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## DEBATES

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### *A Mismeasurement of the Incidence of Taxation in Britain and France, 1715-1810*

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In a startling and ingenious essay in the Winter 1976 issue of this *Journal* Peter Mathias and Patrick O'Brien argued that the social and economic incidence of taxes in eighteenth-century Britain was, by comparison with France, regressive.<sup>1</sup> Their argument is that, first, the British government relied mainly and increasingly on "indirect" (i.e. consumption) rather than on "direct" (i.e. income and wealth) taxes; and, second, that these indirect taxes fell "heavily upon the poor" (p. 634). Thus: "indirect taxes formed the main burden of fiscal levies in Britain... and sustained the main increments in the yield of taxes" (p. 617); "within the excise system the greatest income came from home produced spirits, beer, malt and hops" (p. 618), falling "squarely upon the mass of consumers in the country" (p. 619); "other indirect taxes — such as that on imports of tobacco as well as excises on soap, candles, salt — fell principally upon the mass market" (p. 619); in short, "the main economic incidence of taxation in Britain — and the main increment in tax income — thus fell upon consumption" (p. 621); with the consequence that investment was encouraged at the expense of effective demand, a benefit or a burden on economic growth depending on "one's views about the dynamics of economic change during the period" (pp. 621-622).

I will not quarrel here with the factual premises of the argument, nor with its subsequent application to explaining British growth. Mathias and O'Brien have exercised their usual care and imagination in handling the sources, producing much the best extant survey of the legal incidence of

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1. "Taxation in Britain and France, 1715-1810. A comparison of the Social and Economic Incidence of Taxes Collected for the Central Governments", *Journal of European Economic History* 5 (No. 3, Winter 1976): 601-690.

British and French taxes in the eighteenth century; the dynamics of British growth have been treated elsewhere.<sup>2</sup> My quarrel is with the soft middle of the argument, which assumes that the economic incidence of taxes can be discerned in their legal incidence.

Almost any economic philosophy, from Marx or from Marshall, would reject such an assumption. The question of incidence cannot be answered by inspecting the tax law or its revenues. Lawyers, politicians, journalists, and other experts in *ersatz* economics, to be sure, will go on proclaiming confidently that the payroll tax falls on employers, the corporate income tax on stockholders, and the beer tax on beer drinkers. Their opinions are important data for the historian. But they are notoriously bad guides to the true incidence. Were incidence so easily discerned much of economics could be abandoned in favour of a study of laws and public administration. Some may believe it should be so; those who do not will find it difficult to accept the conclusions of Mathias and O'Brien.

The central point is simple. The British government imposed a tax on beer. Who paid it? The *ersatz* economist answers, without hesitation, "the beer drinkers, i.e. the poor". The *echt* economist answers, with great hesitation (and a good deal of embarrassment that his science provides such an agnostic answer), "maybe the poor, maybe the rich, depending on the elasticities of supply and demand, the openness of the economy, and many other things". It is sad that the world is so complex; but, alas, it is true. For example — and this *is* an example, a mere illustration of the possibilities ignored by Mathias and O'Brien — a beer tax could quite easily fall more on the rich than on the poor, turning Mathias and O'Brien upside down. Suppose (as was the case) that beer was produced by methods that made unusually intensive use of land and capital, as against labour. A tax on beer would raise the price paid by the drinker; but it would also lower the price received by brewers. That is to say, some of the tax would fall on suppliers, driving down the prices of the land and capital used in brewing (and malting and barley-growing). The tax could hurt the wealthy owners of land and capital in these activities as much or more than it hurt the drinkers of beer. The incidence is unclear.

There is nothing remote about this possibility, or others: they are the possibilities examined in the most elementary treatments of taxation, and the ones that make even elementary questions difficult to answer. To transform the tables of revenues so laboriously assembled by Mathias and O'Brien into tables of economic and social incidence would require a difficult inquiry into the nature of the British economy in the eighteenth century. Until this inquiry is begun, readers of Mathias and O'Brien should take their conclusions with several grains of (heavily taxed) salt.

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<sup>2</sup> See especially JOEL MOKYR, "Demand vs. Supply in the Industrial Revolution", forthcoming in the *Journal of Economic History*.