about causal priority that the authors themselves acknowledge. Participation in a war of mass-mobilization or conscription may well popularize a compensatory argument of the sort that compels a government to introduce progressive taxation. But wars of mass mobilization don't just cause unfairness. The great wars of the twentieth century were also an existential threat, at least to the European belligerents. This suggests one alternative hypothesis, namely, that increases in progressive taxation come about at least partly due to government suddenly needing to raise a lot more cash. If states' real (or primary) motivation for raising taxes on the rich was just to pay for the wars they were fighting, then any official appeal to compensatory fairness, though popular, may have

been *post hoc*. That is to say, states may have simply taken advantage of compensatory sentiments among their public when the motivations of actually policy makers were somewhat different, but merely converged on the same sort of end. This would suggest that mass mobilization may indeed be a necessary condition for the emergence of heavier taxes on the rich, but one that is only one member of a set of *jointly sufficient* conditions.

To their credit, Scheve and Stasavage identify this complication and take considerable pains to address it, particularly towards the end of chapter 5. In effect, their answer is that while an existential threat may explain a rise in taxes, it does not explain a rise in progressive taxation in particular. For one thing, progressive taxation could easily have been employed by many states during the nineteenth century, particularly with respect to inheritance, but was consistently avoided. This is in spite of the fact that states frequently needed to raise revenue during this time, in part to fund participation in war. Crucially, these wars did not involve mass mobilization or high levels of conscription. This can be explained by the absence of effective transportation technology. Conscription for the large European conflicts of the early nineteenth century tended to be near locations in which military hardware was concentrated, such as port towns with naval dockyards. In sum, existential threats aren't the decisive factor. All in all, then, the evidence suggests that mass mobilization is a decisive factor in bringing about progressive taxes.

This response is persuasive as far as it goes. But there may be other reasons to think that the burdens of mass mobilization are merely a necessary condition for bringing about taxes on the rich. Some countries with relatively undemocratic conditions have continued to practice mass mobilization after more democratic countries started to switch to technology. The Iran-Iraq war of the 1980s involved high levels of conscription (and casualties) between two belligerent nations that did not grant their citizens democratic freedoms. This war was expensive enough to motivate Saddam Hussein's subsequent invasion of Kuwait. But I am not aware of any spike in progressive taxation that occurred after its commencement. It would have been nice to see Scheve and Stasavage offer some comment on any case where a non-democratic state forced its people to fight on a relatively large scale without adjusting its tax policy in the manner of belligerent nations during the World Wars. Without testing for what happens when countries practice

mass mobilization *without* democracy, it will be difficult to wholly dismiss the democracy hypothesis as having some explanatory power even if mass mobilization is the more crucial factor.

Second, I think it's fair to say the book spends rather more time trying to explain the rise of taxes on the rich than trying to explain their subsequent fall. Much, however, might be asked about exactly what is behind the gradual decline of progressive taxation. It would be interesting to look into whether progressive taxes have held up more in countries that continue to practice conscription, such as South Korea and Turkey (both of which have granted their citizens relatively strong conditions of democracy in recent decades). Israel is an example of one country that operates as a democracy under the fairly constant prospect of sending members of the general public into battle.

Whether or not the decline of progressive taxes is greater in countries that have abolished conscription, it is unlikely that this can be explained wholly by this factor, given the presence of other plausible candidate explanations. Australia, for example, got rid of inheritance taxes relatively soon after Second World War (while retaining relatively progressive income taxes). The standard explanation is that fiscal policy had been devolved to the level of state governments. Consequently, the inheritance tax was a casualty of domestic tax competition as different states fought to attract wealthy retirees (Pedrick 1981). This has little to do with citizens becoming relieved of a duty to fight in wars. Scheve and Stasavage offer some discussion of tax competition in chapter 8, but focus more on the international variety associated with globalization and the international mobility of capital. Overall, more might have been said about factors contributing to the ebb of taxes on the rich besides the receding memory of mass mobilization and the casualties it inflicted on the wider population.

I hasten to add that these critical remarks seek to highlight omissions and not oversights. There is something churlish about responding to a detailed data-driven study by simply asking why more data wasn't unearthed and examined, as if social scientists can simply perform this task as easily as scholars from more theoretical disciplines can demand that they do it. I am able to advance these criticisms, so far as they are cogent, only because the book makes the sort of progress that enables them to spring to mind.

To summarize, Scheve and Stasavage have produced an outstandingly valuable history of progressive taxation. It will be

enormously informative to anyone labouring under the misapprehension that achieving a fair income or inheritance tax is simply a matter of having legislators represent the people rather than the economic elite. But the book will be almost as informative to anyone else, just because of the impressive level of detail it contains, and the power with which the authors handle their data. Political philosophers will disagree about the moral case for or against taxing the rich, but I think Scheve and Stasavage's work will become essential background reading for anyone who thinks they can make this case one way or the other.

REFERENCES

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