

Trusting Leviathan: The Politics of Taxation in Britain, 1799–1914. *By Martin Daunton.* Cambridge, U.K.: Cambridge University Press, 2001. 452 pp. Index, notes, bibliography, illustrations, tables. Cloth, \$55.00. ISBN 0-521-80372-1.

Just Taxes: The Politics of Taxation in Britain, 1914–79. *By Martin Daunton.* Cambridge, U.K.: Cambridge University Press, 2002. xvi + 406 pp. Index, notes, bibliography, figures, tables. Cloth, \$60.00. ISBN 0-521-81400-6.

Reviewed by Forrest Capie

One of the truly remarkable features of English economic and political history of the eighteenth century was the extent of the increase in taxation and government borrowing. Tax revenue rose sixteenfold over the long eighteenth century, and the national debt rose from nothing at the outset (1688) to almost 100 percent of national income in the 1770s, reaching its peak at over 250 percent by the end of the Napoleonic Wars. These developments are usually explained in terms of the rise of the fiscal–military state. But such a state was potentially prone to crisis unless it was underpinned by a developed financial system that allowed borrowing to take place without fear of default. England had such a financial system. The foundation had been laid in the late seventeenth century, when sound money was advocated and pursued. And the financial revolution of the 1690s had introduced new financial instruments that inspired confidence. These factors also allowed the nascent banking system to emerge as a well-developed fractional reserve banking system over the course of the eighteenth century. Buttressing this financial structure was the parliamentary and administrative system. Martin Daunton sketches a brief history of these facts before proceeding, in *Trusting Leviathan*, the first of two volumes, to his account of the nineteenth century.

While the fiscal–military state might have been no bad investment insofar as it produced a powerful hegemonic state, increasingly it brought with it the undesirable baggage of large government, which was accompanied almost inevitably by bribery and corruption. Concern over the scale of waste and dishonesty increased during the

Napoleonic Wars. The burden of taxation was resented too, as was the intrusive bureaucracy that naturally went with it. A widely supported radical critique attacked the situation, arguing for the state to be dismantled. Thus, at the end of the Napoleonic Wars, there began to be attempts to reduce the scale of government spending (and to establish a more equitable rule). Only then could taxation proceed with a high degree of consent. The fiscal system had to be cleansed of special interests: “the Commons had to be purged of fiscal favouritism” (p. 63).

This was the beginning of the building of trust. Daunton provides a long and persuasive account that incorporates many factors. Detailed, technical, and strictly enforced accounting principles were designed and introduced. Further, whereas hypothecation (the allocation of taxes to specific expenditures) had been relied upon in the eighteenth century, indeed felt at the time to be necessary as a substitute for trust, come the nineteenth century it was rejected in favor of the view that revenue should be treated as a single pool. Interest groups were excluded from policymaking. In modern terminology, there was to be complete transparency, scrutiny, and accountability. After these measures were taken in the first quarter of the nineteenth century, the equity of different taxes remained a question to be addressed. The success of British politics was built on the fact that, by the 1840s and 1850s, the fiscal system had been cleansed and trust had thereby been established.

*Trusting Leviathan* then tackles the period from 1842, following Peel’s reintroduction of the income tax, until the First World War. Daunton takes on the complex structure of the tax system and weaves into his account the equally complicated story of the emergence of free trade. Where once, for example, free trade and the income tax were viewed as antithetical and income tax was regarded as a means of sustaining agricultural protection, by the end of the nineteenth century “income tax and free trade were seen as complementary props of the liberal, free trade economy” (p. 83).

The discussion ranges over the national debt, the capacity in the economy for “extraction,” the best design for the system, considered at the time to be a small, efficient bureaucracy that interfered minimally with the taxpayer. Gladstonian finance reigned supreme for the second half of the century but began to run into difficulties in the 1890s, when naval and other military spending was increasing and the cost of urban government

was rising. So it was that the fiscal constitution had to be remade by the Liberals, following the Conservatives' defeat in the election of 1906. New land taxes were introduced, and death duties raised. The concluding chapter points to events that followed in the First World War and beyond.

All that said, the first volume is very much a book for historians. There is, for example, no discussion of the complex interaction of fiscal with other real and nominal variables. Certainly no model is laid out. The book is none the worse for this lack; simply, it will not appeal to economists for that reason. In any case, for most of the nineteenth century, is there really such a thing as fiscal policy? For business historians, the book contains many matters of interest, from the implicit discussion of the new political economy (even though that framework is touched upon and then rejected) to the wide-ranging treatment of the nature of the state in an age of laissez-faire. There can be few complaints about the author's handling of the material, though if one gripe were obligatory, it would be about his uncritical acceptance of the idea of a sinking fund.

Daunton's specialty is the field of political and social history. For this reason, the first volume is a splendid achievement, and for the same reason the second volume is not. Volume One called for a grasp of the changing political climate and competing political and social views of the nineteenth century. It also required an understanding of the political process and a feel for the direction government policy could appropriately take. In other words, the material allowed a good story to be told, and the first volume did this. Further, in terms of the subject matter, because the main ambition, and the achievement, of the nineteenth century was to keep taxation and government spending low, taxes did not have much of an impact on the economy. Thus, there was little response from affected parties, and so less pressure for change. That situation changed greatly in the twentieth century, when not only did the scale of government increase enormously but something also emerged called "fiscal policy," which was used and abused for different purposes.

The stated aim of the second volume, *Just Taxes*, is to clarify how the system arrived at the condition in which it found itself in 1979. The Thatcher government was elected in a climate that was, at minimum, antipathetic to large government and to the growing scale and complexity of the tax system. The remarkable achievement was the

duration of the great confidence that developed in the nineteenth century. The nineteenth-century reforms to the tax system produced stability and gave it legitimacy. The system was thus in very good shape at the outbreak of war in 1914, and the British were better able than others to cope with the extraordinary burdens imposed by the war. After the war, the benefits continued, for the tax system was seen as being fair and neutral, allowing the government to introduce welfare spending based on a high and continuing revenue, a situation that lasted until close to the end of the period covered—that is, up to 1979. At this time, doubts began to arise, echoing, if in muted tones, the early-nineteenth-century experience.

Other pressures developed in the twentieth century. By 1945 the corporatist economy had come into being. Daunton described, in the first volume, the great, and successful, efforts during the nineteenth century to keep vested interests out of policy-making. By blocking special-interest groups from entering the government arena until well into the twentieth century, Britain was able to protect itself from the more overt rent-seeking that existed, for instance, in the United States. But in the second half of the twentieth century, pressure groups became active. Whether they succeeded in gaining a foothold is less clear. Daunton argues that their entry into the political realm did matter, not because of the individual gains they might have made but rather because of their increasing influence on economic and political thinking more generally.

It is important, before adding a critical note, to keep the title in view and not to expect more of the study than the author intended. Nevertheless, two areas require comment in order to explain why the second volume is less successful than the first.

Volume Two tells the story of the increasing scale of taxation and the increasing complexity of tax schedules. This is a dry tale, and it runs the danger of becoming simply a catalog of changing arrangements annotated with discussions of what the respective political parties and other commentators thought about the various proposals and changes. Some critical apparatus for assessing the utterly changed conditions of the twentieth-century macroeconomy would have been helpful. Furthermore, fiscal policy can seldom be discussed in isolation, and certainly not without reference to monetary conditions. Indeed, the book falters when it comes to macroeconomic issues. The examples are manifold, but here are one or two. “During the First World War the

government was heavily dependent on loans, which led to inflation . . . .” One wants to ask, by what route? And what about the eighteenth century? That was a century of war and soaring government debt, but there was no inflation to speak of. On the Second World War, Daunton says that Sir John Simon “introduced subsidies for essential goods in order to hold down the cost of living and to prevent an inflationary rise in wages. . . .” (p. 177). So loans cause inflation and subsidies prevent it? Another means of tackling inflation is also given: “Taxes could also be used to hold down domestic consumption and control inflation” (p. 195). Really? How? Later we read that income policy controlled inflation. An analytic framework would have allowed an assessment of these views.

More seriously, much economic history literature on the twentieth century is ignored, resulting in at best an archaic view of the period. For example, the author says there was a financial crisis in 1931, indeed an “unprecedented financial crisis” (p. 159). There was not. There was an exchange-rate crisis. Or at least the exchange rate fell sharply when sterling was taken off gold. (That turned out to be a good thing, much like the experience of the 1990s.) In the interwar years, the financial system was sound. Financial crises and exchange-rate crises have different causes and cures, so it is useful, indeed imperative, to distinguish between them. Similarly, we encounter, in more than one place, the old, discounted, report of an economic depression in the 1930s, prefaced, typically, by phrases like the following: “In addition to economic depression, British governments in the 1930s. . . .” (p. 169). There was no depression. There was a recession between 1929 and 1932—a fall in output of less than 6 percent in total across those years (in contrast to the United States and other countries, where the drop was on the order of 25 to 30 percent). From 1932 to 1937, there followed in the United Kingdom the strongest economic upswing that had ever occurred in British economic history.

Interestingly, too, in a volume on taxation there is no discussion of the big issue of the interwar years: the introduction of the general tariff.

These errors and omissions add up to serious concerns, resulting in the second volume being much less satisfactory than the first. The first volume provides an excellent coverage of the nineteenth century and has little need of explicit economic analysis. But the nature of the material in the second volume demands a different treatment and the

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consideration of several macroeconomic and some microeconomic questions. A splendid feature of both volumes is the useful device of a brief biographical footnote accompanying the introduction of each new character.

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