**Consumption Taxes and American Exceptionalism:
An Anglo-World Comparative Perspective***

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The American tax system today is quite distinctive in that it relies rather little on consumption taxes. The United States is the only developed country that does not have a value-added tax or a general sales tax at the national level (Kato 2003; James 2015), and while there are general sales taxes at the state level, the overall revenue produced by American consumption taxes – 4.4% of gross domestic product (GDP) in 2013 – is the least relative to the size of the economy of any developed country (Organization for Economic Cooperation and Development 2016). Instead, the American state has tended to rely more than others on income taxes – and throughout the twentieth century, these have been more progressive in their rate structure than those found in European countries. As a result, the overall American tax structure has been far more progressive in its incidence than that of countries normally associated with redistributive welfare policies, such as Sweden (Steinmo 1993, Prasad and Deng 2009).

Historical explanations for the particular nature of the American tax system generally focus on the period around World War I. In their comparison of the American and French tax systems, for example, sociologists Morgan and Prasad

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(2009) argue that agrarian opposition to high tariffs, coupled with working-class discontent at the rise of monopoly capitalism, led to a farmer-labor coalition in favor of redistributive taxation that succeeded in enacting a national income tax just before the war and then beat back repeated attempts to institute a national sales tax in the three decades thereafter. Prasad (2012) incorporates this argument into a broader interpretation that sees a strongly progressive tax system as part of an agrarian response to the problem of agricultural overproduction in the early twentieth century, a problem that was shared by other settler countries in the New World but not by the food-importing countries of Europe. Legal historian Mehrotra (2012) similarly concludes that the rise of ability-to-pay justifications for taxation had by the 1920s essentially foreclosed the possibility that policymakers might embrace consumption taxes. And political scientist Martin (2015), in comparing the evolution of tax systems in the United States and Denmark, argues that the path taken by the American system was set in the early twentieth century, when a lack of coordination among various class-based interests led to the establishment of the income tax as a highly progressive stand-alone class tax rather than a broad-based mass tax supplemented with a sales tax.

One feature shared by all of these analyses, despite their very different theoretical orientations, is a focus on federal taxes to the near exclusion of state and local taxes. If federal taxes are viewed in isolation, then the establishment of the federal income tax in 1913 and its refashioning as a robust means for war finance in 1916 indeed represent a regime change that deserves the attention lavished on it by fiscal historians (Bank et al. 2008: 49-81; Brownlee 1985, 2016: 77-106; Einhorn

2014; Joseph 2004; Mehrotra 2013; Scheve and Stasavage 2016: 151-159; Stanley 1993; Weisman 2002). But a very different periodization emerges when one views the overall American tax system, including state and local as well as federal taxes. As economic historian Wallis (2000) has already pointed out, income taxes (both federal and state) were a quite subordinate part of the overall tax system before the 1940s; until then, the local property tax retained the dominant position in the system it had first attained in the 1850s. From this perspective, the agitation of populists and progressives, who had claimed since the late nineteenth century that the income tax was a form of taxation superior to the property tax with its many defects of arbitrary assessment and uneven incidence, did not culminate in a substantial tax regime shift until World War II.

The various explanations for the distinctive nature of the American tax system also tend to compare the United States with European countries while generally neglecting any rigorous comparison with the other settler countries of what comparative historian Belich (2009) calls the Anglo-World. As Prasad (2012: 56-58) acknowledges, the problems of agricultural overproduction were shared among these countries, and thus the forces pushing for progressive taxation should have been similar in all of them. Yet Canada, Australia, and New Zealand all instituted national sales taxes in the 1920s or early 1930s and today raise about two to three times as much in consumption taxes relative to GDP as the United States, suggesting that there is something truly exceptional about the United States that goes beyond the shared crisis of overproduction. A sustained comparison with these settler countries can thus provide new insights into the nature of American

exceptionalism – as already demonstrated by Archer (2007), whose exploration of why there is no labor party in the United States also relies on a comparison with Australia rather than with Europe.¹

In this study, I will extend the analysis of Wallis (2000) by comparing the levels of various taxes across the different Anglo settler countries as well as the United Kingdom – that is, the countries where local governments relied heavily on property taxes.² I will draw three main conclusions from this comparison: (1) consumption taxes were considerably lower in the United States than elsewhere even at the beginning of the twentieth century, before the income tax had been enacted here; (2) income taxes (and related progressive taxes on estates and corporations) did not become substantially more prominent in the American tax system than elsewhere until after World War II; and (3) the low level of consumption taxes here was instead due to the much more decentralized nature of the revenue system, with local taxation (and thus property taxes) playing a far greater role here than elsewhere. Thus, historical and sociological investigations into the American aversion to consumption taxes would benefit from increased attention to the exceptionally localistic character of the American taxation system rather than the embrace of a federal income tax.

¹ For valuable insights into American exceptionalism derived from a comparison with Canada, see Eidlin (2016), McCabe and Berman (2016).

² These countries are also generally classed as having liberal welfare regimes and liberal market economies (Esping-Andersen 1990; Hall and Soskice 2001), and thus are much more similar to each other than to continental European countries on the basis of political economy as well as language and shared heritage.

Data and Methods

Data on types of tax revenue for each level of government are drawn from official statistical compilations (Australian Bureau of Statistics 1908-1957; Leacy 1983; Mitchell 1988; Statistics Canada 1929-1941; Statistics New Zealand 1903-1958; United States Bureau of the Census 1975). For the United States, these data are available for selected years from 1902 to 1932 and for even-numbered years thereafter. I will end the analysis in 1954, by which time the post-World War II tax system had become settled. For Canada, reasonably complete data are available only from 1913, and the years for which they are available in the 1920s and 1930s do not quite align with the years for which American data can be found.³ For Australia, New Zealand, and the United Kingdom, data are available on an annual basis from 1902, and thus exact matches can be found for the United States data. I am omitting from comparison both Newfoundland (a separate settler colony until 1949, but with an economy so small and unviable that its government had to be bailed out through union with Canada after World War II) and South Africa (where white settlers never constituted a majority, so that per-capita numbers there are not strictly comparable to those in the other countries considered here).

My comparison involves three federal countries (the United States, Australia, and Canada) and two unitary countries (New Zealand and the United Kingdom). While the varieties of federalism and their impact on tax policies are of considerable

³ In particular, I will compare the US in 1922 to Canada in 1921, the US in 1927 to Canada in 1926, the US in 1936 to Canada in 1937, and the US in 1938 to Canada in 1939.

interest (see, for example, Rodden 2006), I have chosen to focus instead on the basic cleavage, present in all five of these countries, between local and supra-local taxation. In order to facilitate comparison, I have grouped state-level revenues in the federal countries with national-level rather than local revenues. I did so in part because in both Australia and Canada the national government took over the vast majority of state-level taxes during World War II, so that the distinction between national and state-level revenues was rendered meaningless there. More importantly, in all five countries property taxes were the dominant revenue source at the local level while income, inheritance, and consumption taxes could be found at both the national and the state level in the three federal countries. Finally, it should be kept in mind that New Zealand nearly joined the Australian Commonwealth at its formation in 1901, in which case what is now the New Zealand national government would have been just another Australian state-level government.

I classified tax revenues into three main functional categories: consumption taxes, property taxes, and ability-to-pay taxes (motor vehicle fees form a fourth, relatively minor category). The ability-to-pay category includes not only income and net profit taxes, but also estate, gift, and inheritance taxes and various corporate franchise taxes and licenses (including stamp duties on business transactions and stock transfers), which frequently were imposed in an attempt to reach corporate profits while avoiding legal or constitutional obstacles to taxing those profits directly. I include payroll taxes, such as the American social security taxes, in the ability-to-pay category, as other countries (in particular Australia) in their official

statistics often did not delineate sharply between the progressive income taxes established before World War I and the flat-rate wage taxes imposed during the 1930s to fund unemployment relief, old-age pensions, and child allowances. Conceptually, the inclusion of these payroll taxes as income taxes can be defended even for the American case, as they are still a tax on earnings. In keeping with British statistical practice, I have not included the British fixed-sum national insurance contributions as tax revenue. The tripartite classification scheme used here is similar to that used in Andersson's (2017) analysis of national tax revenues in thirty-one countries from 1800 to 2000, except that I have classed estate, gift, and inheritance taxes as ability-to-pay taxes rather than property taxes in order to reflect better the political circumstances under which such taxes were generally imposed in the Anglo-World in the early twentieth century.

Besides examining the ratios of these revenue categories to each other for each country, I have also sought to compare levels of each tax category across countries. One way to do this is to compare tax levels relative to the size of each country's economy, as measured by GDP (data from Hutchinson and Ploeckl, 2016; Johnston and Williamson 2016; Leacy 1983; Statistics New Zealand 2005; Urquhart 1986; Williamson 2016). Prior to the 1940s, though, there was no contemporary measurement of GDP (or rather the related gross national product), so that we only have later estimates and back-projections for the size of pre-World War II economies. Thus, I have also attempted to compare tax levels by establishing the absolute level of per capita tax burden in each country (population data from Hutchinson and Ploeckl 2016; Johnston and Williamson 2016; Leacy 1983; Statistics

New Zealand 2005; Williamson 2016). In order to do this, I have used three separate methods to convert between the currencies of each country. The first is based on actual exchange rates (as compiled by Officer 2016), which for most of the period before World War II were close to the official exchange rates fixed under the gold standard and for the post-war years the exchange rates of the Bretton Woods system.⁴ For years prior to 1928, though, this adopts the unrealistic official position that the Australian and the New Zealand pound were equivalent to the British pound sterling.

The second conversion method is an attempt to establish purchase power parities using consumer price indices (data from Bank of Canada 2016; Clark 2016; Hutchinson and Ploeckl 2016; Officer and Williamson 2016; Statistics New Zealand 2005). For this method I started with the revised purchase power parities for 2005 determined by the World Bank's 2011 International Comparison Program (World Bank 2015:266-267) and then used each country's official consumer or retail price index between 2005 and the year in question to adjust the purchase power parity for the effects of inflation in each country. This method produces an exchange rate quite close to the gold standard rate between the U.S. dollar and pound sterling for the pre-World War II era, while also showing the Australian and New Zealand pound to be quite weaker than suggested by official parity prior to their devaluation during the Great Depression. For the period after World War II, this method shows the sterling-bloc currencies to be substantially undervalued relative to the U.S. dollar

⁴ Officer (2016) does not list any dollar exchange rate for the Australian pound for 1945-1949; for these years I have used only the two other currency conversion methods described further below.

under the Bretton Woods system, in agreement with other independent estimates of purchase power parity at this time (Ward and Devereux 2003).

One weakness of this second conversion method is that, when the derived exchange rates are applied to per-capita GDP figures, it implies that living standards in the United States were already substantially higher than in the United Kingdom at the beginning of the twentieth century. While some economic historians have suggested that this was indeed the case (Prados de la Escosura 2000; Ward and Devereux 2003; Woltjer 2015), the widely cited collection of global GDP-per-capita data assembled by Maddison (2010) states that British and American per-capita earnings were still roughly similar at this time (see also Broadberry 2003; Lindert and Williamson 2016). One possible explanation for this is that Maddison adjusted for inflation by using not the consumer price index, but rather a GDP deflator that takes into account price changes in the entire economy. I derived a third set of exchange rates based upon Maddison's implied GDP deflator by determining the exchange rates that would put the nominal GDP from each country into the same relation to each as the real GDP listed by Maddison. In general, this third method shows a significantly weaker U.S. dollar than the CPI-based method but preserves the relative value of the other four currencies. On the accompanying bar graphs, I have expressed all per-capita tax data in nominal U.S. dollars; the black portion of the bars indicates the minimum and maximum value obtained by using the three different methods to convert the other four countries' currencies into U.S. dollars and thus gives a graphic indication of the large uncertainty involved in currency

conversions. Nevertheless, there are some striking differences in various tax burdens between countries that clearly exceed this uncertainty.

Results

GDP and Total Taxes

In order to put the subsequent discussion of the relative burdens of consumption, ability-to-pay, and property taxes into context, a few words are necessary on comparative levels of GDP per capita and total taxes. At the beginning of the twentieth century, American GDP per capita was either about the same or somewhat higher than that in the other four countries (see figure 1). By the 1920s the United States had opened up a clear lead in GDP over the other countries except perhaps Australia. The lead shrank again during the Great Depression, but then expanded even more dramatically after World War II. By the mid-1950s American GDP per capita was at least 20%-35% greater than that in the other four countries and possibly more than twice as high, depending on the currency conversion used.

Relative to the size of the economy, total taxes throughout the early twentieth century were about as high in the United States as in Australia – about 5% of GDP before World War I, about 10% of GDP in the 1920s, around 13% to 15% of GDP in the 1930s, and between 19% and 24% of GDP in the decade after World War II (see figure 2). Total taxes in New Zealand and the United Kingdom were consistently higher, with New Zealand tax levels relative to GDP tracking about 5 percentage points higher than in the United States throughout this period and British taxes advancing significantly ahead even of the New Zealand ones

immediately after each of the two world wars. This means that, relative to GDP, total taxes were twice as high in these two countries as in the United States prior to World War I and remained twice as high in the United Kingdom during the 1920s; by the mid-1950s, though, taxes as a fraction of GDP were only about 20% higher there than in the United States. Meanwhile, total tax levels in Canada were similar to those in New Zealand until the mid-1920s, but from the mid-1930s tracked closer to American and Australian levels.

Although American taxes were low relative to the size of the economy, the greater size of the economy here meant that absolute per-capita tax burdens were not particularly low in the United States (see figure 3). Before World War I total per-capita taxes in the United States were either roughly equal to or somewhat lower than those in other four countries. During the whole period after World War I, though, American per-capita taxes have been higher than in Australia or Canada, regardless of which currency conversion method is used. British per-capita taxes remained clearly higher than American ones throughout the interwar period, while those in New Zealand might have been higher or lower than in the United States. By the mid-1950s, though, with the American economy surging far ahead, American per-capita taxes were also clearly higher than in any of the other four countries.

Consumption Taxes

Relative to GDP, consumption taxes have been considerably lower in the United States than elsewhere throughout the first half of the twentieth century (see figure 4). Even as early as 1902, consumption taxes yielded only 2.1% of GDP in the

United States, compared to a bit more than 3% of GDP in Australia and the United Kingdom and 5.5% in New Zealand. By the late 1920s, the American yield had dropped slightly below 2% of GDP while reaching around 4% of GDP in Australia and around 6% of GDP in the other three countries. In the early 1930s there was a substantial increase in American consumption taxes, as Congress imposed various excise taxes to close its budget deficit, many of the states instituted a general sales tax, and both the federal and state governments resumed the taxation of alcohol after the repeal of prohibition (Hindman 2010: 430-573; Leff 1984: 19-45). Even so, the American consumption taxes at a bit more than 4% of GDP still took less than those elsewhere, which yielded from 5.5% to nearly 9% of GDP. Moreover, the yield of the American consumption taxes remained constant after the early 1930s, while increasing in Australia, Canada, and especially the United Kingdom during World War II.

The United States also generally derived a smaller share of its total taxes from consumption taxes than the other four countries (see figure 5). While the share of consumption taxes dropped in Australia, Canada, and New Zealand during the first half of the twentieth century, it fell to American levels in only one case, that of New Zealand in 1940 (after New Zealand had instituted its wartime mass income tax [Goldsmith 2008: 191-197], but before the United States had done so). Meanwhile, in the United Kingdom (which, unlike the other four countries, had embraced free trade during the nineteenth century and forsaken substantial revenue from customs duties) the share of total taxes from consumption taxes was

as low as in the United States before World War I, but then remained steady or even climbed slightly rather than declining as in the other four countries.

Even in terms of absolute per-capita burdens, consumption taxes were lower in the United States than elsewhere (see figure 6). Even before World War I per-capita consumption taxes were lower in the United States, regardless of which currency conversion is used. During the 1920s they were dramatically lower here than elsewhere, and even after the substantial hike in American consumption taxes in the early 1930s they remained lower than elsewhere with the possible exception of Australia in 1936. Only after World War II, as the American economy and with it the total American tax take grew larger than those elsewhere, did American per-capita consumption taxes become possibly higher than those in Australia, New Zealand, and (by 1954) the United Kingdom, while remaining clearly lower than those in Canada.

Thus, it is not just in comparison to European countries that American consumption taxes are low. No matter which yardstick is used, consumption taxes in the United States were consistently much lower than even in the other Anglo settler countries until World War II and (except perhaps in terms of per-capita burdens) for the decade thereafter.

Ability-to-Pay Taxes

Although consumption taxes were quite low in the United States, ability-to-pay taxes were not correspondingly high here. In fact, relative to the economy American ability-to-pay taxes were also rather low (see figure 7). Throughout the

period before World War II, ability-to-pay taxes took about the same portion of GDP in the United States as in Canada and in Australia, with Australian taxes considerably higher in the early 1930s and American ones appreciably higher in 1938.⁵ During this period, though, ability-to-pay taxes yielded considerably more in the United Kingdom and in New Zealand. While American ability-to-pay taxes amounted to slightly more than 3% of GDP in the 1920s and early 1930s, climbing to roughly 6% by 1940, those in New Zealand took about 5% of GDP in the 1920s and 8% to 9% in the 1930s, and the British ones yield between 9% and 12% during the interwar period. After World War II the portion of GDP taken by ability-to-pay taxes climbed once again in all five countries before dropping slightly in the late 1940s; in the wake of the Korean War they also climbed again in the United States, New Zealand, and Canada. But it is only during this period, in the early 1950s, that American ability-to-pay taxes for the first time took a greater share of GDP than British ones and approached the yield of the New Zealand ones.

A similar picture emerges when one considers the share of ability-to-pay taxes in total tax collections at all levels of government (see figure 8). Here, the share in the United States was generally at least somewhat above the one in Canada, but before World War II it approached the share in Australia and New Zealand only on a couple of occasions and did not come close to that in the United Kingdom. As late as 1940, less than 40% of American taxes were ability-to-pay taxes, compared

⁵ Australian states introduced flat-rate wage taxes in the early 1930s (Smith 2004:60; Smith 2015:691-698), about half a decade before payroll taxes for social security and unemployment insurance became widespread in the United States. Conversely, the Roosevelt administration also made an ultimately doomed attempt to tax undistributed corporate profits that led to a spike in ability-to-pay tax receipts around 1938 (Thorndike 2013:180-198).

to about 50% of British and nearly 60% of New Zealand taxes. Only after World War II did the United States generate a larger portion of its total taxes from ability-to-pay taxes than the other four countries, as the share increased to around 70% here while remaining at roughly 60% in New Zealand and Australia and about 50% in Canada and the United Kingdom.

Even in terms of absolute per-capita tax burdens, American ability-to-pay taxes were comparatively light (see figure 9). Before World War I per-capita ability-to-pay taxes in the United States were perhaps equal to or slightly lower than those in Australia and Canada and definitely lower than those in New Zealand and the United Kingdom. During the inter-war period they remained definitely lower than the British ones and definitely higher than the Canadian ones, while being roughly equal to the Australian ones and (until the Great Depression) the New Zealand ones. It is only after World War II that American per-capita ability-to-pay taxes were definitely higher than in any of the other four countries (with the possible exception of New Zealand in 1950).

As I will argue in the next section, the United States relied far more heavily on local taxation (which is to say the local property tax) than the other four countries. So what if we confine our attention to the state and national levels? Here, too, it is difficult to detect a specifically American preference for ability-to-pay taxes until after World War II (see figure 10). Before World War I, the fraction of consumption and ability-to-pay taxes (which is essentially the same as national and state taxes) produced by ability-to-pay taxes amounted to slightly more than 20% in the United States, Australia, and New Zealand. The fraction was considerably higher

in the United Kingdom, because of its commitment to free trade and consequent forsaking of most customs duties (Barnes 2014), and somewhat lower in Canada, where liberals were less interested in pushing for income taxes than elsewhere (Scheve and Stasavage 2016: 145-146). The ability-to-pay fraction climbed in each country after World War I, most steeply in the United States, which in the 1920s surpassed even the United Kingdom in this measure (but would not have done so if alcohol tax revenues had not been slashed as a result of prohibition⁶). But with the economic contraction during the Great Depression, which affected profits (and thus ability-to-pay tax revenues) more strongly than consumption (and thus consumption tax revenues), and with the sharp consumption tax increases in the United States in the early 1930s already mentioned previously, the fraction taken by ability-to-pay taxes dropped again sharply in the United States. Even with the economic recovery of the late 1930s, the ratio of ability-to-pay taxes to consumption taxes as late as 1940 was still less than in New Zealand or the United Kingdom. It is only after World War II that the United States clearly became the country relying most on ability-to-pay taxes relative to consumption taxes.

By all four measures just discussed, the United States did not rely more on ability-to-pay taxes than the other four countries before World War II. To be sure, use of ability-to-pay taxes increased throughout the first half of the century, but it did so in the other three settler countries as well – only in the United Kingdom did the ratio of consumption to ability-to-pay taxes remain roughly stable. Thus, there

⁶ Prohibition came very close to passing in New Zealand in 1911, but ultimately was not enacted there or in any of the other Anglophone countries outside the United States (Dostie and Dupré 2016).

were indeed political forces in all four of the New World countries pushing for increased use of ability-to-pay taxes. But only after World War II did the United States come to be exceptional in its use of such taxes. Thus, the disproportionately low reliance on consumption taxes in the United States, which is apparent as early as 1902, cannot be explained by any correspondingly disproportionate preference for ability-to-pay taxes here at that time.

Local Taxes

If the United States had disproportionately low consumption taxes but only average ability-to-pay taxes before World War II, then the difference has to lie in the third large category of taxes, property taxes. Before World War I, property taxes did indeed account for 50% to 60% of all American taxes, but only around 30% to 35% of British, Canadian, and New Zealand taxes and around 20% to 25% of Australian taxes (see figure 11). During World War I these ratios all dropped due to the growth of other taxes to pay for the war effort, but by 1932 property taxes once again took about 55% of all American taxes, compared to around 45% of those in Canada and less than 25% elsewhere. During the 1930s the ratios once again decreased everywhere, but in 1940 the American ratio of about 30% was still more than twice that in the United Kingdom, New Zealand, and Australia. Only after World War II did the share of property taxes drop to a bit more than 10% in the United States, now approaching the levels seen elsewhere (except in Australia, which still had a disproportionately small reliance on property taxes).

Property taxes were not necessarily the same as local taxes. State and (especially in Australia and New Zealand) national governments also levied taxes on land, while local governments sometimes imposed sales taxes and franchise or license taxes on businesses. Nevertheless, local taxes in most cases raised approximately the same amount as property taxes, and thus for the rough comparisons used here they can be taken as equivalent.⁷ In fact, a graph of the share of local taxes in total taxes (figure 12) looks quite similar to the graph discussed above of the share of property taxes in total taxes.

The disproportionately high share of local taxes (and thus property taxes) in total American taxes was the result of both comparatively low federal and state taxes and comparatively high local taxes. Turning first to national and state taxes, in the United States these were lower relative to the size of the economy than in any other country until after World War II, with the single exception of 1938, when Roosevelt's attempt to tax undistributed corporate profits led to a spike in federal tax collections (see figure 13). In general, relative to GDP national and state taxes were at least 40% higher in Australia and Canada than in the United States, while being at least around 100% and frequently 150% higher in New Zealand and the United Kingdom through 1940. In the wake of World War II central government

⁷ In the years examined here, amounts raised in local taxation amounted to 93% to 113% (median of 101.5%) of the amounts raised from property taxes in the United States, 71% to 93% (median 83.5%) in Australia, 77% to 101% (median 98%) in New Zealand, 98% to 121% (median 109%) in Canada, and 95% to 100% (median 100%) in the United Kingdom. In other words, local taxes were essentially equal to property taxes in the United States, New Zealand, and the United Kingdom, a bit more than property taxes in Canada (due to the greater significance of local licenses there), and less than property taxes in Australia (due to the presence of both Commonwealth and state land taxes there).

taxes increased in all five countries, but even in the mid-1950s those in the United States took only a slightly larger portion of GDP than in Australia and Canada, and about a sixth less than in New Zealand and the United Kingdom. Even in terms of absolute per-capita tax burdens American federal and state taxes were lower than anywhere else prior to World War I (see figure 14). From 1922 to 1932 these taxes were roughly the same as in Canada but still definitely lower than elsewhere; by the late 1930s they were also roughly the same as in Australia. It was not until 1954, when American per-capita GDP had pulled definitely ahead, that per-capita federal and state taxes were also definitely higher than anywhere else.

Meanwhile, local taxes relative to the economy were much higher in the United States than in Australia throughout the entire period considered here, and somewhat higher than in New Zealand until after World War II (see figure 15). As a percentage of GDP, Canadian local taxes closely tracked American ones during the entire period, being even somewhat higher in the early 1920s, while British local taxes also took the same share of GDP until the onset of the Great Depression and then remained lower until the North American shares declined after World War II. In terms of absolute per-capita burdens, though, American local taxes were substantially higher than those in all other four countries throughout the entire period, with the only exception being the possibility that local taxes might have been slightly higher in the United Kingdom in 1902, depending on the currency conversion method used (see figure 16).

Because federal and state taxes were lower than elsewhere, especially compared to New Zealand and the United Kingdom, and local taxes were higher than

elsewhere, especially compared to Australia, the United States clearly had a much more decentralized tax system than the other four countries, at least until the vast expansion of national governments in all five countries during World War II. It is this decentralization that explains the small share of consumption taxes in the overall American tax take before World War II: while the ratio of consumption taxes to ability-to-pay taxes was roughly similar to that in Australia and New Zealand (not surprising given their similar political economies), the size of that portion of the government which collected such taxes was much smaller in the United States.

Discussion

The data presented here show some clear similarities across all five countries. Everywhere the total tax burden ratcheted up significantly in the wake of both World War I and World War II (with an additional ratchet during the Great Depression in the four settler countries). In each of the five countries, this ratcheting occurred primarily at the central government level. And in the four settler countries, it went hand-in-hand with an increasing prominence for ability-to-pay taxes. While the growth of central government taxes certainly owes quite a bit to both the overall growth of the economy and the growth of government responsibilities (especially in the military field), the mushrooming importance of ability-to-pay taxes in the settler countries may very well be a response to the crisis of agricultural overproduction in these countries, as argued by Prasad (2012).

But agrarian populism was not primarily directed against consumption taxes – in fact, during the peak of the agricultural crisis in the early 1930s,

consumption taxes as a percentage of GDP and as a percentage of total tax revenues actually increased in the four settler countries, most sharply in the United States. Instead, agrarians focused their opposition mainly on the property tax, the burden of which had grown inexorably in the four settler countries through the early 1930s (in the United Kingdom growth had ceased in the early 1920s). While agitation against property taxes was present in all of these countries, it again appears to have been sharpest in the United States, where it manifested itself in arguably the most significant tax protest of the twentieth century (an event that is still sadly understudied). Not only did property tax delinquencies increase dramatically, but in some localities there was also violence against tax collectors (Beito 1989; Martin 2008: 29). In a number of state legislatures, agrarian populists pushed through property tax limitations, and on occasion they even acquiesced in the imposition of state sales taxes that might shift the burden away from property taxes (Shoup 1934: 19-20). As a result, the level of property taxes relative to GDP dropped significantly during the 1930s and has remained low ever since then; even at the onset of the next wave of property tax protests in the mid-1970s, their burden as a percentage of GDP was less than half of what it had been in 1932. By thus limiting the ability of local governments to raise revenue for welfare and other measures, agrarian populists facilitated the growing centralization of government functions during the 1930s (Coen-Pirani and Wooley 2017).

While the rise of ability-to-pay taxes, facilitated by the crisis of agricultural overproduction, is a theme common to all of the settler countries in the early twentieth century, it does not account for the extraordinarily low level of

consumption taxes found in the United States. The income tax and related ability-to-pay taxes did not become more prominent here than in the other settler countries until after World War II, when the American federal government exploded in size (due to both the post-war economic boom and the Cold War military buildup) at a time when federal fiscal policy was dominated by officials who had acquired a predilection for progressive income taxes during the Roosevelt administration (Zelenak 2009; Thorndike 2013; Geschwind 2017). But consumption taxes had been low in the United States relative to other countries long before then – even as long ago as 1902, before the introduction of the federal income tax. The peculiarly American aversion to consumption taxes was thus not the flipside of a preference for ability-to-pay taxes. Instead, it was a consequence of the exceptional decentralization of the American fiscal system, which relied far more than other countries on local property taxes.

It is beyond the scope of this study to account for why local taxes were so much more important in the United States than elsewhere, but a few suggestions for further exploration can nevertheless be offered. One important difference in the allocation of governmental responsibilities between Australasia and the other countries is that public schooling in Australia and New Zealand from its inception in the 1840s was fully funded by the central government rather than local authorities, thereby removing one of the main drivers of heavy local property taxation found in the United States and Canada. Unfortunately, a lot more work is needed to make other government expenditure categories in official statistics comparable between countries, so as to determine whether, for example, road construction or poor relief

were also considered more of a central government function outside the United States. Nevertheless, it appears that an explanation for why consumption taxes are so much lower in the United States than elsewhere needs to grapple with nineteenth-century cross-country differences in what was considered the appropriate governmental level for various public expenditure functions.

The much greater decentralization of government functions and thus the tax system in the United States may have been driven not only by ideological differences, but also by material constraints imposed by the position of the United States within the global economy. All of the settler countries imposed tariffs for protective purposes before World War I (Hiscox 2002: 45-70, 104-127). But these tariffs inherently generated far more revenue (relative to GDP) in the smaller, more trade-dependent British dominions than in the larger, much more self-sufficient United States.⁸ At the same time, the ability of many American states to raise funds was constrained by the passage of state constitutional amendments after a rash of debt defaults in 1841/42, a crisis that seems not to have affected the British settler colonies (Kim and Wallis, 2005; Wallis 2005; Wallis and Weingast 2008). Thus, it is possible that government functions were more likely to be made a charge on local

⁸ In 1902 average tariff rates were actually somewhat higher in the United States, with customs revenue amounting to about 25% of all goods imports here as compared to 20% in Australia and 17% in Canada. But goods imports amounted to only 4% of total GDP in the United States, as compared to 15% in Australia, 20% in Canada, and 26% in New Zealand. As a result, protective tariffs raised only about 1% of GDP in the United States, compared to 3%-5% of GDP in the British dominions. The discrepancy may have been even sharper in the nineteenth century, as duties were also imposed on trade between Australian colonies prior to federation in 1901 and between Canadian provinces prior to confederation in 1867.

property taxes in the United States than elsewhere because of these material constraints on central government finance that were not as restraining elsewhere.

These tentative speculations suggest that, in accounting for the exceptionally low levels of consumption taxes in the United States today, fiscal sociologists and tax historians need to range far beyond the explanatory models commonly employed today. The fierce and protracted struggles over the federal income tax that resulted in the triumph of a strongly progressive tax system, while certainly important in their own right, are insufficient for explaining the aversion to consumption taxes here. Instead, we may need to explore the development of intergovernmental fiscal relations within the material and structural constraints imposed by the political economy of the nineteenth century to understand the extraordinary decentralization of the American tax system at the beginning of the twentieth century, which in turn was the reason for why Americans relied so little on consumption taxes.

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Figure 1. Nominal Per-Capita GDP

Figure 2. Total Taxes as Percentage of GDP

Figure 3. Nominal Per-Capita Total Taxes

Figure 4. Consumption Taxes as Percentage of GDP

Figure 5. Consumption Taxes as Percentage of Total Taxes

Figure 6. Nominal Per-Capita Consumption Taxes

Figure 7. Ability-to-Pay Taxes as Percentage of GDP

Figure 8. Ability-to-Pay Taxes as Percentage of Total Taxes

Figure 9. Nominal Per-Capita Ability-to-Pay Taxes

Figure 10. Ability-to-Pay Taxes as Percentage of Ability-to-Pay plus Consumption Taxes

Figure 11. Property Taxes as Percentage of Total Taxes

Figures 12. Local Taxes as Percentage of Total Taxes

Figure 13. National and State Taxes as Percentage of GDP

Figure 14. Nominal Per-Capita National and State Taxes

Figure 15. Local Taxes as Percentage of GDP

Figure 16. Nominal Per-Capita Local Taxes