The Commercial Interest and the Early Income Taxes, 1799–1842

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ABSTRACT

The first half of the nineteenth century witnessed a shift in the nature of British taxation: from the heavy and numerous indirect taxes of the ‘fiscal-military’ era, towards a fiscal system based on fewer but more profitable duties. The introduction of the income tax played a pivotal role in this evolution. At the same time, the period sat at the heart of an ongoing shift in the nature of commerce, as the powerful mercantile players of the seventeenth and eighteenth centuries gave way to the industrial giants of the Victorian age. Despite the importance of both of these developments, historians have given little consideration to the interaction between them.

This thesis seeks to remedy this deficiency by drawing together these two histories, in order to shed light on how and why income tax law evolved as it did. In doing this, the thesis identifies an important relationship between income tax policy and the country’s commercial interest. At the beginning of the period, the commercial interest used its influence to secure the adoption of an advantageous scheme of tax policy, and to inflame existing public hostility to the tax, which ultimately contributed to its repeal in 1816. By 1842, however, ongoing changes in the nature of commercial influence over policymaking, as well as commercial priorities, had resulted in the emergence of a commercial climate more receptive to the tax’s reintroduction. Thus, the longstanding commercial barriers to the development of the tax had begun to break down. This forms an important and hitherto underdeveloped explanation for the tax’s readmittance to the fiscal fabric. The central contention of this thesis is that in order to properly historicise Britain’s early experiences of income tax, we must acknowledge the importance at all points of the enduring relationship between the commercial interest and tax policy.
ACKNOWLEDGEMENTS

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Thank you also to my parents, Simon and Jan, and to my sister, Hannah, who have been sources of inspiration throughout my life and without whose love and support I would not have made it this far.

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ABBREVIATIONS

BL  British Library

*DNB*  *Oxford Dictionary of National Biography*

The French Wars  The French Revolutionary and Napoleonic Wars

HC Deb  House of Commons Debate (Hansard)

HL Deb  House of Lords Debate (Hansard)

HCSP  House of Commons Sessional Papers

LMA  London Metropolitan Archives

PRO  Public Record Office

TNA  The National Archives

William Cobbett’s *The Parliamentary History of England from the Earliest Period to the Year 1803* is referred to throughout this thesis as *Cobbett’s Parliamentary History*.

Original spelling and punctuation have been retained in quotations; ‘[sic]’ has been used only where the original quotation could suggest an error of accuracy.
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INTRODUCTION

The nature of British public finance shifted dramatically over the course of the first half of the nineteenth century: from the ‘fiscal-military’ state of the eighteenth-century, to the responsible and constrained mode of public finance of the Victorian age. A fundamental feature of this shift was an evolution in the way the British state taxed its citizens: from heavy and numerous taxes on imports, production and expenditure, to a fiscal policy based on fewer but more profitable taxes. Insofar as this shift has attracted previous attention, it has tended to come from historians considering the politics of economic and fiscal policy over the eighteenth and nineteenth centuries. There are far fewer studies that take changes in tax policy and tax administration as their starting point, and even fewer have been produced by legal historians. This reflects the general problem that scholarship in the history of tax law is significantly underdeveloped.

This thesis seeks to address this gap in the existing histories by examining the factors that underlay the development of one particular tax: the income tax. Thus, although the

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2 See Martin J Daunton, Trusting Leviathan: The Politics of Taxation in Britain, 1799–1914 (Cambridge University Press 2001) ch 1, for an overview of the changes in public finance during the period.
political economy of the period forms an important backdrop to this study, it is not the focus of the enquiry. The thesis considers the origins of the income tax in the French Wars at the beginning of the nineteenth century, and tracks the tax’s development through to its repeal at the end of those wars in 1815. The thesis then explores the factors that motivated the tax’s reintroduction in 1842. In doing this, the thesis identifies explanations for how and why income tax policy developed as it did through the period. Importantly, it rejects as incomplete the conclusion reached in existing histories: namely, that the introduction, development and reintroduction of the income tax was driven solely by financial necessity. This thesis instead presents the original argument that another highly significant factor was also at play: that is, the relationship between commercial interest and tax policy.

To elaborate on the above points, the existing histories take as axiomatic the proposition that the income tax was borne out of financial necessity. Specifically, the existing narrative paints a picture of a tax introduced to meet the costs of the expensive French Wars, repealed once peace allowed state expenditure to return to normal, and reinstated twenty-six years later in order to offset the financial deficit caused by economic depression. This thesis does not deny that financial imperative underpinned the initial introduction of the tax, nor that it was an important factor in its reinstatement in 1842. However, the thesis does argue that this imperative alone cannot account for how and why income tax policy evolved as it did. In considering the nature of the tax’s development, it seeks to establish that financial necessity forms only part of the picture. It instead identifies another explanation: that the legal form, effectiveness and reception of the tax were all underpinned by a commercial interest in, and influence over, tax policymaking. Evidence of a relationship between the commercial interest and tax policy will be established at each stage of the tax’s development. Thus, although financial necessity may have been a key driver in the initial introduction of the tax, its development from that point also reflects a commercial dimension. Further examination of the nature of this commercial dimension reveals two important and concurrent processes. First, owing to the strong indirect influence of the country’s commercial community over policymakers, it was important for government to render the tax acceptable to commercial taxpayers. This resulted in generous treatment of commercial income in the substance of the tax, which, although securing commercial consent to the tax, had the side effect of commercial evasion. The second process was the direct control of the commercial interest over the direction of tax policy. This was manifested in the form of intense commercial
opposition to the tax, which was often designed to incite wider opposition from the public at large. This, it will be established, significantly hampered the development of the tax in its early stages. These two processes constituted two central barriers to the tax’s development. However, changes in the nature of commercial influence over political decision-making, alongside a shift in priorities which rendered the income tax less objectionable to the commercial community, meant that by 1842 both barriers had begun to break down. The thesis argues that these changes proved crucial to the income tax’s successful reintroduction: where the commercial interest historically had formed a barrier to the tax’s development, by 1842, it was key in enabling the tax’s reinstatement. Thus, although the commercial interest had evolved, it remained a crucial factor in the direction of tax policy. In order to fully historicise the development of the income tax, then, it is important to understand the relationship between the tax and the commercial interest.

The thesis will propose that the relationship between the commercial interest and income tax policy during the first half of the nineteenth century can be divided into two stages, which are considered in Parts I and II respectively. The first stage, which is dealt with in Part I, covers the wartime operation of the tax, from its initial imposition in 1799, up to its repeal in 1816. During this stage, it is suggested that commercial players exerted heavy influence over tax policy, and also put forward strong opposition to the tax. This inhibited the tax’s development significantly. It will be argued that the influence of the commercial interest over tax policymakers resulted in a preferential scheme of taxation, meaning that the tax was not especially profitable, and so failed from a financial perspective. Furthermore, it will be established that strong opposition to the tax from the commercial community played an integral role in forcing the repeal of the tax once war was over, despite the government’s proposal for its continuation. Thus, owing to the commercial interest, the first income taxes were neither especially profitable, nor long-lived. The thesis then turns to Part II, which considers the second stage of the tax’s development. This Part examines the lead-up to the reintroduction of the income tax in 1842. It will be argued that the twenty-six year intervening period had witnessed an important shift in the nature of the commercial interest, which resulted in a reduction in its influence over policymakers, as well as a change in its priorities. This changed the nature of the relationship between the commercial interest and the income tax, as both the ability and inclination of businessmen to oppose the tax were reduced. This, it is argued, provides an important explanation for why the tax transitioned
from its early wartime experiences to its ultimate successful reintroduction in peacetime, marking what would turn out to be its permanent instalment in the fiscal scene.

I. METHODOLOGY

In presenting its central argument, the thesis adopts a heavily interdisciplinary approach by synthesising legal, political, economic, social and administrative histories. In particular, it provides an original integration of histories of tax with those of commercial development, to shed new light on how and why tax law developed as it did during the early nineteenth century. The thesis also sits within the field of fiscal sociology, which involves taking tax and the Budget as a starting point to understand the development of society more widely over the period. In particular, the examination of the tax treatment of commercial parties, alongside the impact of the tax on commercial attitudes and priorities, offers important insight into the development of the commercial community, and of their place and influence within society.

However, the main contribution of this thesis is to the growing body of literature in the sphere of tax history. This field of scholarship may be delineated into two complementary but subtly different categories. First, there are works (usually written by tax legal scholars) which take tax law as their starting point. These works focus on, for example, the causal factors that influenced the development of the law, and how the law was interpreted and received by the population at the time. This literature therefore seeks to ‘historicise’ tax law, by using history to add valuable context to our understanding of how and why the law developed, thereby situating tax law in its broader historical context. Notable works include those by legal historians such as Stebbings, and in particular the valuable and wide-ranging contributions

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6 See Mumford’s description that ‘Fiscal sociologists…argue that budgets and tax laws actually present a useful way of learning more about states. A founding principle of fiscal sociology is that there are few, more important, scientific indicators than how taxes are designed, collected and spent’: Ann Mumford, Fiscal Sociology at the Centenary: UK Perspectives on Budgeting, Taxation and Austerity (Palgrave Socio-Legal Studies, Springer Nature 2019) 11. The field of fiscal sociology is widely considered to have originated with Joseph Schumpeter: see Joseph A Schumpeter, ‘The Crisis of the Tax State’ in Richard Swedberg (ed), The Economics and Sociology of Capitalism (Princeton University Press 1991). For a detailed discussion of the development of fiscal sociology and its implications for the study of society, see Mumford (n 7) at ch 2. For consideration of some of the works that intersect tax history and fiscal sociology, see Michael Littlewood, ‘John Tiley and the Thunder of History’ in Peter Harris and Dominic de Cogan (eds), Studies in the History of Tax Law, vol IX (Hart Publishing 2019).
made in the Cambridge *Studies in the History of Tax Law* series, which have shed light on matters including the influence of notions of taxpayers’ rights in historical tax policy,\(^7\) popular reactions to the levying of stamp duty on newspapers,\(^8\) evolutions in the legal approaches to taxing companies over time,\(^9\) and the nature of the relationship between excise duties and the traders on whom they were levied.\(^10\) However, scholarship in this area is, on the whole, relatively underdeveloped.

This may be contrasted with other works which may more rightly be classed as truly ‘historical’, and which consider taxes as part of a general history of taxation or public finance, or of an economic or social history. Instead of considering what history can contribute to our understanding of historical tax law, this literature takes a different focus, in using tax to add to our understanding of history and historical research. This literature is comparatively well populated, and notable examples include Daunton’s *Trusting Leviathan*, which gives extensive consideration to tax as part of a broader economic history of the relationship between the state and its population.\(^11\) The line between these two categories is not absolute: there are certainly some overlaps. For example, Stebbings has unquestionably made significant historical contributions that go beyond strictly adding historical context to the development of the law.\(^12\) Similarly, Daunton has authored works in the *Studies in the History of Tax Law* series, which take tax law as their starting point.\(^13\) Broadly, however, the two genres of tax histories can be separated by their different aims: the former to explain how and why tax law evolved as it did, and the latter to consider the role of tax in history.

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\(^11\) Daunton (n 2). Other examples include Buxton (n 3); Halévy (n 3); Mathias (n 3); Brewer (n 1).

\(^12\) For instance, her seminal work *The Victorian Taxpayer and the Law* historicises the development of tax law over the nineteenth century whilst undoubtedly also contributing to historical research more widely, in supplementing our understanding of the relationship between taxpayers and the state: (n 5).

The central contribution of this thesis, and also its overarching methodological approach, is in ‘historicising’ the law. At all stages, the study takes tax law as the starting point, and aims to historicise its development by drawing a direct line between social, economic and commercial factors and the evolution of income tax law over the first half of the nineteenth century. The thesis therefore both complements and builds upon the works of scholars such as Stebbings, by adding a new perspective to our understanding of how and why early income tax law developed as it did. In mapping out the role that the commercial interest played in the early development of the income tax, this places the law firmly within its historical context, and allows for better understanding of its evolution over time. Although the thesis draws significantly upon historical studies of tax, its aim is to further illuminate the factors that drove the evolution of income tax law. Therefore, it is upon studies that aim to historicise tax law that this thesis seeks primarily to build.

Adopting the path of historicising tax law also clearly situates the thesis within the realm of a ‘legal history’ approach to research. Although naturally encompassing elements of doctrinal analysis in considering the evolution of the provisions of the Income Tax Acts, the major focus of the study is on why the law took the form that it did, and how it was received and complied with by the public. As such, the thesis takes an expansive, ‘external’ approach to legal history, sometimes termed ‘law and history’.¹⁴ This is as opposed to ‘internal’ legal history, which focuses much more resolutely on the development of doctrine. Musson and Stebbings have argued that such an approach does not present a ‘one-size-fits-all methodology’, given the broad nature of historical context, and the great variety of sources that it is therefore necessary to consider. Thus, they have argued that ‘Legal historians should not be afraid to adopt a multitude of approaches and experiment in finding different ways to ascertain the “truth” of the legal past’.¹⁵ As such, the approach adopted by this thesis has been inclusive, and has required analysis of a variety of sources, encompassing parliamentary materials, financial accounts, contemporary pamphlets and press reports, all of which are less common in doctrinal legal analysis. Each of these presents its own set of issues, and thus the thesis has required a flexible approach to analysis, dictated by the particular strengths and

limitations of the source at hand. It has also involved the drawing together and analysis of a wide variety of existing histories from a number of disciplines, across law, history, economics and accountancy.

In recent years, studies making use of an external legal history approach have become increasingly popular. They have also increasingly placed legal history within the broader social science scholarship, in particular by examining developments in legal history through an economic and sociological lens. This reflects the broader shift in the legal academy towards a law and society approach to legal scholarship. However, Rabban has suggested that this has also resulted in legal history becoming less important in the field of law: where once it was a critical element of doctrinal analysis, it has now been relegated to a mere sub-discipline.\textsuperscript{16} Despite this, law and history remains an important approach. Stebbings has noted that it is important to place law in its ‘fully rounded historical context’, in order to produce rigorous scholarship.\textsuperscript{17} Furthermore, she also argues that this approach makes law, and in particular legal history, more accessible, in demonstrating how the law has been important in shaping modern society. This is a central aim of the thesis, as it is the author’s belief that an appreciation for the backdrop against which the income tax evolved is crucial in order to understand its subsequent development fully.

The thesis also adopts a socio-legal, or ‘empirical’, approach. It makes extensive use of quantitative data in the form of national accounts and historical statistics, and also performs significant analysis of qualitative sources such as press reports and pamphlets. The aim is to understand several key questions. First, the thesis attempts to understand both why the income tax was created, and why it took the form that it did. This forms a key element of both Parts I and II. The thesis also makes use of what Halliday terms a ‘street-level’ approach, in order to assess the extent to which the law impacted upon society.\textsuperscript{18} This is used to provide an analysis of how income tax law was received within society, which again is

\textsuperscript{16} David M Rabban, ‘Methodology in Legal History: From the History of Free Speech to the Role of History in Transatlantic Legal Thought’ in Anthony Musson and Chantal Stebbings (eds), \textit{Making Legal History: Approaches and Methodologies} (Cambridge University Press 2012), especially at 97.


\textsuperscript{18} Simon Halliday (ed), \textit{An Introduction to the Study of Law} (W Green 2012) 34.
common to Parts I and II. Finally, the thesis also uses empirical analysis to consider how effective the law was financially. It is considered at length in Part I that the tax was consistently ineffective in generating revenue, and that this had important implications for how and why the tax developed as it did.

This empirical analysis required consideration of a large volume of primary material relevant to the reporting, administration and reception of tax law. I performed archival searches at The British Library, The National Archives and the London Metropolitan Archives, and conducted online searches across a range of databases such as ProQuest UK Parliamentary Papers, Gale Nineteenth Century Collections and The Times Digital Archive. To limit duplication of sources and create a manageable dataset, I used exclusionary keywords to eliminate repetitive material. For instance, when examining newspaper reports for evidence of popular attitudes to the tax, it became evident that many sources merely reproduced the parliamentary debates without commentary. These reports were usually titled ‘Parliamentary Intelligence’. In excluding these titles from the search, the volume of material for examination became more manageable. In other respects, I broadened my criteria in order to ensure a full appreciation of the material: as such, my searches on the income tax included a wide variety of alternative terms used over the period, including ‘property tax’, ‘income duty’, and ‘income levy’. Furthermore, owing to the administrative difficulties in implementing the tax, the accompanying law was very complex. Information as to the multitudes of duties and rates was disparate, and spread out over a number of different Acts and Amending Acts. The two income taxes of 1799–1816 alone required detailed consideration of seven separate lengthy Acts. In order to comprehensively navigate the

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19 See Stebbings’s point that tax legislation in the nineteenth century was ‘obscure and intellectually inaccessible’: (n 17) 77.
20 For a detailed discussion of the inaccessibility of tax law at the time, see Stebbings (n 5) 147-157.
21 These were as follows: An Act to Repeal the Duties Imposed by an Act, Made in the Last Session of Parliament, for Granting an Aid and Contribution for the Prosecution of the War, and to Make More Effectual Provision for the Like Purpose, by Granting Certain Duties Upon Income, in Lieu of the Said Duties 1799 (39 Geo III, c 13); An Act for Extending the Time for Returning Statements Under an Act, Passed in the Present Session of Parliament, Intituled “An Act to Repeal the Duties imposed by an Act, Made in the Last Session of Parliament, for Granting an Aid and Contribution for the Prosecution of the War; and to Make More Effectual Provision for the Like Purpose, by Granting Certain Duties upon Income, in Lieu of the Said Duties”, and to Amend the Said Act 1799 (39 Geo III c 22); An Act for the Better Ascertaining and Collecting the Duties Granted by Several Acts Passed in the Last Session of Parliament, Relating to the Duties on Income, and to Explain and Amend the Said Acts 1800 (39&40 Geo III c 49); An Act for Granting to His Majesty, Until the Sixth Day of May Next After the Ratification of a Definitive Treaty of Peace, a Contribution on the Profits Arising from Property, Professions, Trades, and Offices 1803 (43 Geo III c 122); An Act for Granting to His Majesty Additional Duties in Great Britain, on the Amount of Assessments to be Charged on the Profits Arising
labyrinth of disparate amending regulations, I examined the Journals of the House of Commons closely for details of Bills proposed and Acts passed over the period.\textsuperscript{22} I supplemented my consideration of the text of the legislation by reading accompanying guides provided by lawmakers in a bid to render the law more accessible to contemporary taxpayers.\textsuperscript{23} I also studied parliamentary debates for further information as to the rationale behind the provisions, as well as for evidence of how the law was interpreted in practice.

The thesis therefore adopts elements of several methodological approaches. These approaches are heavily interlinked: for example, Arvind has argued that legal history is the ‘sociology of the past’.\textsuperscript{24} It is therefore unsurprising that, just as the benefits of such approaches are similar in providing valuable context to the law’s development, so are the challenges. These challenges, and their impact on this thesis, will now be explored.

1.1 Methodological challenges

One significant challenge encountered in producing this thesis was presented by numerous gaps in the historical record. For example, many documents pertaining to the administration of the first income taxes were destroyed upon the tax’s abolition in 1816.\textsuperscript{25} This is an issue from Property, Professions, Trades, and Offices 1805 (45 Geo III c 15); An Act to Repeal Certain Parts of an Act, Made in the Forty-Third Year of His Present Majesty, for Granting a Contribution on the Profits Arising from Property, Professions, Trades, and Offices, and to Consolidate, and Render More Effectual, the Provisions for Collecting the Said Duties 1805 (45 Geo III c 49); An Act for Granting to His Majesty, During the Present War, and Until the Sixth Day of April Next After the Ratification of a Definitive Treaty of Peace, Further Additional Rates and Duties in Great Britain on the Rates and Duties on Profits Arising from Property, Professions, Trades, and Offices, and for Repealing an Act Passed in the Forty-Fifth Year of His Present Majesty, for Repealing Certain Parts of an Act Made in the Forty-Third Year of His Present Majesty, for Granting a Contribution on the Profits Arising from Property, Professions, Trades, and Offices, and to Consolidate and Render More Effectual the Provisions for Collecting the Said Duties 1806 (46 Geo III c 65).


\textsuperscript{23} See, for example, Observations, \\ &c upon the Act for Taxing Income; In which the Principles and Provisions of the Act are Fully Considered, with a View to Facilitate its Execution, both with Respect to Persons Chargeable, and the Officers Chosen to Carry it into Effect (London 1799).

\textsuperscript{24} Arvind (n 14) 69.

\textsuperscript{25} Replicas of many of these documents were found subsequently by the tax historian Arthur Hope-Jones sat in the King’s Remembrancer: see Arthur Hope-Jones, Income Tax in the Napoleonic Wars (Cambridge Studies in Economic History, Cambridge University Press 1939) 1-4. These are now held at TNA, within the E182 series. However, gaps remain: see Hope-Jones 3-4 and Appendix 1.
common to all historical research, as documents are lost or destroyed over time, or simply never produced in the first place. However, these particular challenges began to recede around the middle of the nineteenth century, owing to changes in the administrative process over the period. This means that sources are more numerous, available, and detailed at the end of the period covered by this thesis than at the beginning.\textsuperscript{26} At the beginning of the period, documents providing details of the administration of the tax are only available insofar as they were ordered by Parliament for a specific purpose. For example, other than the overall tax yields, which were published in the national accounts, little information can be gathered about, for instance, the number of taxpayers assessed to the tax,\textsuperscript{27} or the breakdown of yield by locality.\textsuperscript{28} Furthermore, as will be developed throughout this thesis, in order to pacify the commercial community, the government introduced elements of secrecy in the assessment of commercial income. This meant, for example, that the identity of commercial taxpayers was kept secret from all but a handful of Commissioners, and accordingly no records were produced. Therefore, although documents exist detailing the overall tax returns, the identity of taxpayers cannot be ascertained, and the accuracy of assessments to the tax cannot be checked.

Moreover, even where sources do exist, they rarely allow definitive conclusions to be drawn. The provenance of such sources, combined with potential issues of bias, means that by itself the source may not be reliable. For example, a criticism of the income tax as recorded in Hansard could be a genuine indication of anti-tax feeling, or equally it could be made as part of a wider political strategy. This is also true of opinions expressed in press reports, or pamphlets. Therefore, although these sources may prove to be persuasive evidence, they cannot be drawn upon to present definitive conclusions. The dangers inherent in placing too much reliance on statements made in the contemporary literature are addressed at a number of points through the thesis.

\textsuperscript{26} See Stebbings’s statement that Victorians ‘had an obsession for the closest examination of institutions’: (n 17) 74.

\textsuperscript{27} For example, the only documents that give an account of the number of taxpayers liable to the second income tax (1803-1816) are those detailing returns for the 1812 tax year.

\textsuperscript{28} Although this information was published on a few occasions through the early years of the tax, it was inconsistent, making it difficult to identify patterns.
These issues highlight a wider issue in using historical analysis to assess how the law was received and/or interpreted: that the views and opinions of people in history can rarely be conclusively ascertained. Thus, although the thesis draws conclusions as to, for instance, the influences driving political decision-making, and public attitudes towards the tax, this is based on a number of pieces of circumstantial evidence, which cannot amount to conclusive proof. Without clear and wide-ranging evidence of, for example, the motives of policymakers in designing tax policy, or the real factors prompting the acceptance or non-acceptance of that policy on the part of the public, the ability to ‘prove’ the core contentions of this thesis is limited. The thesis does identify some opportunities for further testing of the hypotheses suggested, for instance regarding the impact of free trade on attitudes to the income tax. However, other theories and conclusions proposed are more difficult to test, especially where there is an absence of documented opinion on the matter, or where stated opinions are rendered questionable by the potential existence of an ulterior motive. This reveals a broader challenge facing the thesis, and historical research more widely: that there is a limit to what can be stated with certainty.

II. DEFINITIONS AND LIMITATIONS

2.1 The ‘commercial interest’

The primary focus of this thesis is on the relationship between income tax policy and Britain’s commercial interest at the time. However, this first requires an important issue to be addressed: how can ‘commercial interest’ be defined, and indeed, why has this rubric been chosen in the first place? The nature of the commercial community during the first half of the nineteenth century was, as indeed it remains, very disparate, consisting of large trading companies as well as small-scale merchants and shopkeepers. However, in terms of what can fairly be described as a commercial ‘interest’, in the sense of a ‘group or organization having a common concern, especially in politics or business’,29 this is treated in this thesis as

consisting of wealthy parties with power beyond their own business, and the ability to influence tax policy. In modern times, we would recognise many members of the ‘commercial interest’ as companies, however between the Bubble Act of 1720 and the Joint Stock Companies Act of 1844 the ability to incorporate was limited. Thus, other than regulated companies incorporated by an Act of Parliament or, rarely, a Royal Charter, no incorporation was permitted. Instead, in practice, businessmen wishing to form an association would opt either for a standard partnership, or for what Harris has termed an ‘unincorporated joint-stock company’, effectively operating on partnership rules, which were then adapted by businessmen to emulate a corporate set-up. As such, the nature of the commercial players exerting influence over Parliament in the early nineteenth century was varied, and ranged from those operating alone, as part of a partnership, in a larger unincorporated association, or as part of a regulated corporation such as the East India Company. Despite this diversity, it is argued that a ‘commercial interest’ comprised of a range of parties involved in business, and pressing the advancement of trade and industry, was discernible in society at the time.

It is also difficult to come to a conclusion as to the meaning of ‘commerce’, for the purposes of the thesis. As the thesis aims to consider the hitherto unexamined relationship between the commercial interest and income tax policy, it seems that some light may be shed by considering what was classed as commercial income under the tax. However, even this is not clear: for example, Schedule D of the Income Tax Act 1803 provided only that duties should be charged in respect of ‘Trade or Manufacture’, and that this covered ‘every Art, Mystery, Adventure, or Concern’. Thus, it seems that even the government at the time did not attempt to define ‘trade’ or ‘commerce’ for the purposes of tax, likely due to the practical difficulty in doing so. This is compounded by the substantial changes in the nature of Britain’s commercial community that were witnessed over the period. Through the

30 It is worth noting that, although the Bubble Act was repealed in 1825, the process of incorporation was not regulated until An Act for the Registration, Incorporation, and Regulation of Joint Stock Companies 1844 (7&8 Vict c 110) (The Joint Stock Companies Act 1844).
31 See, for example, Ron Harris, Industrializing English Law: Entrepreneurship and Business Organization, 1720–1844 (Cambridge University Press 2000) 1.
32 See ibid, especially 31–32. Historians have debated whether it can therefore be termed a ‘company’, or whether it should simply be termed a partnership.
33 An Act for Granting to His Majesty, Until the Sixth Day of May Next After the Ratification of a Definitive Treaty of Peace, a Contribution on the Profits Arising from Property, Professions, Trades, and Offices 1803 (43 Geo III c 122) Schedule D, First Case, Second Rule.
seventeenth and eighteenth centuries, most commercial activity had taken the form of trade. However, this began to shift with burgeoning industrialisation, as traditional trading interests made way for new industrialists, intent on making Britain the ‘Workshop of the World’. The nature of the influential commercial interest evolved through the nineteenth century, as well as the nature of the political influence they exerted. This had important implications for the development of the income tax, and is considered at length in Chapter 4.

In considering the meaning of ‘commercial interest’ for the purposes of this thesis, then, a wide interpretation is afforded, in order to encompass the evolving range of commercial practices that took place over the period. This naturally makes it difficult to distinguish between interests that were commercial in nature, and, for example, financial interests. However, despite this evolution in the nature of commerce, the concept of a ‘commercial interest’ spanning the period still holds. It is possible to identify a set of interests engaged in commerce, and lobbying for the promotion of trade and industry, over the period. Although the practices in which these interests engaged had evolved to become more disparate, there existed a business interest in 1842 just as there had been at the turn of the century. For example, although City businessmen were by the mid-nineteenth century engaging more in mercantile finance and less in international trade, their interest in promoting trade, and influence over politics, continued, albeit to a lesser extent than in the past. Similarly, although the interests of industrialists were in many respects disparate from those more traditional City players, both shared an objective of the advancement of trade, and used their influence to push in that direction. For instance, in 1842 there existed a body of commercial support for free trade which spanned the boundaries between commerce, finance and industry. As such, in referring to the ‘commercial interest’, a tentative working definition can be put forward: a community of influential actors involved in commerce, widely defined to include both trade and industry, acting with the promotion of business as their central objective. These players, although diverse, possessed significant political power, and made use of this power to influence tax policy.

However, it is necessary also to advert to the difficulty in attempting to speak to the attitudes and motivations of the ‘commercial interest’. Despite reference in the literature, both at the time and subsequently, to a single ‘commercial interest’, this is potentially misleading.
Implicit in what was said above is that the ‘commercial interest’ actually comprised of a mass of smaller interests and these at times conflicted. This has led some historians to suggest that no one opinion on economic policy can be attributed to the business interest.\textsuperscript{34} Despite this, it will be seen in the first chapters of this thesis that, in the early nineteenth century, commercial opinions of income tax were broadly uniform: it was overwhelmingly disliked by the commercial community. Insofar as the income tax was concerned, commercial players acted broadly as one ‘commercial interest’ to oppose and influence the tax’s development. However, it will be considered in Chapter 4 that over time this began to change, owing in part to a shift in the nature of the commercial interest adverted to above, and in part to the fact that the climate for the tax’s reception had changed, meaning that there was no longer commercial consensus on the tax. This is a crucial message of the thesis: the reintroduction of the tax was possible because of the dilution of commercial opposition to it.

2.2 The scope of the thesis

The central aim of this thesis is therefore to explore the factors that lay behind the development of income tax policy between 1799 and 1842. It is not intended to be a history of tax more widely during the period, although some consideration is naturally given to the development of other taxes insofar as they impacted upon the income tax. Furthermore, it is also not intended to be a history of tax theory, or tax design. The period saw a significant shift in political and economic thinking. Although this shift is considered insofar as it affected the income tax, the thesis is not intended to provide a comprehensive account of the theories of and interactions between economic philosophers during the period. Instead, the thesis seeks to present a ‘bottom-up’ analysis, in considering how commercial society influenced the form and development of the tax. Additionally, the thesis does not attempt to judge whether the tax was a ‘good’ tax according to principles of tax design. Although issues of, for example, equity and taxpayer convenience are alluded to, the tax is not assessed according to these criteria. Similarly, contemporary debates over the extent to which the tax

\textsuperscript{34} See Daunton’s argument that “There was no homogenous business interest, for these trade and industrial groups were divided amongst themselves rather than a cohesive force against landed or monied interests”: Martin J Daunton, \textit{Progress and Poverty: An Economic and Social History of Britain 1700–1850} (Oxford University Press 1995) 480. See also Hilton’s point that ‘Countless pressure groups existed, but no unified commercial interest’: Boyd Hilton, \textit{Corn, Cash, Commerce} (Oxford University Press 1977) 175.
should operate progressively – and associated practices of granting exemptions, imposing a graduated tax rate and differentiating between sources of income – are considered only insofar as they pertain to the law as it was enacted, or to the attitudes of the commercial community towards the tax.\textsuperscript{35} The thesis is therefore intended to provide an analysis of the factors driving the movement of income tax law.

Furthermore, whilst some examination is made of the evolving form of income tax law, this is not the principal purpose of this thesis. Instead, it concentrates on the question of why the law was enacted, and why income tax policy took the form that it did, with particular regard to evidence that suggests that there existed a commercial influence. It is not intended to be a comprehensive examination of how the early income taxes operated and were implemented. Some of the detail of the administration of the tax that is present in the existing histories is therefore omitted,\textsuperscript{36} and instead particular attention is given to the tax’s application to commercial taxpayers. As such, although the major reforms in the relevant law over the period are considered, the most detailed examination of the law itself is reserved for how commercial income was taxed, and the impact that this had on the revenue generated by the tax.\textsuperscript{37}

The thesis tracks the period from the lead-up to the tax’s introduction in 1799, up to its reintroduction in 1842. As such, it does not consider the development of the tax past that point, or the performance of the 1842 tax. The reinstatement of the tax in 1842 heralded the start of a new epoch of fiscal policy, in marking the tax’s movement from a wartime measure to what ultimately came to be a permanently installed feature of peacetime fiscal policy. This thesis tracks the drivers of this shift and identifies the influence of the commercial interest over its nature and timing. Consideration of the administration and performance of the 1842 tax rightly belongs in a separate study examining the development of tax through this new era.

\textsuperscript{35} For a consideration of these practices with reference to the early income taxes, see Shehab (n 4) especially at chs 3-5. For a more theoretical discussion of these debates, see, for example, Seligman (n 4) 22-34.
\textsuperscript{36} This detail has been provided in many of the existing histories: see, for example Sabine (n 4) ch 2 and 62; Hope-Jones (n 25) especially chs 2-5; Albert Farnsworth, \textit{Addington, Author of the Modern Income Tax} (Stevens & Sons 1951), especially at ch 3; Harris (n 5) 404-421 and 427-435.
\textsuperscript{37} This is particularly evident in the first part of this thesis, where the legal provisions governing the tax’s application to commercial taxpayers are given close attention. However, the focus is less on the mechanics of the tax’s administration, and more on the evidence of commercial influence over the form of the tax that it presents. This, it is argued, allowed significant commercial evasion to take place.
of fiscal policy. It is therefore reserved for future research, and does not form a part of this thesis. For this reason, the thesis also does not address the financial performance of the 1842 tax. Furthermore, there are significant difficulties involved in comparing the tax’s performance in 1842 against that during its initial operation. The changes that took place in the country’s economy, finances and societal makeup over the income tax’s twenty-six year absence make it difficult to draw conclusions from the respective yields of the tax. It therefore cannot be conclusively suggested that the tax was more or less profitable in 1842 than it had been in the early years of the century. This further supports the decision to end the analysis in this thesis at the point of the tax’s reintroduction in 1842, and to reserve consideration of the tax’s post-1842 performance for future research.

III. OUTLINE

The thesis is split into two parts, to reflect the two central stages of the tax’s development. The first part deals with the period 1799 to 1816. Chapter 1 addresses the first income tax, which was introduced by Prime Minister William Pitt the Younger in 1799, and repealed upon the signing of the Treaty of Amiens in 1802. The chapter begins by considering the desperate financial situation that necessitated the tax’s introduction. The failure of existing taxation to generate significant revenue is considered, and it is posited that central to this was the inability of existing taxation to effectively target commercial income. The chapter then turns to consider the popular objections to an income tax, and shows how the strength of these objections led the government to develop tax policy that was tolerant of evasion. The country’s commercial interest was particularly opposed to the tax at this time, and it is shown that, owing to the significant indirect power over policymaking that these players possessed, this resulted in the tax affording particular preference to commercial taxpayers. The chapter also re-examines the financial failure of the tax, and identifies clear evidence of a shortfall in the tax collected from commercial income. Arguments that the underperformance can be accounted for by miscalculation in Pitt’s estimates are rejected, and the chapter adduces several important pieces of new evidence of evasion to conclude that commercial evasion played a pivotal role in accounting for the tax’s financial underperformance. The popular failure of the tax is also considered, in examining the lead-up to the tax’s repeal in 1802. Experience of the tax did nothing to alter public dislike of it, and the general public remained
overwhelmingly hostile towards the tax. Once again, a commercial dimension to this is identified: these complaints were made particularly strongly by commercial parties, and the argument that commercial evasion exacerbated the general ill-feeling towards the tax is also considered. Evidence of support for the repeal of the tax is examined, and it is concluded that powerful City actors spearheaded the movement for the tax’s repeal and incited widespread public opposition. The chapter concludes that the first income tax witnessed a pattern of commercial influence that pervaded all areas of tax policy: from its legal form, to its financial productivity, to its ultimate popular failure and repeal.

Chapter 2 examines the second income tax, which was reintroduced by Prime Minister Henry Addington in 1803 upon the breakdown of the Treaty of Amiens. The tax remained until its repeal in March 1816, after the end of the Napoleonic Wars in November 1815. The chapter considers three key stages in the tax’s development over this period. First, it explores the argument inherent in the existing histories that the tax was introduced automatically upon the renewal of war. The chapter then counters this by adducing evidence that the tax was subject to a body of opposition. However, it is considered that, unlike in 1802, this opposition failed to force the repeal of the tax. It is contended that this can be explained by the fact that the commercial community failed to launch the same opposition to the tax, as it was not in their interests to do so. The chapter then turns to consider the operation of the tax between 1803 and 1816. It presents evidence to support the conclusion of previous studies, that reforms in the substance of the tax significantly improved the tax yield. However, it also demonstrates that the tax continued to fail to adequately target commercial income, and that there was a corresponding negative impact on the tax yield. Finally, the chapter moves to consider the circumstances surrounding the repeal of the tax in 1816. It examines the argument put forward in the existing histories, that the tax was subject to strong public opposition which ultimately forced its repeal. The counter-argument put forward by Shehab, that the opposition to the tax has been exaggerated, is partially rejected, and an alternative argument is presented: that the fact that the strongest opposition came from the country’s powerful commercial players in the City of London explains why opposition to the tax proved so persuasive to Parliament. The chapter therefore concludes that the second tax witnessed continuing commercial influence across all stages of its operation, and that this hampered its development. Thus, Part I concludes that the development of the early income
taxes was obstructed by two central barriers: commercial influence over tax policymaking, and commercial hostility to the income tax.

Part II considers the circumstances leading up to the reinstatement of the tax in 1842. Chapter 3 challenges the received view of the tax’s reintroduction, as presented in the existing histories. It begins by considering the argument that the tax was reinstated owing to financial necessity, in light of prolonged economic depression. Although this provides a valuable insight into Prime Minister Robert Peel’s motivations in proposing the tax, it is argued that this explanation alone fails to account for why Parliament and the taxpaying public more widely were willing to accept the reintroduction of the tax. The chapter then considers the major social changes witnessed through the period in order to examine the argument, put forward by historians such as Daunton, that the tax was introduced in response to a growing socio-political imperative, as part of a quest for perceived legitimacy on the part of government. This argument has significant merit, and again sheds important light on the government’s interest in its reintroduction. However, it also fails to account for why a tax previously rejected by the population and Parliament as an unendurable imposition was able to be successfully reinstated. Thus, the chapter concludes that the explanations for the tax’s reinstatement given in the existing histories provide an incomplete picture.

Chapters 4 and 5 build on the conclusions reached in Chapter 3, and together suggest another explanation for the successful reinstatement of the income tax: that, owing to important developments across the political, intellectual, economic and societal spheres in the years leading up to 1842, the general climate had become more receptive to the reintroduction of the tax. This meant that the tax was easier to reinstate than at any other point in the past. In particular, these changes resulted in the breaking down of the two longstanding barriers to the tax’s development identified in Part I.

Chapter 4 examines the altered political climate for the tax’s reinstatement, and argues that, as a result of important political and intellectual developments over the period, the task of getting the tax through Parliament was made significantly easier. Each of these developments had an important commercial dimension, once again placing the commercial
interest at the centre of the income tax story. The chapter begins by examining the argument that the nature of Peel’s rise to power afforded him a strong mandate with which to reinstate the tax. In particular, his carefully crafted economic strategy and connections with the business classes generated support from the commercial sector. Although undoubtedly important, this interpretation is insufficient by itself to account for the reintroduction of a much-disliked tax. Instead, the chapter then moves to argue that, by 1842, important developments in tax theory had rendered the intellectual landscape more favourable towards an income tax. This likely increased the willingness of politicians to support the tax, as the tax was increasingly viewed as a necessary component of the country’s fiscal strategy. Moreover, these new theories of political economy found a natural audience in the commercial community, and provided an important foundation upon which commercial support for the income tax could be based. The final section of the chapter contends that the period witnessed important changes to the political decision-making process, and in particular to the relationship between the commercial interest and tax policymaking. The political implications of the 1832 Reform Act are considered, alongside a decline in the trend of interest-led policymaking, and it is argued that these changes served to reduce the influence of powerful interests over tax policy. The chapter then contends that there was a particularly significant diminution in the influence of the commercial interest over policymaking. This stemmed from growing diversification within the commercial sector, which in turn resulted in commercial influence becoming fragmented. As such, the ability of powerful commercial players to exercise their political influence to obstruct the development of the tax was significantly reduced. The first barrier to the tax’s development, that of commercial influence over policymaking, had begun to break down, leaving the political climate more receptive to an income tax than in the past. Again, it appears that understanding the relationship between the commercial interest and the income tax is crucial to explaining why tax policy developed as it did.

Chapter 5 examines the changed social climate for the tax’s reinstatement. It begins by rejecting the argument implicit in the existing histories: that the tax met with the same opposition as its predecessors. Instead, evidence is presented to support the conclusion that the public in 1842 were more willing to accept the tax’s reinstatement than in the past. It argues that this mitigation in hostility to the tax was particularly marked amongst the country’s commercial community. The chapter attributes this evolution in opinion to changes
in the administrative, economic and societal spheres, each of which held particularly important implications for commercial attitudes to the tax. In particular, the tax’s association with free trade increased its appeal to many commercial players, and helped to secure the commercial acceptance of the tax necessary for it to pass back into the fiscal scene. Alongside the granting of concessions to commercial concerns in the administrative framework of the tax, these changes rendered the tax a more palatable prospect to Britain’s commercial community. Thus, the period also witnessed the breaking down of the second barrier to the tax’s previous success: commercial hostility towards it. Part II therefore concludes that to the existing picture of the tax’s reintroduction must be added the idea that, owing to a confluence of developments spanning across all aspects of society, the climate for the tax’s reintroduction had become more receptive to its reinstatement than at any point in the past. The commercial sector lay at the heart of this shift in climate, as changes in commercial identity and priorities were central to breaking down both longstanding barriers to the tax’s success. In order to properly historicise the reintroduction of the income tax in 1842, it is necessary to look to the commercial interest.

This thesis will therefore explore the successes and failures of the early income taxes over the first half of the nineteenth century. Upon closer inspection of the tax’s development, the thesis will identify an important relationship between the commercial interest and tax policymaking. The beginning of the period saw the adoption of tax policy generous to commercial taxpayers, in reflection of significant commercial influence over tax policymaking. This resulted in considerable under-contribution to the tax, placing commerce at the heart of its initial financial failure. The commercial interest also forced the repeal of the tax, first in 1802 and then ultimately in 1816, adding an important commercial dimension to the tax’s popular failure. However, changes in the nature and priorities of the commercial interest meant that, by the early 1840s, the reintroduction of the tax was easier to achieve. Longstanding commercial barriers had begun to break down, allowing the tax to pass back into the fiscal scene. At all stages of the development of the tax over the period, then, a previously unexamined relationship between the tax and the commercial interest can be identified. In order to comprehensively historicise the early experiences of the income tax, the importance of this interaction must be acknowledged. This thesis will seek to do this, by exploring the relationship fully over the course of the following chapters.
PART I: THE INCOME TAXES OF 1799–1816

The following two chapters examine the development of the income tax from its introduction in 1799 to its repeal in 1816. Over this period the tax took two forms: the first tax operated from 1799 to the Treaty of Amiens in 1802, and the second prevailed from the resumption of war in 1803 up to its repeal after the end of the war in 1816. Given that the periods of the tax’s operation so closely mirror the central stages of the French Wars, it is unsurprising that historians have explained the development of the tax in terms of the ongoing conflict at the time. The tax has tended to be viewed simply as a financial instrument with which Britain could wage war, abandoned once that imperative disappeared. However, Part I of this thesis questions this narrative, and identifies another theme underpinning the evolution of the tax: the influence of a powerful commercial interest. It argues that the development of the income tax over the period was driven not only by financial necessity, but also by commercial influence.

Chapter 1 examines the first income tax, introduced in 1799. It considers the background to the tax’s introduction and notes that the financial underperformance that plagued the tax has been attributed by historians to problems surrounding its administration. However, the chapter suggests an alternative interpretation: that concessions afforded to the powerful commercial interest in exchange for their political support undermined the effectiveness of the tax, leading to significant under-contribution from commercial taxpayers. Thus, the financial failure of the tax stemmed from commercial evasion, which was in turn facilitated by the influence of the commercial interest over tax policymaking. The chapter will also contend that further evidence of commercial influence over the tax’s development was visible in the lead-up to its repeal in 1802, as the country’s powerful commercial interest played an instrumental role in whipping up popular opposition to the tax. The commercial interest lay at the heart of the first tax’s financial and popular failure.

Chapter 2 explores the development of the second income tax, which was imposed after the breakdown of the Peace of Amiens in 1803, and remained in operation until 1816, after the end of the Napoleonic Wars. It rejects the prevailing narrative of the tax as a financially
successful measure driven both into and out of existence solely by the necessity of war, and instead provides further evidence of a theme of commercial influence dictating the movement of the tax. The three key stages in the evolution of the second tax – its reinstatement, operation, and repeal – are considered, and it is posited that the tax’s experience at each of these stages was driven by the influence of the powerful commercial interest at the time. The chapter argues that, like its predecessor, the profitability of the second tax was undermined by the concessions granted to the commercial interest, designed to encourage commercial acceptance of the tax. Furthermore, it highlights that the commercial interest continued to play a leading role in the popular debate surrounding the tax’s renewal in 1803, as well as its repeal in 1816. Accordingly, it is argued that, as in the past, the powerful commercial interest was responsible for the financial and popular failure of the tax. Part I therefore identifies two key barriers to the development of the early income taxes: commercial influence over policymaking, and commercial opposition to the tax. This leads to the conclusion that, in order to understand the movement of income tax policy over the first part of the nineteenth century, we must look to the relationship that it had with the powerful commercial interest.
CHAPTER 1: THE BIRTH OF THE INCOME TAX

I. INTRODUCTION

The first income tax, which operated from 1799 to 1802, has thus far attracted relatively little attention from historians.¹ This can be explained in part by the fact that until 1939, all records accounting for the administration of the tax were believed lost, destroyed by Parliament upon the abolition of the tax in an apparent attempt to wipe the tax from memory, the ‘bare statistical outline’ all that remained.² However, the discovery by Hope-Jones of duplicates sat forgotten at the King’s Remembrancer sparked three detailed analyses of the tax,³ first by Hope-Jones himself in 1939,⁴ subsequently by Farnsworth in 1951,⁵ and then by Sabine in 1966.⁶ These studies, alongside notable contributions from modern commentators such as Stebbings and Avery Jones,⁷ have painted a picture of the first tax as the birth of a promising fiscal instrument, but blighted by administrative weaknesses such that its failure was inevitable. There is no doubt that general administrative failings – such as the lack of a strong centralised system of collection – did play a significant part in accounting for the failure of the tax, and such failings will be considered in this chapter in due course. However, this focus has led to the neglect of a central explanation for the financial underperformance of the tax, namely the exceptionally poor revenue taken from ‘commercial income’. References to this shortfall in the existing histories have generally been brief and largely supplementary to the principal argument, tending to dismiss the poor take from commercial income as a symptom of an overarching problem of ineffective tax administration. This chapter instead argues that the ‘financial failure’ of the tax – i.e. its significant disappointment in yield – was underpinned in all areas by commercial evasion, which had been facilitated by significant

¹ This chapter is derived in part from an article published by the author in the Journal of Legal History: see Katherine Cousins, 'The Failure of the First Income Tax: A Tale of Commercial Tax Evaders?' (2018) 39 Journal of Legal History 157 <https://doi.org/10.1080/01440365.2018.1484325>. The author has retained the right to include the article in this thesis.
³ The King’s Remembrancer was an office within the Court of the Exchequer, tasked primarily with the keeping of records relating to taxation.
⁴ Hope-Jones (n 2).
⁵ Albert Farnsworth, Addington, Author of the Modern Income Tax (Stevens & Sons 1951).
concessions towards the commercial interest in the design and implementation of the tax. This highlights a trend of commercial influence over the tax’s development. The chapter builds upon this theme by examining the factors that lay behind the popular failure of the tax, leading to its repeal in 1802. It argues that powerful players in the City of London played a key role in inciting public opposition to the tax, which culminated in the tax’s abandonment. Thus, it identifies two interlinking sources of commercial influence over the tax’s evolution: influence over tax policymaking, and over the popular opposition to the tax.

The chapter begins by discussing the desperate fiscal situation that necessitated the tax and argues that effective targeting of commercial income was crucial in addressing the deficit arising from the expensive war with France. It then turns to consider the objections that were raised against an income tax. These objections are well-documented within the existing histories, as is the fact that the strength of objection led the government to impose a tax that was tolerant of evasion. However, this argument will be developed further by examining the particularly strong objections of the commercial interest. It will then be demonstrated that commercial actors wielded significant influence within and over Parliament, providing them with a unique platform from which to put forward their objections. It is argued that this contributed to the granting of further concessions in the substance of the tax, afforded specifically to commercial parties. It will be demonstrated that the most important of these concessions was the so-called ‘secret procedure’, which effectively allowed commercial taxpayers to hide their declarations from everyone but the Commercial Commissioners, who had limited power to challenge a declaration. The chapter also considers the lack of effective centralised control over the tax, evident primarily through issues with the tax collectors. Again, this particularly pertains to commercial parties. These concessions, it will be demonstrated, allowed for easy evasion of the tax by the commercial sector.

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8 This issue has been discussed at length by Stebbings, ibid, as part of a larger study focusing on the culture of secrecy pervading all areas of the first tax. This study takes her conclusions further, in developing in detail the reasons behind the preferential treatment of the commercial interest, and exploring the effect that this treatment had in supporting a culture of commercial evasion of the tax. Importantly, this study also considers the evidence of this evasion, alongside the impact that it had on the yield of the tax. Ultimately, it demonstrates that commercial evasion is the key factor in explaining its financial failure.
The chapter then moves on to demonstrate the key role of commercial income in accounting for the financial failure of the tax. The discrepancy between the estimated yield and that actually collected is considered, and it is demonstrated that only twenty-seven per cent of the predicted revenue from commercial income was collected. This contrasts with other forms of income where eighty-one per cent of the estimated sums were collected. This conclusion, that low revenue from commercial income was the key factor in accounting for the financial shortfall, is buttressed by various forms of evidence, and the argument that it can be accounted for primarily by miscalculation in Pitt’s estimates is rejected. This leads naturally to the conclusion that the responsibility for the financial failure of the tax can be principally attributed to evasion by the commercial sector of society.

The chapter then considers the popular failure of the tax. First, it assesses general objections to the income tax, followed by the more specific complaints put forward by the country’s commercial interest. It then examines the role of the commercial community in lobbying for the repeal of the tax in 1802 and argues that, as well as determining the financial failure of the tax, the commercial interest was also instrumental in its popular failure. In presenting strong objections, and tactically provoking opposition to the tax in the lead-up to its repeal, the commercial interest played a central role in the tax’s abolition in 1802. Thus, it is argued that the commercial interest drove the failure of the tax from both a financial and socio-political perspective.

II. BACKGROUND, CONTEXT AND CONCESSIONS

2.1 Lead-up to the tax

The fiscal situation on the eve of the income tax in the late 1790s was grave. The eighteenth century had been characterised by a series of expensive wars, resulting in the creation of what Brewer has dubbed the ‘fiscal-military state’:

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funding the next. The sheer expense of these conflicts was addressed through the creation of long-term, ‘funded’ debt, the repayment of which was to be achieved through the development of a sinking fund, with an increase in taxation to secure the interest. This system was moderately successful during peacetime, when national income exceeded expenditure. However, in wartime, characterised by significant deficit and the accumulation of further debt, the amounts paid into the fund were too small to have any significant effect. As the amount of debt grew higher, so did the interest payments due, and consequently further, or higher, taxes were necessary to meet this cost.

By the last decade of the eighteenth century the country found itself engaged in the costliest war it had ever waged. Net wartime expenditure had risen from an annual average of £7,063,923 over the course of the War of Spanish Succession, 1702-1713, to £20,272,700 during the American War of 1775-1784. By 1798, it had risen to £47,422,000. The country was also subject to an unprecedented level of national debt: public debt had risen from £14.2 million in 1700, to £78 million in 1750, to £391.2 million in 1798. Britain’s only hope for financial equilibrium rested on further imposition on a taxpaying public that already believed itself to be overburdened. The political and economic quagmire that Pitt found himself in is summed up by Monroe: ‘All the familiar ingredients of financial crisis were present, mounting expenditure, escalating costs, unprecedented demands on the nation’s resources. Increased taxation was inevitable. Pitt’s problem? How best to tighten the screw?’ Pitt recognised that in order to secure further borrowing, a new approach to taxation would be required. However, he was reluctant to immediately turn to a tax upon income, owing to the significant public and Parliamentary opposition that would likely arise. This opposition was bolstered by, among others, the influence of economic philosopher Adam Smith, who had insisted that a tax upon income was impossible without granting the

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10 ‘Funded’ meaning in this context that particular revenue was allocated to ensure payment of interest. If the tax was repealed, it would have to be commuted by another, in order to ensure equivalent contribution. For discussion of the nature of funded debt see, for example, ibid, 119.


12 Brewer (n 9) 30.


14 Ibid 401-402.

The traditional approach to financial difficulty had been to raise existing taxes, in particular expenditure taxes. Prior to the 1790s, taxation had been largely focused on a mixture of land tax, customs and excise duties and expenditure taxes. However, these taxes were already stretched to their maximum, and fell far short of targeting the revenue created by the significant industrial growth that characterised the eighteenth century, as well as the resulting increase in personal wealth of those associated with it. Taking the land tax first, Dowell has suggested that it could play little role in addressing the deficit as ‘the rate was now 4s [in the pound, as calculated against the value of the land], which had never been lowered since its imposition on the commencement of the war of American Independence. This was considered to be the ‘natural limit’ of the tax; a 5s rate had never been contemplated by the boldest Chancellor of the Exchequer’. Thus, the likelihood of finding reprieve from the financial predicament in the land tax was slim. Additionally, as Brewer has pointed out, the entirely local administration of the tax meant that central government had little ability to supervise it, meaning that receipts were often delayed, and likely often inaccurate. Moreover, even if revenue generation had been possible, this would have done little to target the profits of industrialisation, which, as will be developed below, was vitally important in establishing a profitable revenue stream. The land tax was based only on the value of the land, and therefore failed to take into account the purpose for which the land was used, or its profitability. As such, a piece of commercial land used for a highly successful business

16 According to Smith, ‘An inquisition into every man’s private circumstances, and an inquisition which, in order to accommodate the tax to them, watched over all the fluctuations of his fortunes, would be a source of such continual and endless vexation as no people could support.’ – Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (Dublin 1776) vol II 455. For more on Smith’s tax theories, see Chapter 4.
18 See, for example, O’Brien’s statement that ‘the Exchequer only benefited to a limited degree from the “commercial revolution”’, ibid 17.
20 Brewer (n 9) 101.
would have attracted the same tax liability as a failing farm of equal value. The usefulness of the land tax in addressing the fiscal dilemma was therefore limited: in being restricted to the value of the land alone, thus failing to target the wealth that arose from it, there was little hope of it generating the revenue necessary to wage war.

A second major source of revenue at the time came from customs and excise duties. These levies constituted a form of indirect taxation, as the levy, although paid by the importer or producer, was built into the price at the point of purchase. The British government of the eighteenth and early nineteenth centuries heavily relied on indirect taxes, primarily because such taxes did not require a particularly advanced administrative framework for collection. As Sabine has pointed out: ‘direct taxation needed an efficient bureaucracy and a more searching method of ascertaining an individual’s income, both of which factors had yet to come’. Despite this, the usefulness of indirect taxes, and in particular customs and excise duties, in solving the country’s financial difficulties was limited. As O’Brien has noted, there had been no duties on exports since the late 1600s, ostensibly to encourage sales of British produce abroad. This effectively allowed an entire area of profit-making activity to exist largely unencumbered by tax. Although excise duties and levies on imports were profitable sources of income, foreign trade and domestic production were under threat from the danger to naval transport posed by the war with France, meaning that the supply of goods and raw materials from abroad was at times compromised. This was compounded by a reduction in demand resulting from poor financial conditions, and the threat posed by poor harvests. As such, significantly increasing customs and excise duties would risk discouraging an already hesitant market: over-taxation would potentially jeopardise the country’s economic wellbeing. Furthermore, although the value of customs and excise duties

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22 Sabine (n 6) 16. For consideration of the public preference for indirect taxation, see Hope-Jones (n 2) 133, namely that ‘[indirect taxation] is often unnoticed and always paid in the form of small additions to the price of the article taxed.’ This, as will be discussed below, added to the significant opposition to the introduction of the income tax.


24 See further, Brewer (n 9) 100.

25 See O’Brien’s point that ‘British businessmen could avoid taxes entirely by exporting their wares to foreign and imperial markets’: (n 23) 27.

26 See Brewer (n 9) in particular at 99.
collected from January 1799 to January 1800 was just over £10,000,000,27 the national funds used for the army alone in the same year was £14,289,000, meaning that any increase would have to have been very significant, in order to address the deficit.28 Therefore, it seemed that customs and excise also could not provide the necessary funds to offset the ever-increasing cost of war.

In desperation, Pitt made a final attempt to address the rising cost of the wars through ordinary means.29 The ‘holding operation’ against the tax culminated in an increase in the rates of existing expenditure taxes, notably through the 1798 ‘Triple Assessment’, whereby rates of existing so-called ‘assessed taxes’ were arbitrarily increased.30 The assessed taxes were taxes on expenditure, and were placed on a wide variety of objects such windows, carriages, male servants, and inhabited houses.31 Although numerous and administratively cumbersome, expenditure taxes formed a crucial element of eighteenth and early nineteenth-century fiscal practice. The attraction lay in the fact that expenditure taxes enabled government to some extent to tax wealth, without having to resort to a wealth or income tax. As Sabine has suggested, as long as an income tax was off-limits, ‘the alternative was to tax the outward and visible signs of wealth’.32 Placing duties on luxuries was thus a moderately effective method of taxing the wealthy, without facing the opposition that a direct tax would attract. In proposing the Triple Assessment, Pitt announced that assessment would be based on the 1797 returns for the relevant assessed taxes, in order to prevent evasion. However, he also allowed for reductions if it could be proven that the assessed value amounted to more than ten per cent of the individual’s income. Furthermore, liability was waived entirely if the taxpayer earned under £60 per annum. In introducing these provisions, Pitt attempted to base an individual’s overall return on income. In retrospect, it therefore seems that that the Triple

27 Account of Produce of Duties of Customs, Excise, Stamps and Incidents 1800, HCSP 1801 (5) v 51 at 53.
28 Mitchell (n 13) 391.
29 For a detailed discussion of this see, for example, Dowell (n 19) vol II 214. See also Phillips’ account of how ‘Pitt exhausted every possible resouces to avoid [the income] tax, by repeatedly increasing the taxes which were, theoretically at any rate, avoidable’: William Phillips, ‘The Origin of Income Tax’ [1967] British Tax Review 113, at 122.
30 For a good discussion of the growth of the assessed taxes, culminating in the Triple Assessment, see Sabine (n 6) 19–24.
31 See An Act for granting to His Majesty an Aid and Contribution for the Prosecution of the War: 38 Geo III, c 16 (hereafter the Triple Assessment Act 1798). A full list of the taxes, and a useful discussion, is given by Sabine, ibid, 19-20.
32 Ibid 19.
Assessment was a ‘halfway house’, an attempt to achieve the outcome that an income tax would offer, without inviting the strong opposition that would accompany it.

Although undoubtedly a clever manoeuvre, the Triple Assessment was markedly unsuccessful as a form of taxation, raising just £2 million of the expected £4.5 million. Pitt attributed this failure to ‘shameful evasion or rather scandalous frauds’, and the inability of authorities to check the accuracy of returns was a significant factor. The rule that the amount of tax due could be reduced if a taxpayer could adduce evidence to show that it would amount to more than ten per cent of his income likely allowed for significant evasion to take place, given the low evidential requirement to prove this. Moreover, the £60 per annum exemption threshold also provided a valuable opportunity for would-be evaders. Phillips has argued that: ‘it was remarkable how large a number of persons declared their income as “just under” £60’. It therefore seems that, without a more certain method of ascertaining income, the Triple Assessment was doomed to failure. These failings in the implementation of the Triple Assessment were no doubt important in explaining why it failed to generate the promised revenue. However, there were also broader difficulties created by relying on expenditure taxes to meet the financial demand of war. A central issue that beset the assessed taxes was the inability to target commercial income. Commercial entities and businesses were not natural persons with normal expenses. Therefore, taxes on, for example, watches, carriages, inhabited houses and wigs, did not apply. This, it will now be considered, allowed an increasingly important source of income to largely escape taxation.

Commercial income was particularly important considering the large-scale growth in trade that the country had seen, and was continuing to see, from the ‘consumer revolution’ of the eighteenth century, and the burgeoning Industrial Revolution. As will be discussed below,

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33 *Cobbett’s Parliamentary History*, vol 34 col 3, per Mr Pitt (3 December 1798). In addition to the £2 million yield, another £2 million was raised through voluntary contributions.
34 According to Richard Hopkins in his account of the history of the income tax in The Royal Commission on the Income Tax: First Instalment of the Minutes of Evidence with Appendices; PP 1919 Cnd 288 (i-viii) xxiii 1, 119 (Appendix I). Further emphasised in Dowell (n 19) vol II 223, and Farnsworth (n 5) 12.
35 See, for example, Sabine (n 6) 23.
36 These issues would also pervade the income tax.
37 Phillips (n 29) 124.
38 This is subject to the exception of the so-called ‘Convoy Tax’, discussed in Dowell (n 19) II 222-223. This targeted commercial classes by requiring that ‘every merchant vessel….sail with a convoy’, and that therefore extra duties should be imposed on imports and exports.
in his projections of the produce of the income tax Pitt estimated that, after deductions, the commercial sector was responsible for forty-four per cent of national income. Thus, in achieving revenue growth, it was important that commercial income was taxed effectively. Further evidence of this growth in trade is evident in the literature: as Evans has noted, domestic exports ‘tripled in the twenty years after 1784’, and imports ‘more than doubled’. It is also seen across particular industries: for example, retained imports of raw cotton amounted to an average of 2.81 million lbs between 1750 and 1759, however this had risen to 42.92 million lbs between 1795 and 1804, an increase of over 1500 per cent. Added to this was an explosion in population, rising from 7,050,000 in 1781 to 8,650,000 in 1801. Commerce depended on a pool of consumers willing to buy: a significant increase in population led to the same effect on demand. Although an increase in the number of articles subject to taxation meant that receipts from excise duties and assessed taxes rose, their effectiveness was limited as they provided no means of targeting the great profits accumulated by the wealthy traders, and largely maintained in capital. As Stebbings has noted, commercial income formed part of a “great means” which had hitherto remained untaxed. Considering both the scale of commercial income and the inadequacies of the existing taxes in targeting it, it would have been clear to Pitt that the key to unlocking greater revenue would be to access this ‘great means’. However, this would prove to be far from straightforward. As will now be discussed, strong opposition to the tax led to a generous system of taxation, particularly towards commercial income.

2.2 The advent of the income tax

The impending tax on income was greatly unpopular, and this was apparent in the writings of contemporaneous pamphleteers. The tax was declared ‘hideous and detestable’, ‘in its

39 Evans (n 11) 45.
41 Hilton (n 11) 4.
42 Stebbings (n 7) 654.
43 Benjamin Kingsbury, An Address to the people of Great Britain on the Subject of Mr Pitt's Proposed Tax on Income; In Which it's Partial Operation, it's Rank Injustice, and it's Dreadful Consequences, are Demonstrated; Together with the Propriety of an Early and a Strenuous Opposition to this Unprecedented Scheme, Previous to it's Passing into a Law (London 1798) 15.
nature unequal, unprincipled, unjust’. Particularly vocal in its opposition was the commercial interest, especially the merchants and traders of London. Despite officially approving the principle of a wartime income tax, the Court of Common Council of the City of London adopted a resolution in December 1798 stating ‘that the said bill proposes to establish an inquisitorial power unknown in this country – inconsistent with the principles of the British Constitution – and repugnant to the feelings of Englishmen’. This identifies a key criticism that was voiced extensively by landed and commercial interests alike: namely that the tax constituted unwarranted official inquisition into the private affairs of its contributors. However, as will also be demonstrated, this argument is less than persuasive in accounting for the overall bad feeling towards the tax. Instead, two key explanations proposed by historians emerge: first that complaints were reflective of a perceived ‘breach of consent’ by the government; and second that they disguised dissatisfaction at a change in form of taxation, which had before allowed taxpayers to control, and often avoid, its full weight. The latter was especially true of the commercial interest, and provides a persuasive explanation for both commercial antipathy to the tax, and ultimately the concessions that Pitt was forced to make in its administration, concessions that proved particularly of benefit to the commercial community.

As regards the threat of inquisition, this was a prevalent criticism of the new tax even in Parliament. Michael Angelo Taylor MP spoke of tax collectors as ‘a spy [that] comes, not only into the House, but opens the bureau of every man, and becomes acquainted with his most secret concerns’. This strength of feeling, although dramatic, is perhaps unsurprising. The violent French Revolution, which had been triggered by oppressive government,
particularly through the heavy and regressive taxation imposed by the ancien régime, was still fresh in the public mind. An important example of this was the so-called vingtième, the pre-revolutionary French income tax, which had been poorly administered and was deeply unpopular, exempting the wealthy whilst overburdening the poor and middle classes. That this would have played into fears surrounding the prospect of a British income tax is very likely: a tax that not only allowed for government investigation into private affairs, but that had also been used as an instrument of oppression across the channel would have been an alarming prospect for contemporaries. George Tierney MP argued in Parliament at the time that: ‘this measure puts a tenth of the property of England in a state of requisition – a measure which the French have followed in their career of revolutionary rapine…’ This fear of tyranny was only added to by the radical opinions of social philosophers such as Thomas Paine, who played an important role in both the American and French revolutions, in expounding the rights of the ordinary man to rise up against unwarranted interference by the government, particularly in the face of excessive or intrusive taxation. These fears took place against a backdrop of predominantly local control over taxation, particularly in the remote counties, as most taxes were assessed and collected by local men, before being remitted to London. Residents of these areas were unused to official involvement in local affairs, and although they might not object to answering to their ‘natural superiors’ in the form of the local gentry or county magistrate, submitting to officials in London was a quite different prospect. Accordingly, it is unsurprising that the concept of switching from a

49 See Dowell’s statement that the revolution had inspired ‘feelings of amazement and horror…[that] made a deep impression upon people of all classes in this country’ – (n 19) vol II 208-209.


51 Cobbett’s Parliamentary History, vol 34 col 22, per Mr Tierney (3 December 1798).

52 See his seminal work, Rights of Man: Being an Answer to Mr Burke’s Attack on the French Revolution (London 1791).

53 In particular, Paine was a popular and powerful advocate of American independence: see his pamphlet Common Sense; Addressed to the Inhabitants of America (Philadelphia 1776). The American revolution in particular was a perfect example of successful action against state intrusion, having been triggered by dissatisfaction over the imposition of duties on tea by the British government, and ultimately resulting in national independence. For a detailed account of this see James Coffield, A Popular History of Taxation: From Ancient to Modern Times (Longman 1970), particularly at 82–88.

54 For a good discussion of this attitude and how this was exacerbated by onerous stamp duties on newspapers at the time, interpreted by many contemporaries as an unforgivable encroachment on press freedom, see L Oats and P Sadler, 'Stamp Duty, Propaganda and the French Revolutionary and Napoleonic Wars' in John Tiley, (ed), Studies in the History of Tax Law, vol I (Hart Publishing 2004), at 251–253.


56 Hope-Jones (n 2) 114.
localised system of administration in all aspects of life to a central ‘inquisition’ resulted in significant objection.\(^57\)

It was not only the fear of disclosure to state officials that concerned taxpayers. The possibility that it would allow fellow citizens knowledge of their neighbour’s particular financial position was hotly opposed, most particularly by the commercial community.\(^58\) The key to understanding this fear lies in the particular nature of trade at the time, which was highly centred around credit. This, as Stebbings has noted, was vital to trading success as ‘most commerce was carried on either by sole merchants or small partnerships’, meaning that ‘the great majority of commercial men who needed further capital had no option but to turn to some form of credit’.\(^59\) The ability to obtain credit hinged on ‘the borrower’s good name and the faith a lender had in his ability and intention to repay’,\(^60\) and a great indicator of this would be the financial situation of the would-be debtor. If a creditor gained access to this information, there would be an increased risk that he would refuse to lend to the debtor, or that he would impose onerous terms on the loan, in turn reducing engagement in trade. An anonymous pamphleteer argued at the time that if credit is ‘touched with a rude hand it will fly in a thousand pieces, and be irrecoverably destroyed!’\(^61\) This risked ‘kill[ing] the proverbial goose which laid the golden eggs’:\(^62\) hampering trade by discouraging credit offering would likely compromise a valuable revenue stream. This provided commercial parties with a platform upon which to push for secrecy in the tax.

Further consideration shows that the sincerity of these complaints is doubtful, particularly with respect to commercial parties. The income tax was by no means the first inquisitorial intrusion into a taxpayer’s private life. The Excise had been a source of discontent on those grounds since its introduction in the seventeenth century, involving

\(^{57}\) As Hudson has described: ‘…the maintenance of order and justice, and much economic and social regulation, were devolved locally and the power of the state was diluted by a patronage system which provided income and office for members of the landed classes’: Pat Hudson, *The Industrial Revolution* (Edward Arnold 1992) 52. See discussion regarding the importance and consequences of local administration below.

\(^{58}\) For an in-depth consideration of this concern, see Stebbings (n 7). See also the related point, discussed in the aforementioned article, that ‘disclosure of a gentleman’s financial circumstances might tend to the erosion of a generally accepted hierarchy where everyone knew his place’ (at 652).

\(^{59}\) Ibid 656.

\(^{60}\) Ibid 657.

\(^{61}\) *Estimate of the Produce of the Tax upon Income* (n 45) 13.

\(^{62}\) Evans (n 11) 101.
significant intrusion into the affairs of both manufacturers and merchants, and granting the government ‘an extraordinary degree of formal and informal control’. Bearing in mind the minute and onerous requirements upon manufacturers and traders under the Excise scheme, an income tax was unlikely to prove any more inquisitorial than existing taxes. As Stebbings has suggested, this raises the question as to whether this complaint ‘was…genuine…or whether it was merely a plausible concern raised to apply pressure to the government to ease the impact of a generally unpopular measure’. Furthermore, that complaints of inquisition were voiced even despite Pitt’s concession in the way of a secret procedure pertaining to commercial parties, which, as will be discussed below, effectively allowed them to hide their contributions, also casts doubt on the veracity of these complaints.

Accordingly, discerning the true basis of anti-income tax sentiment requires further investigation. One explanation can be found in what historians have styled as ‘loss of consent’, i.e. that the government was to acquire the power to probe into the personal affairs of a gentleman without his agreement. Stebbings has explored this idea extensively, and has argued that, in introducing the tax, the government was perceived to be committing a ‘breach of consent’. She contends that contemporaries believed themselves to possess a constitutional right to ‘consent to taxation’. This could be achieved through real consent, or implied consent arising from local administration. The imposition of an objectionable, centrally administered tax therefore directly contravened perceived ideas of liberty and constitutionality. This particularly struck a chord with other, disenfranchised taxpayers who had even less opportunity to consent to this new tax, and, perhaps influenced by the notion of ‘no taxation without representation’ thrown up by the American Revolution, felt especially aggrieved by the tax. This theme of lack of constitutionality is evident in the contemporary

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63 For a detailed discussion of this, see Chantal Stebbings, 'Traders, the Excise and the Law: Tensions and Conflicts in Early Nineteenth Century England' in John Tiley (ed), *Studies in the History of Tax Law*, vol IV (Hart Publishing 2010), especially at 140–143. See particularly the statement at 141 that ‘the relationship between the merchant community and the excise board was an exceptionally close and intense one’.
64 Ibid 140.
65 See further Phillips (n 29) at 114, and B E V Sabine, 'Great Budgets I: Pitt’s Budget of 1799' [1970] British Tax Review 201, at 210, both of whom argue that ‘inquisition’ had existed long before the income tax.
66 Stebbings (n 7) at 656.
68 Stebbings: 'Consent and Constitutionality' (n 55); *The Victorian Taxpayer and the Law* (n 55).
69 See, for example, Stebbings (n 7) particularly at 652; and Monroe (n 15) particularly at 3.
70 See note 53, above.
literature. That the government was to have the power to subject a gentleman to interview and to impose a charge upon him without recourse to the courts was, according to Sir John Sinclair, ‘the height of cruelty and injustice’.\(^{71}\) John Horne Tooke complained in a letter to the clerk of the Income Tax Commissioners that ‘The Act of Parliament has removed all decencies which used to prevail among gentlemen and has given Commissioners (shrouded under the signature of their clerk) a right by law to tell me they have reason to believe that I am a liar’.\(^{72}\) Perhaps, then, objections to the tax’s ‘inquisitorial’ nature are better understood as a shorthand for resentment stemming from a perceived contravention of a taxpayer’s rights as an Englishman.

It seems that many objections to the tax were to its principle, based on the notion that there had been a breach of a constitutional right. However, Pitt’s introduction of some local administration alongside the principle of self-declaration, discussed below, went at least some way to offsetting these complaints by giving local communities a hand in their own tax collection. Despite this, opposition to the tax remained strong, suggesting another reason behind the general distaste. A possible explanation can be found in the heavy tax burden at the time. As Hudson has pointed out: ‘The English tax burden far exceeded that borne much more reluctantly in other countries…taxation rose three or four times faster than national income’.\(^{73}\) The prospect of a tax over and above existing levies was likely always destined to be unpopular. However, the opposition to the Triple Assessment proposals in 1798, which would also have added to the overall burden, was far milder than that faced by Pitt in 1799. It therefore seems that high taxation alone cannot explain hostility towards the income tax. A more persuasive answer is provided by Phillips: that objection to the tax can be explained by a change in form of taxation, from indirect to direct.\(^{74}\) As he notes, ‘during the eighteenth century…the doctrine had come to be universally accepted that taxes on so-called luxuries were optional taxes; income tax was clearly not an optional tax, and it therefore offended an idée fixe, one very firmly fixed indeed’.\(^{75}\) The income tax therefore served as a break with

\(^{71}\) Cobbett’s Parliamentary History, vol 34 col 84, per Sir John Sinclair (14 December 1798).
\(^{72}\) Cited in Sabine (n 6) 30, no reference given.
\(^{73}\) Hudson (n 57) 53. For further evidence and discussion of the high tax burden, see Peter Mathias and Patrick O’Brien, Taxation in Britain and France, 1715-1810: A Comparison of the Social and Economic Incidence of Taxes Collected for the Central Governments’ (1976) 5 Journal of European Economic History 601 at 607; O’Brien (n 17); Brewer (n 9) ch 4.
\(^{75}\) Ibid at 177.
tradition, and a very convenient tradition at that: that the tax system was based on regressive indirect taxes on expenditure, targeting the poorer classes and allowing for easy avoidance by, and lesser impact upon, the wealthy. As O’Brien has stated: ‘[By]…a prudent selection of the commodities and social groups ‘picked upon’ to bear the mounting exactions of the state…rising taxation…[was made]…tolerable and politically manageable’. This carefully selected tax base, as O’Brien points out, was coupled with tolerance of evasion of other more direct taxes, making change even harder as a ‘blind-eye’ attitude was already deeply ingrained in tax administration. As discussed above, the nature of the indirect taxes had also meant that ‘Virtually no taxation fell upon business profits or business capitals’, which is key in explaining the strong opposition of the commercial community to the income tax. For the first time, trading profits were threatened by taxation. This reveals what was probably the true commercial complaint: that they would be required to contribute more in the way of income tax than they had under any other tax ever before.

2.3 The influence of the commercial interest

That the weight of public opinion, particularly from the commercial sector, was set against the income tax from the beginning is well-established. What is less well understood is that commercial parties were subject to significant preferential treatment in terms of the application of the tax, particularly as compared to the landed classes. This primarily resulted from their strong influence over Parliament, particularly the House of Commons. This influence is not immediately obvious when looking at the distribution of political power at the time. For example, the City of London, possessing no doubt the largest trading population in the country, elected just four Members of Parliament of the total 558. This pattern was repeated across the country, with traditionally agricultural counties represented by many

76 See, for example, the attitude expressed by a contemporary pamphleteer, that ‘it is to the multitude that the financier should look for efficient sources of revenue’, and not the wealthy – *Estimate of the Produce of the Tax upon Income* (n 45) 4. This point has also been discussed by Mathias and O’Brien, who have argued that ‘direct taxation was generally “progressive” – which is doubtless why it formed so small a proportion of total public revenue’ – Mathias and O’Brien (n 73) 614.

77 O’Brien (n 17) 7.


more MPs than newer, urban towns. Accordingly, direct political power on the part of the commercial sector was limited. However, the mercantile interest in particular managed to make their influence felt in other, less direct ways, by establishing for themselves a close, mutually beneficial relationship with the political class. This, as will be demonstrated, allowed them significant power over policymakers, affording them a position that ultimately played a part in the demise of the first income tax.

One way in which the commercial interest possessed political power was through its close relationship with the governing élite. Large trading interests sought to create solid relationships with politicians, forming powerful lobbies through which to press commercial objectives. These relationships were reflected in the demographic of Parliament itself: according to Thorne, in the overall period from 1790 to 1820, thirteen members of Parliament were, or had been, directors of the Bank of England, and thirty-two were directors of the East India Company. As O’Brien has pointed out:

[Chancellors] ran into determined and well-organised parliamentary opposition from political lobbies in the shape of the West India interest, the City of London members of parliament on the payroll of the East India Company and other trading corporations, who all used the influence they commanded to divert the Chancellor’s attention away from foreign commerce.

Furthermore, as Evans has pointed out, landed and commercial interests often coexisted, with ‘Opportunities in trade and business provid[ing] profitable employment for younger sons of great landowners’, and conversely with the most successful merchants consolidating their influence by purchasing land. This practice formed part of what Cain and Hopkins have termed ‘gentlemanly capitalism’, noting that ‘The more an occupation or source of income

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80 See ibid. This distribution remained the position until the 1832 Reform Act.
81 See, for example, Evans’s assertion that ‘Directors of the East India and South Sea Companies and the Committee of West Indian Planters and Merchants all had ready access to powerful politicians to press their interests…’. Evans (n 11) 37. See also Porter’s description of ‘the mercantile classes…currying ministerial favour’, with ‘master manufacturers…argu[ing] for their preferred commercial policies in the snuff-filled ante-rooms of Westminster’: Roy Porter, English Society in the Eighteenth Century, (2nd edn, Penguin Books 1990) 75.
83 Ibid.
84 O’Brien (n 17) 24.
85 Evans (n 11) 8.
86 See Colley’s statement that ‘land-ownership still provided the best and most reliable means of admission to power at the top as it did to social status’: Linda Colley, Britons: Forging the Nation 1707-1837 (Yale University Press 2014) 61.
allowed for a life-style which was similar to that of the landed classes, the higher the prestige it carried and the greater the power it conferred’. Thus, in emulating the lifestyle of the landed interest, newer business and financial interests hoped to gain admission to the political and social élite. The ‘gentlemanly capitalist’ was particularly successful in the City of London, and as such the City became an important source of commercial power. This likely stemmed from the fact that it was easier for mercantile and financial men to distance themselves from ‘the everyday and demeaning world of work’ than industrialists, as ‘full time involvement in industry was incompatible with the gentlemanly ideal’. Thus, Cain and Hopkins have argued that the City ‘rapidly became, in its higher reaches, a branch of gentlemanly capitalism and, as such, exercised a disproportionate influence on British economic life and economic policy-making’. The close association between City players and the political élite place increased political weight on the opinions and opposition of the City, and this, it will be argued through the course of this thesis, held important implications for the development of the income tax.

Another source of commercial influence came from its vital economic importance. This was manifested in two central ways. First, commercial income ostensibly accounted for forty-four per cent of national income. For the government to work against the commercial interest, therefore, risked undermining the entire economy. Second, and arguably even more importantly, the great trading entities of the City of London, such as the East India and South Sea Companies, and the Bank of England, financed loans to the government that kept the wartime nation afloat. This has led Dickinson to argue that: ‘What gave these institutions political power was not their votes, but their ability to raise substantial loans for the Treasury whenever the government required them’. The importance of this cannot be understated: in

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88 Cain and Hopkins, ibid, at 505.


90 See Pitt’s estimates of national income, discussed below.

91 See, for example, Stebbings’s account of how excessive excise duties earlier in the eighteenth century saw ‘some of the largest manufacturers [in Scotland]…forced out of business by the depressed state of trade caused directly by excise regulation’: (n 63) 143.

a time of economic difficulty, fighting an expensive war and with a high national debt, to ignore the voices of those propping up the national finances would have been disastrous. It is little wonder, then, that the government found complaints against the income tax from the mercantile interest particularly persuasive.

These mercantile actors were also valuable as they provided a route by which the nation could assert its aspirations to empire. As Colley has asserted, the élite believed ‘that commerce…was the engine that drove a state’s power and wealth…and that if British traders were to succeed in the struggle [to win access to foreign markets and materials], they must be vigorously supported abroad and protected at home’. 93 This need to protect trade in order to dominate on an international level was arguably more important in 1799 than ever before, given that ‘the French Revolution, followed by a global war, provided Britain…with an opportunity to capture and retain an “inordinate” share of the world markets’. 94 Thus, trading interests were seen as key both to retaining Britain’s international reputation, and also to succeeding in the war against France. 95 Imposing a system of taxation that risked inhibiting their activities therefore threatened not only the value of trade, but also British international supremacy. 96

The commercial interest also played a valuable role in assisting the government at home. As O’Brien has discussed, the numerous wars of the eighteenth century drew government attention away from domestic matters. 97 The resulting administrative gap was often filled by businessmen, who ‘shouldered the costs and managed the initiatives required to build up the realm’s network of roads, navigable rivers, canals, ports and other forms of social overhead capital’. 98 In taking on responsibility for development in infrastructure and organization while national attention was focused elsewhere, the commercial interest had developed for

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93 Colley (n 86) 64.
95 This was furthered by the close relationship between the Royal Navy and the merchant navy, which prompted donations to be made by large trading companies to the Royal Navy’s maintenance: see Colley (n 86) 65 and 93-94.
96 According to Dickinson, the recognition of this led to wealthy merchants ‘adopting pressure group tactics’: (n 92) 63.
97 O’Brien (n 23) especially at 12. This tallies with Brewer’s theory of the fiscal-military state: Brewer (n 9).
98 O’Brien, ibid 4.
themselves an invaluable position in the country’s domestic fabric. It would likely have been clear to Pitt that to dismiss the concerns of such a powerful community, to which much was owed, would be unwise.

By the end of the eighteenth century, then, the commercial interest occupied a privileged position in the political fabric. There are many examples of this interest spilling over into policymaking, such as the awarding of trading monopolies to the large merchant entities, and also the future enactment of the Corn Law in 1815. However, one particular example of the power that traders had over policy is that of the 1733 Excise Crisis, when Prime Minister Robert Walpole intended to replace the land tax with higher rates of excise duty, most particularly on wine and tobacco. This was ultimately defeated by an extensive campaign by the commercial sector, whereby ‘Merchants…mobilized public opinion’, by petitioning and disseminating publications intended to whip up feeling against the proposals, eliciting a reaction that Langford argues ‘would not have been possible without skilled and vigorous leadership, such as came from the City of London, the home of the great plutocratic merchant houses as well as one of the strongest centres of opposition to government’. This exercise of commercial power against government was replicated on numerous occasions throughout the eighteenth century.

In light of the above discussion, it is reasonable to suggest that the views of the commercial community held significant weight in Parliament and with the executive at the point that the income tax was proposed. The position was summed up in Parliament by Mr Rose, who argued that the government was ‘now prostrate at the feet of the Parliament of the

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99 For an extensive discussion of the role of the commercial interest in policymaking through the eighteenth century, see Dickinson (n 92), especially ch 2. For an examination of the nature and forms of political lobbying at the time, see Brewer (n 9) 221-249.

100 For an in-depth discussion of this, see Paul Langford, The Excise Crisis (Clarendon Press 1975).

101 Michael Kammen, Empire and Interest: The American Colonies and the Politics of Mercantilism (J B Lippincott 1970) 64.

102 Langford (n 100) 58.

103 See, for example, the 1739 Spanish wars, which, according to Dickinson, began as a result of commercial pressure (n 92) 68; and the proposed increase in the duty on imported sugar in 1744 (at 66). See also the repeal of the shop taxes in the late 1780s: William Kennedy, English Taxation, 1640–1799: An Essay on Policy and Opinion (Series of the London School of Economics and Political Science, G Bell & Son 1913) 159.
Mansion-House’. However, this begs the question why, given the strength of feeling against it, the tax was not scrapped as the excise proposals had been in 1733. Despite their objections to its mode of collection, the Court of Common Council (the decision-making body of the City of London Corporation) approved the principle of an income tax. The answer lies again in the relationship that businessmen had with government: it was simply not in their interest to oppose the tax completely. Although, as we have seen, the country was dependent on traders in a number of ways, this was far from non-reciprocal. As Colley has pointed out, loyalty paid. Traders depended on the protection of the state to pursue commercial activity abroad, both directly, through the granting of monopolies such as those awarded to the East India Company, and indirectly, through the protection of merchant ships en-route to foreign markets by the navy. They also depended on the government for preferential trade conditions at home. In order to secure the continued favour of government, traders by and large supported the government’s various efforts, most crucially in a financial sense.

Furthermore, despite significant growth in the commercial sector throughout the eighteenth century, traders still did not generally possess the power or status of the gentry. As we have seen above, commercial political power at the time was derived from relationships with the élite: businessmen by themselves possessed little influence. In providing too strong an opposition, the commercial community would have risked disconnecting themselves from their main source of power and influence. This was furthered by the sense of wartime patriotic duty felt by the country as a whole. The campaign against the Excise had been conducted in peacetime; here the commercial interest would be fighting to deprive the nation of funds with which to assert its military supremacy. To undermine this goal would have served to alienate the commercial interest from both their powerful political

104 Morning Post (London, 20 May 1800) 2 col 4. The Mansion House is the official residence of the mayor of London, and was also the site of the meetings of the Court of Common Council. It was therefore used in this context as representative of the commercial City of London.
105 See the resolutions of the Court of Common Council, reprinted in William Frend, Principles of Taxation (London 1799), xiv–xv.
106 Colley (n 86) 56.
107 See Colley’s statement regarding the formation of patriotic societies and the giving of donations to the navy, that: ‘Doing one’s bit for the manning of the Royal Navy was one way of impressing the authorities, a public-spirited gesture that might just ensure some kind of reward.’ – ibid 94.
108 See ibid 60.
supporters and also the general public, holding potentially fatal implications for the availability of credit and the reputation of trade.

It must also be borne in mind that the risk of invasion threatened the commercial community as much as any other national interest. As Colley has pointed out, ‘threatened invasion from abroad…was almost certain to disrupt business and endanger money supply and credit’. Accordingly, to campaign contrary to the war effort would potentially have proved counterproductive financially as well as politically. Moreover, many traders actually benefited from the war. As discussed above, it was often the large trading interests that financed the wars, leading to beneficial interest rates and income security. Furthermore, war with France, as Britain’s largest trading rival, provided the opportunity for the commercial interest to benefit from French markets and lands abroad, should Britain win. The potential benefits of war would in all likelihood have proved irresistible to businessmen: accordingly, it was in their best interests to promote both supportive relationships with the government, and as successful a war as possible.

In presenting too strong an opposition to the income tax, then, traders risked their influential position in society, as well as their financial well-being. Nonetheless, the fact remained that the income tax would prove an unacceptable encroachment on their profits. In using their influence to negotiate a preferential system of assessment, however, the commercial interest sought to achieve the best of both worlds: to avoid much of the impact of the tax, whilst still maintaining the appearance of compliance. This was achieved in several key ways, centring on the role played by the so-called secret procedure available to commercial taxpayers.

109 Ibid 66. See further O’Brien’s statement that ‘Naval power forestalled, repelled and protected the British Isles from invasion and provided its capitalists with the security to invest in the long-term future’: (n 23) 20.
110 See Colley, ibid 100.
2.4 Making the tax more palatable: general concessions

That there was strong, principled objection to the imposition of the tax is clear. As a result, in enforcing the tax the legislature found itself torn between strict enforcement, risking an uprising such as that which had characterised the Excise Crisis, or acquiescence to public opinion, potentially undermining the tax as a revenue generator. An anonymous pamphleteer expressed this dilemma at the time: ‘if it be severe and rigorous, it will be oppressive and vexatious; if less strict and rigid, it will open the door to fraud and evasion’.

Pitt chose the latter option, thereby imposing a tolerant system of tax collection that was relatively easy to evade. In order to demonstrate this, it is necessary first to consider the general provisions of the Act, followed by the aspects of the tax most demonstrative of concession to public opinion, namely the principle of self-declaration and the lack of effective centralised control inherent in the tax. It is these concessions that were developed even further with regard to commercial income.

The 1799 income tax was imposed at a rate of ‘One Tenth Part of…Income, if the same shall amount to Two hundred Pounds, or upwards’. For income below £200, there was a graduated scheme of abatements, with income under £60 per annum exempted from the tax entirely. Income for the purposes of the Act was taken to mean that arising:

- from Lands, Tenements, or Hereditaments, wheresoever the same shall be situate, in Great Britain or elsewhere, or from any Kind of personal Property, or other Property whatever, or from any Profession, Office, Stipend, Pension, Employment, Trade, or Vocation.

Gross income was subject to general deductions, intended to offset the impact of the tax on those who had particular demands on their income. For example, deductions were

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111 Thoughts on Taxation in the Course of Which the Policy of a Tax on Income is Impartially Investigated (London 1798) 65.
112 There has been some suggestion in the literature that Pitt designed the tax in this way so as to ensure its passing through Parliament, with an aim to amend it once it proved problematic: see Stebbings (n 7) 653.
114 Ibid.
115 Ibid.
permitted for children, owing to their dependency on the taxpayer, and interest payable on debts. There were then further ‘specific deductions’ for each named head of income, the relevant deductions for trade being comprised in the Fifteenth Case of Schedule A of the Act.\textsuperscript{117} This included, for example, monies paid in wages.

Taxable income was self-declared in that the taxpayer would make a statement as to his income, alongside relevant deductions.\textsuperscript{118} This could be challenged should the Commissioner believe it to be incorrect, and a surcharge could be imposed upon the taxpayer if evasion was suspected,\textsuperscript{119} but importantly officials had no power to inspect the books of the taxpayer.\textsuperscript{120} As Pitt stated in his speech proposing the tax in December of 1798, in enabling parties to declare their liability under the tax themselves, income was not ‘distinctly laid open’, meaning that: ‘the disclosure at which many may revolt will be avoided’.\textsuperscript{121} This system of self-declaration with assessors lacking the power to access accounts without consent rendered the procedure almost voluntary in nature and consequently dependent, as Sir John Sinclair argued in Parliament at the time, ‘on the voluntary seal, and unfortunately, the lax morality, of…the people’.\textsuperscript{122} This meant that only those with an obvious disparity between their declared and actual income would be challenged: ‘[t]he rich miser would remain concealed’.\textsuperscript{123} Self-declaration had opened up the system to evasion under the Triple Assessment,\textsuperscript{124} and there was every reason to suggest that it would have the same effect on the income tax.

Pitt thus put his faith in the ‘general honesty’ of the public.\textsuperscript{125} His only answer to the possibility of evasion was, in addition to allocating responsibility for tax collection to local

\textsuperscript{117} For detailed consideration of the provisions of the Act, see Farnsworth (n 5) 15–18.
\textsuperscript{118} The relevant declarations were printed in Schedule B of the Act. Taxpayers paying the full rate were called upon to declare that the contribution given was ‘not less than One Tenth Part of my…Income, estimated according to the Directions and Rules prescribed by the said Act, to the best of my Knowledge and Belief’.
\textsuperscript{119} s 60 of the Income Tax Act.
\textsuperscript{120} See Sabine (n 6) 28-29.
\textsuperscript{121} Cobbett’s Parliamentary History, vol 34 col 7, per Mr Pitt (3 December 1798).
\textsuperscript{122} Ibid col 76, per Sir John Sinclair, 14 December 1798.
\textsuperscript{123} Monroe (n 15) 21.
\textsuperscript{124} The increase of the assessed taxes that took place in 1798, considered above. For an account of the evasion of these duties, see Phillips (n 29) at 124.
\textsuperscript{125} Cobbett’s Parliamentary History, vol 34 col 7, per Mr Pitt (3 December 1798).
Commissioners,\(^\text{126}\) to appoint a Surveyor, responsible for ‘lay[ing] before the commissioners such grounds of doubt, as may occur to him on the fairness of the rate at which a party may have assessed himself’.\(^\text{127}\) Such doubts were then to be reported to the Commissioners, such that ‘they may call for farther explanation from the person concerned’,\(^\text{128}\) but as Seligman has pointed out, ‘no taxpayer was compelled to answer any question’.\(^\text{129}\) This is not to say that Commissioners were powerless in the event of suspected evasion. As Pitt himself warned, ‘If, however, he [the tax payer] declines to submit to the investigation of his books…it shall be competent for the commissioners to fix the assessment, and their decision shall be final, unless he appeals to the higher commissioner’.\(^\text{130}\) However, the effectiveness of this deterrent against evasion was undermined in several key ways. The lack of power to investigate meant that any evidence of evasion presented by the surveyor, just as any assessment that the Commissioner may ‘fix’, would result from mere guesswork. This would naturally be based on external indicators, such as outward appearance of wealth and known local investment, making it a far from accurate assessment. This inherent inaccuracy essentially rendered the state incapable of obtaining a fully comprehensive return. Thus, evasion by under-declaration was to a large extent unchallengeable, rendering it inevitable.

It must also be remembered that Commissioners were often overworked, and their loyalties were split. The Commissioners themselves were selected by the grand jury from the existing Land Tax Commissioners for that area and ten others, ‘also so qualified’.\(^\text{131}\) The responsibility of such a small number of men for the accuracy of the hundreds, if not

\(^{126}\) For a discussion of this see, for example, Hope-Jones’s account of the basic administration of the tax: (n 2) 19.

\(^{127}\) ‘Speech of Mr Pitt, 3 Dec 1798’, col 7.

\(^{128}\) Ibid; ss 52–59 The Income Tax Act 1799.


\(^{130}\) Cobbett’s Parliamentary History, vol 34 col 7, per Mr Pitt (3 December 1798). See The Income Tax Act s 60, which provided that if, after the taxpayer is given the opportunity to amend their declaration, the commissioner is not satisfied, ‘it shall be lawful for such Surveyors and Inspectors to inspect and examine any Schedule of Income returned to the said Commissioners…and to surcharge the same according to the best of their Knowledge or Information’. The ‘higher commissioners’ Pitt referred to were the Commissioners of Appeal, who by virtue of s 64 of the Act had the power to determine the appeal in line with what appeared to them to be ‘just and equitable’. A good discussion of the powers of these Commissioners can be found in Chantal Stebbings, ‘The General Commissioners of Income Tax: Assessors or Adjudicators?’ [1993] British Tax Review 52. It is important to note that no appeal could be made on the assessments of the Commercial Commissioners, possibly in order to maintain the secrecy of commercial declarations.

\(^{131}\) The Income Tax Act 1799, s 11.
thousands, of assessments from their locality was an important limiting factor.\textsuperscript{132} Placing the administration of the tax in the hands of mainly local men was a concession to the fears of bureaucracy by those geographically divorced from London. Stebbings has discussed the need for local administration of the tax, pointing out that ‘self-government…was engrained in society’ at the time,\textsuperscript{133} and that therefore, in light of the strong opposition to the tax, ‘to use a traditional means of tax administration which was familiar…was a powerful pacifier’.\textsuperscript{134} However, the emphasis on local administration had significant consequences. Commissioners appear to have regarded themselves as ‘representatives of the taxpayers, and might naturally be supposed to defend their legitimate interests against the treasury’.\textsuperscript{135} They had little interest in sending money outside of their locality, and less incentive still to contradict a declaration made by a prominent local figure. Ultimately, the role of Commissioners as a safeguard against evasion was significantly flawed.

Although these concessions undoubtedly contributed to the culture of evasion surrounding the tax, the public at large did pay their dues, albeit reluctantly. As will be discussed below, together the yield of the tax from non-commercial sectors accounted for almost eighty-one per cent of that anticipated. This, when compared to a mere twenty-seven per cent from the commercial community, was a relatively successful result. As other commentators have pointed out, during this period the landed interest in particular did pay the high taxes that they complained about so vociferously.\textsuperscript{136} This likely reflected a sense of patriotic duty;\textsuperscript{137} as Colley has discussed, the French Revolutionary Wars marked the beginning of a different kind of conflict to that ever known before.\textsuperscript{138} The fact that the tax was largely paid suggests that, although general administrative issues with the tax and its

\textsuperscript{132} See, for example, Sabine (n 6) 33-34. For a detailed account of the day to day administration of the tax, see Hope-Jones (n 2) 21–47, and ch IV.
\textsuperscript{133} Stebbings (n 55) 23. On this point, see, for example, David Eastwood, Government and Community in the English Provinces, 1700–1870 (Macmillan 1997); David Lemmings, Law and Government in England During the Long Eighteenth Century: From Consent to Command (Palgrave Macmillan 2011). However, the notion that the centralised state had limited involvement in local affairs has been challenged: see, for example, Joanna Innes, Inferior Politics: Social Problems and Social Policies in Eighteenth-Century Britain (Oxford University Press 2009), especially at ch 1.
\textsuperscript{134} Stebbings, ibid 25.
\textsuperscript{135} Seligman (n 129) 82.
\textsuperscript{137} See Evans’ statement that: ‘It is probably that a heightened sense of patriotism…militated against widespread evasion’: ibid 101.
\textsuperscript{138} Colley (n 86) 292. The French Wars have been termed by some historians as the first ‘total war’: see David A Bell, The First Total War (Houghton Mifflin Harcourt 2007).
General Commissioners played a part in the financial failure of the tax, these issues alone were not conclusive. Instead, it is necessary to turn to the particular concessions made to the commercial sector, in order to understand why the tax failed so spectacularly in creating revenue.

### 2.5 Concessions and commercial income

It has already been established that, at the point of the introduction of the income tax, the commercial interest wielded significant political power. Indeed, Pitt himself seems to have recognised this, evidenced by his consultation with the ‘commercial community of the City of London, with whom he appeared to enjoy good relations’. That the concerns of this community led him to propose a lenient system of taxation, especially towards commercial taxpayers, seems extremely likely, considering the overwhelming evidence of their indirect political power. This generous scheme of assessment manifested itself in several key ways, as will now be considered.

Commercial income was taken to mean ‘not less than the full Amount of the Profits or Gains of such Trade, Profession, Office, Pension, Stipend, Employment, or Vocation’. Unlike in modern systems of taxation, the principle of a ten per cent tax on income, at least in theory, applied equally to both natural persons and commercial entities. Deductions were similarly permitted and, in the case of corporations, included income designated for the payment of dividends, on the basis that they would be taxed via the income of the shareholder. Although commercial parties were taxed in a broadly similar way to other classes of taxpayer, the method of assessment and tax return was vastly different. Local administration such as that pertaining to non-commercial returns would mean, as Stebbings has pointed out, that Commissioners ‘would become familiar with the financial affairs of men who might well be their rivals in trade’, meaning that ‘the very livelihoods of commercial...
men might be compromised’.\textsuperscript{144} Likely in response to commercial pressure on this point,\textsuperscript{145} Pitt inserted what became section 96 of the Income Tax Act 1799, which provided that commercial parties could elect to be assessed by Commercial Commissioners, rather than Commissioners for General Purposes.\textsuperscript{146} Returns made to the Commercial Commissioners were kept secret, entered into an assessment book and marked only by a number that matched that on the certificate of assessment.\textsuperscript{147} In line with other returns, income was self-declared, and was only to be investigated should the Commissioner have doubts over the accuracy of the disclosure. In the event of a Commercial Commissioner harbouring such suspicions, he was entitled to call two assistants to judge the ‘reputed income’ of the party. If they judged the declaration to be too low, the Commissioner could then interview two connected persons in order to ascertain the truth,\textsuperscript{148} before imposing an assessment ‘according to the best of their Judgement’.\textsuperscript{149} Importantly, however, no power was granted to examine the accounts of the party, and so the basis for any assessment was limited to hearsay. Secrecy could be justified on the grounds that it prevented competitors from accessing information,\textsuperscript{150} but in concealing the declaration from all but the Commercial Commissioners, any external checks on its veracity were rendered impossible. As Jenkinson argued at the time: ‘Wherever concealment is not necessary, it is objectionable…[as] a door [would] be opened, by that means, to fraud and evasion’.\textsuperscript{151}

This secrecy was perhaps even more of an issue than in the context of other, non-commercial income. For example, the means of a landed gentleman were usually evident in his lifestyle, for instance, through his large house, his servants, and his expensive

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\item[144] Stebbings (n 7) 654. See above for further discussion of how livelihoods may have been affected by competitors gaining access to this knowledge.
\item[145] See, for example, Farnsworth (n 5) 13 for an account of the ‘strength of the mercantile community…forc[ing]’ Pitt to concede to the commercial interest, through the introduction of the Commercial Commissioners.
\item[146] Commercial Commissioners were only able to assess income arising from those ‘engaged in any Trade or Manufacture’. However, they were able to assess the entirety of a trader’s income, and not just that part which was derived from trade or manufacture.
\item[147] The Income Tax Act 1799, s 99.
\item[148] Ibid s 98.
\item[149] Ibid s 99.
\item[150] See discussion of commercial concerns over their financial affairs being made transparent to their rivals, above.
\item[151] Charles Jenkinson, Review of the Arguments Advanced in the House of Commons, in Support of the Bill for Granting an Aid and Contribution for the Prosecution of the War, by Imposing Certain Duties Upon Income (London 1799) 27.
\end{footnotes}
commodities. As John Sinclair stated: ‘It is natural to suppose that every individual nearly in proportion to his property would procure for himself the convenience of being well-lodged’. However, the wealth of commercial parties was far less outwardly apparent. This was compounded by the fact that Commercial Commissioners covered a wider area than General Commissioners, and therefore lacked local knowledge. This compared unfavourably to the General Commissioners, who were in most cases local landowners, and might be expected to have at least some familiarity with the contributor or of the conditions in the locale. Furthermore, they generally possessed no skills in accountancy, and did not have an adequate workforce at their disposal.

Moreover, even if a Commercial Commissioner had reason to suspect evasion, he likely had little interest in pursuing the matter further, especially in London. By virtue of section 110 of the Income Tax Act, of the eighteen Commercial Commissioners for London, thirteen were to be chosen by the large corporations based in London. That commercial taxpayers held the power of selection over Commissioners raises questions over the loyalties of those selected, and as a result their interest in enforcing the tax. Sabine has argued that the shortfall in commercial yield is evidence of ‘the Commercial Commissioners [taking] great care not to oppress their fellows’. It is certainly likely that Commercial Commissioners were not the strictest enforcers of the tax, given their interest in both protecting their fellow commercial men, and potentially also in the failure of the tax, as a threat to their own profits.

The combination of these concessions meant that evasion of the tax would have been very simple. All that was required for a commercial taxpayer to avoid the full force of a tax was for him to under-declare his income, or to exaggerate the scale of the approved deductions, such as those on account of his children, for the interest due on his debts, or for

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153 See complaints to this effect in the report of the Commissioners for the Affairs of Taxes: TNA PRO 30/8/279, pt 2.
154 See discussion of this point in Farnsworth (n 5) 22-23.
155 See Hope-Jones’s account that Commercial Commissioners ‘were not supported by any corps of qualified officials for accountancy duties, or by an inspectorate numerous enough to examine the ledgers of great business houses’: Hope-Jones, (n 2) 19.
156 Three were selected each by the Bank of England, the East India Company and the South Sea Company, and two each by the Royal Exchange Insurance Company and the London Insurance Company.
157 Sabine (n 65) 209.
the annuities he was bound to pay. The potential for such evasion was recognised from the start, with Sir Francis Baring MP pointing out in Parliament that ‘as [commercial] property was generally in stock, the manufacturers…will be induced to undervalue it, and thus avoid the tax altogether’. Bearing in mind the Commercial Commissioners’ heavy workload, combined with the difficulty of proving a declaration to be false, alongside issues of bias, such declarations were unlikely to be challenged. Furthermore, as Stopforth has argued, the system was also open to avoidance of the tax, for example, by transferring assets to family members, creating trusts in their favour, or granting annuities. Other forms of avoidance, including transferring assets ‘offshore’, had also begun to emerge, albeit in primitive form, by this point, although it is unclear how effective this would have been in respect of the income tax, given the operation of the tax on a remittance basis, coupled with England’s position as the main trading market. In any event, ease of evasion would probably have rendered most forms of avoidance unnecessary, although as Stopforth has pointed out, ‘the fundamental flaw upon which much tax avoidance was later based was inherent in the system right from the start’.

It seems that evasion was both simple to commit and facilitated by lax administration of the tax. This was recognized at the time, for example by Lord Hawkesbury, who was reported by The Morning Post as attributing large-scale evasion to ‘the facility with which [it] might be committed’. Importantly, however, one also finds in contemporary sources an indication that it was the treatment of commercial income that caused the most significant problems. When asked by Pitt to account for the low yield, the Commissioners for the Affairs of Taxes identified that ‘the third of the main causes for the great defalcation in the yield of the tax was attributed…to the institution of the Commercial Commissioners’, and that as such ‘total abolition of the Commercial Commissioners (except in London) is most strongly

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159 Sir Francis Baring, 14 December 1798 (House of Commons) Parliamentary History, vol 34 col 95.
162 Meaning that, as Avery Jones has pointed out, most goods were sold in England and so the payment of the tax on foreign income ‘was therefore more of a timing provision than one where remittances were voluntary’ – John F Avery Jones, ‘Taxing Foreign Income from Pitt to the Tax Law Rewrite – The Decline of the Remittance Basis’ in John Tiley (ed), Studies in the History of Tax Law, vol I (Hart Publishing 2004) 15.
163 Stopforth (n 160) 225.
This is a strong indicator that it was evasion of the tax on commercial income that was key to the ultimate shortfall in the yield of the tax. The extent of this shortfall, and the direct evidence of lack of commercial contribution, have passed largely unnoticed by historians.

III. THE FINANCIAL FAILURE OF THE TAX RE-EXAMINED

In light of the above discussion, it is fair to say that the 1799 income tax was particularly generous to commercial taxpayers, as it allowed for widespread evasion without significant difficulty. That this led to the particularly poor yield from commercial income, and that this poor yield contributed significantly to the overall financial failure of the tax, will be demonstrated in the course of this section.

Demonstrating unequivocally that the failure to target commercial income was key in accounting for the overall financial failure of the tax poses a significant challenge, and has not been attempted previously. One reason for this is a lack of documentation, owing both to the destruction of many of the documents upon the abolition of the tax, and also to the secret procedure inherent in the collection of the tax on commercial income. A further complicating factor is that, as the Act required no differentiation between genres of income, the taxpayer’s declaration of liability was general in nature. Instead, all that was required was a declaration that the amount returned was (in the case of income amounting to over £200) ‘not less than One Tenth Part of my…Income…to the best of my Knowledge and Belief’. For that reason, it is impossible to know the exact figure of returns from commercial income: the only method of gaining even an indication of this is to consider the amount returned to

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165 TNA PRO 30/8/279, pt 2. This paper recommended limiting the jurisdiction of Commercial Commissioners to larger returns, which would have eliminated some possibility of bias, thereby potentially increasing revenue from larger trading parties. However, this recommendation was not implemented.

166 Some documents relating to the tax collected by the Commercial Commissioners have survived, and are comprised within the E182 series of documents held at The National Archives. However, their usefulness for the purposes of the argument being developed here is limited, as there is no indication as to the identity of the taxpayer, and so they cannot be used to prove under-declaration.

167 See Schedule B of The Income Tax Act 1799 for the various general declarations.
Assessment by Commercial Commissioners was voluntary, and was also only available in the major trading locations within the country, meaning that their returns were by no means reflective of all commercial tax contributions. In fact, of the fifty-seven counties used for tax purposes, only twenty, slightly more than one-third, were allocated Commercial Commissioners.169

However, the elective nature of the process does not seem significantly problematic to this analysis, considering that, in light of concerns over inquisition and public disclosure of returns, it seems logical that commercial taxpayers would have wished to take advantage of the secret procedure available to them wherever possible. Moreover, despite the limited availability of Commercial Commissioners within the country as a whole, the counties to which they were allocated covered most significant trading areas at the time.170 As such, it is unlikely that the commercial yield from other localities could amount to a figure significant enough to offset what we will see to be very strong evidence of commercial evasion, particularly considering that these areas were likely to be populated mainly by local traders and shopkeepers, with little to contribute in the way of income tax. Therefore, although not exact, it seems logical to assume that the amount returned to Commercial Commissioners accounted for the majority of the commercial yield of the tax.

Accordingly, evasion by commercial parties cannot be demonstrated with absolute certainty. However, close inspection of statistical data from the returns submitted to commercial commissioners suggests that the shortfall in yield, even despite the incomplete nature of these data, was both so great and so inconsistent with other indicators of

168 In contrast to this, Farnsworth (n 5), at 87, claims that assessments from the 1800 tax year show that £15 million was returned in total commercial income, indicating a tax yield of around £1.5 million. Farnsworth cites as his source the anonymous pamphlet Observations and Suggestions Submitted with a View to the Substitution of an Income or Property Tax for the Present Taxes (London 1831), appendix at 11. However, neither the author of this text nor Farnsworth state the source for this figure, and given that income was only declared overall and not broken down by source, it is difficult to understand where this figure arose from, other than from the returns to the Commercial Commissioners.

169 Accounts Respecting the Income Duty in Great Britain, for the Year Ended Fifth April 1801, HCSP 1802 (112) viii 879.

170 For example (excluding Scotland), London, Lancashire, West Yorkshire, Somerset and Kent were the five largest contributors to the income tax respectively, and were each allocated Commercial Commissioners. All were seats of significant industry at the time, between them contributing £3.3m to the tax overall, of which over £1.25 million was accounted for by returns to Commercial Commissioners: ibid.
commercial income at the time that the case for the charge of widespread evasion is compelling.

3.1 The discrepancy between estimates and the actual yield

That the tax failed overall is easy to demonstrate: it consistently fell short of its projected yield, even despite a reduction in the estimates for each year, as demonstrated by Figure 1.

Figure 1: Demonstrating the Difference Between the Estimated Tax Yield and the Actual Tax Yield, 1799–1801.¹⁷¹

¹⁷¹ Authority for estimates: Cobbett’s Parliamentary History, vol 34 cols 10-18, per Mr Pitt (3 December 1798); Cobbett’s Parliamentary History, vol 34 col 1517, per Mr Pitt (24 February 1800); Cobbett’s Parliamentary History, vol 35 col 973, per Mr Pitt (18 February 1801).

Authority for yields: Parliamentary Register (1796-1802) vol 12, 54 (5 June 1800); Accounts Relating to Assessment and Produce of Income Duty, 1800-1801, HCSP 1801-1802 (41) iv 147 at 149; Commissioners of the Inland Revenue: Thirteenth Report, HCSP 1870 C.82-I xx 377 at 562.

For a detailed discussion of these figures, see Farnsworth (n 5) 18–26.
In producing his estimates Pitt calculated the net income of the country during 1798 from various forms of profit-making activity. These ‘heads of income’ are laid out in the table reproduced in Table 1.
Table 1: Pitt’s Estimations of the Income of Great Britain.\textsuperscript{172}

<table>
<thead>
<tr>
<th>Source</th>
<th>Total taxable income, after deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Rental</td>
<td>£20,000,000</td>
</tr>
<tr>
<td>Tenants' Rental of Land</td>
<td>£6,000,000</td>
</tr>
<tr>
<td>Tithes</td>
<td>£4,000,000</td>
</tr>
<tr>
<td>Mines, canal-navigation, etc.</td>
<td>£3,000,000</td>
</tr>
<tr>
<td>Rental of houses</td>
<td>£5,000,000</td>
</tr>
<tr>
<td>Profits of professions</td>
<td>£2,000,000</td>
</tr>
<tr>
<td>Profits of the retail trade (commercial income)</td>
<td>£5,000,000</td>
</tr>
<tr>
<td>Income of persons resident in Great Britain, drawn from possessions beyond seas</td>
<td>£5,000,000</td>
</tr>
<tr>
<td>Annuities from the public funds</td>
<td>£12,000,000</td>
</tr>
<tr>
<td>Profits on the capital employed in foreign commerce (commercial income)</td>
<td>£12,000,000</td>
</tr>
<tr>
<td>Profits on the capital employed in domestic trade, and the profits of skill and industry (commercial income)</td>
<td>£28,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>£102,000,000</td>
</tr>
</tbody>
</table>

\textsuperscript{172} Source: Cobbett’s Parliamentary History, vol 34 col 18, per Mr Pitt (3 December 1798). Pitt acknowledges that much of the calculation of these estimates depended on ‘conjectur[e]’ (at col 10) owing to a lack of accounts and sources. The commercial estimates are based on the notion that profits accounted for fifteen per cent of the value of imports and exports (at col 16), and that domestic trade accounted for four times the value of exports (at col 17). These figures apparently have no real source other than educated supposition. This raises issues regarding the viability of Pitt’s expectations. This will be explored in greater detail below.
Pitt’s initial estimate for the overall yield of the income tax for 1799 was calculated by the percentage rate of tax, ten per cent, of overall taxable national income: £10.2 million from £102 million.\(^{173}\) It therefore follows that the commercial specific yield was £4.5 million, with the income arising from commercial activity estimated at £45 million.\(^{174}\)

However, it became quickly apparent at the conclusion of the 1799 tax year that the tax had fallen markedly short of the estimates. The overall yield for the 1799 tax year was around £5.8 million.\(^{175}\) Significantly, of this sum less than £1.2 million arose from assessments by Commercial Commissioners.\(^{176}\) This was less than twenty-one per cent of the overall yield, far short of Pitt’s estimate of forty-four per cent. That all other income combined accounted for almost eighty per cent of the overall yield is the first indication of the serious problems associated with taxing commercial income. The proportionate shortfall of revenue collected by Commercial Commissioners compared to the commercial estimates is displayed in Figure 2.

\(^{173}\) Pitt rounded this figure to £10 million, presumably for ease of calculation. However, in the interests of accuracy, this analysis will use the £10.2 million figure based on overall taxable income.

\(^{174}\) This being comprised of: £12 million arising from profits on the capital employed in foreign commerce; £28 million from profits on the capital employed in domestic trade, and the profits of skill and industry; and £5 million from the income of the retail trade.

\(^{175}\) Parliamentary Register (1796-1802) vol 12, 54 (5 June 1800).

\(^{176}\) An Account of the Total Produce of the Tax upon Income, for the Year ending the 5th of April 1800, reproduced in Sheila Lambert (ed), *House of Commons Sessional Papers of the Eighteenth Century* (Scholarly Resources 1975) vol 130 at 311. It is unclear whether this figure relates only to contributions arising from trade income, or from all income submitted by traders (i.e. trading income or otherwise), which was eligible for submission to Commercial Commissioners by virtue of s 96 of The Income Tax Act 1799. Unlike in subsequent years, the figure is provided as one, with no breakdown of income derived from commercial and non-commercial sources. Therefore, all that can be said is that the actual returns from commercial income may have been significantly lower than £1.2 million. This may have been by as much as £400,000, given that this was the non-trading figure the following year: Accounts Respecting the Income Duty in Great Britain, for the Year ended Fifth April 1801, HCSP 1802 (112) viii 879.
Another way to approach these figures is to point out that the actual revenue collected on commercial income accounted for a mere twenty-seven per cent of the £4.5 million predicted, compared to the almost eighty-one per cent of expected revenue collected from all other classes of taxpayer. This is illustrated by Figure 3.
This disappointing yield was not merely the result of teething problems arising from the first year of a new tax. The revenue generated during the 1800 tax year, although improved, still fell significantly short of the revised expectation of £7 million, accounting for just under £5.9 million in total net revenue. Of this sum, not quite £1.2 million was accounted for by commercial assessments. It seems that the tax, although not a success overall, failed particularly in collecting income from the commercial sector.

In explaining the low commercial yield, there are two logical possibilities. The first is that proposed by the contemporary pamphleteer Henry Beeke, namely that Pitt’s estimates were drastically wrong and that the tax was therefore incapable of producing the figures

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177 Cobbett’s Parliamentary History, vol 34 col 1517, per Mr Pitt (24 February 1800).
178 Accounts Respecting the Income Duty in Great Britain, for the Year Ended Fifth April 1801, HCSP 1802 (112) viii 879 at 879. This figure was calculated by subtracting deductions for children from the gross assessment, although charges for collection are not subtracted, being an administrative cost separate to the returns themselves.
179 Ibid 879. The gross figure was almost £1.6 million, although this included income returned by commercial parties that arose from other sources, such as rent and foreign possessions.
estimated. This argument will be fully considered below, but at the outset it should be noted that, despite issues with the provenance of Pitt’s estimates,\textsuperscript{181} the suggestion that the government overestimated taxable commercial income by over two-thirds is implausible. Instead, the second explanation is much more persuasive: that the yield from commercial parties should have been much higher than it was, and accordingly that the shortfall in yield can only be accounted for by widespread evasion of the tax. The evidence of this evasion, albeit indirect, is strong, and goes a long way to dispensing with the argument that it was a fault in Pitt’s projections that was responsible for the commercial shortfall.

### 3.2 Beeke’s argument

In making his argument that the official estimates were faulty, Beeke argued that Pitt had underestimated the value of relevant deductions:

> The account of our commerce…is of a magnitude astonishing and unparalleled; and yet the public expectation has certainly been greatly disappointed as to the produce of that part of the income tax which results from the profit of it. Either, therefore, the value of our trade has been exaggerated, or gross evasions must have been practised in the declarations of commercial income; or else the proportion of the commercial profit of Great Britain to the annual value of its exports and imports, has been considerably miscalculated.\textsuperscript{182}

In favouring the latter view, Beeke provided his own estimates, crucially that a more accurate figure for taxable income was £65 million, and that therefore the tax could not hope to achieve more than £6.5 million,\textsuperscript{183} of which £2.8 million would arise from commercial income.\textsuperscript{184} This, of course, was still in itself much higher than the figure of £1.2 million actually collected from commercial parties. Beeke accounts for this by stating that ‘some concealments and some arts of evasion, have been practised, but probably by no means to any considerable extent; or to a degree which can give any just grounds for supposing that my estimate is too low’.\textsuperscript{185} Therefore, according to Beeke, although evasion did take place, in no way did it occur to the extent that would explain the variation between Pitt’s estimated yield,

\textsuperscript{181} See above at note 172.
\textsuperscript{182} Beeke (n 180) 45.
\textsuperscript{183} Ibid 138.
\textsuperscript{184} Ibid 136.
\textsuperscript{185} Ibid 134.
and the actual returns. Instead, he argues, this is explained by Pitt’s initial miscalculation, meaning that the tax was never able to produce the revenue that had been promised.

There has been little consideration of Beeke’s hypothesis in subsequent literature, and as such limited analysis of the plausibility of his claims. It is an arduous task to attempt to correctly assess the national income at the time, and even harder to estimate the true amount of deductions. It is complicated even further by the secret procedure of the Commercial Commissioners, leaving us unable to comment on to what extent the tax procedure was correctly followed. However, there are several factors that render Beeke’s hypothesis unlikely, instead suggesting a culture of widespread commercial evasion. These will be considered in turn.

3.3 Evidence of evasion

Collecting evidence to support a claim of tax evasion is never straightforward, but is compounded in this case by the destruction of records and the secrecy inherent in the assessment of commercial taxpayers to the tax. Accordingly, the only evidence that can be adduced is either that which supports Pitt’s estimates as to taxable income, or that which indicates that, regardless of the accuracy of Pitt’s estimates, the actual yield was much too low.

Perhaps the main evidence of an unduly low commercial contribution is, of course, the approximation of liability by Pitt. Despite the aforementioned issues with a lack of authority for his estimates, some limited support for them can be found in modern studies attempting to gauge contemporaneous national income. One such source of support for the

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187 For an in-depth examination of contemporary attempts to assess national income, see Thompson, ibid.
approximations can be found in Deane and Cole’s estimates as to gross national income.¹⁸⁸ According to these figures, total income for 1801 amounted to £232 million, of which £94.2 million arose from commercial sources. These estimates are of gross income, unlike Pitt’s, which were subject to numerous deductions to provide an idea of net taxable income. Despite this, the proportionate relationship between national income and commercial-specific income can be used to support Pitt’s estimates. According to Deane and Cole’s figures, commercial income accounted for around forty-one per cent of overall income, which is in line with Pitt’s estimate of forty-four per cent. Regardless of the actual figure, the commercial contribution should have amounted to between forty and forty-five per cent of the overall yield. It has been established above that the actual proportion was just twenty-one per cent. Therefore, in supporting Pitt’s proportionate estimates, Deane and Cole’s study highlights the significant under-contribution by the commercial sector.¹⁸⁹

Another way in which conclusions can be drawn regarding the level of commercial activity at the time is by considering the value of foreign trade. In 1799 alone, the value of imports, exports and re-exports to and from Great Britain was £62,828,000, rising to £73,723,000 in 1800 and £75,098,000 in 1801.¹⁹⁰ Although these figures are by no means indicators of income (instead accounting for the overall value of foreign trade, which would have to be subject to extensive deductions) an important inference can be drawn. Against these figures, it is simply implausible to suggest that overall income from commercial activity in 1799, including purely domestic trade, was only £12 million, as the collection of a mere £1.2 million suggests. This is particularly so if Pitt’s suggestion that British profits on imports and exports amounted to approximately fifteen per cent was correct.¹⁹¹ This would mean that taxable income in this area amounted to just over £9 million, indicating that the returns should have been £900,000 for foreign trade alone. If this amount was actually

¹⁸⁸ Deane and Cole (n 40) 161. Deane and Cole’s estimates are based on a combination of wage data and income tax assessments, as well as the conclusions drawn by contemporaries such as Pitt himself, Beeke, Bell (Three Essays (n 45)), and Colquhoun (Patrick Colquhoun, A Treatise on Indigence (London, 1806)). However, the authors themselves acknowledge difficulties in undertaking their assessments, considering that commercial income was ‘the most unreliable group of assessments’ (at 160). As such, the study cannot conclusively prove under-contribution.

¹⁸⁹ For consideration of the accuracy of these estimates, as well as further investigation as to the actual extent of national income at the time, see Peter H Lindert and Jeffrey G Williamson, ‘Revising England's Social Tables 1688–1812’ (1982) 19 Explorations in Economic History 385; Thompson (n 186).

¹⁹⁰ Mitchell (n 13) 281.

¹⁹¹ See Table 1.
returned, it would mean that a mere £300,000 was collected from domestic trade, a genre of income estimated by the Prime Minister to produce £28 million per annum. In light of these high values of foreign trade, it is sensible to conclude that the tax returns should have been much higher.

A third indication that the commercial yield amounted to a small fraction of its true potential can be gleaned from what we know about state of the domestic economy at the time. The war with France had several significant effects on domestic trade, particularly through its inhibiting effect on shipping due to the fighting at sea, restricting so-called ‘coastal transport’, a key method of transporting goods from one area of Britain to another. However, commentators such as Hudson have claimed that, despite these significant negative effects, ‘eighteenth century wars on balance had a multiplier effect throughout the economy because of the demand created for capital goods and military supplies’. This ‘multiplier effect’ resulting from military demand combined with the growing population, exerting greater demand on essential goods, meant that, for the most part, trade remained healthy. The health of the domestic economy was, moreover, being sustained by the ‘consumer revolution’ of the period. This revolution came about due to an increase in demand for commodities, ostensibly resulting from the emergence of the middle class wage-earner as the country moved further away from an agricultural economy dominated by the relationship between landlord and tenant. It is estimated that by 1800, the value of commodity production had risen to £130 million, again suggesting that overall income from commercial activity in 1799 must have been much higher than £12 million.

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192 Hudson (n 57) 56.
193 For example, the number of bricks charged with duty (and therefore indicative of the building trade) increased from 516.8 million in 1798, to 698.6 million by 1802: Mitchell (n 13) 235. Furthermore, paper charged with duty in England and Wales amounted to 11,719 tons in 1798, however increased to 14,219 tons in 1803 (after suffering a slight drop to 11,575 in 1802): Mitchell, ibid 263. These figures demonstrate that, certainly in these areas, domestic trade did not suffer from the war, and in fact may have even increased.
For statistical analyses of the state of domestic industry at the time, see for example Mitchell (n 13); Walther G Hoffmann, *British Industry, 1700–1950* (Basil Blackwell 1965); Deane and Cole (n 40).
194 Mathias and O'Brien (n 73) 609.
Under-contribution by commercial parties can also be seen when assessing the breakdown of the yield by locality.\(^{195}\) Unsurprisingly, the yield in each place is significantly lower than expected, for example, less than £990,000 was collected by the Commercial Commissioners in London, of which under £725,000 was collected on income from trade. Considering London’s status as one of the most important trading cities in the world at that time, this certainly seems at odds with what could have been expected. Furthermore, when considering the yield taken from localities further afield, and therefore more divorced from central control, it appears that even more significant evasion was taking place. For example, the locality with the second highest commercial yield, Lancashire, produced a mere £130,000. When considering that this amount included commercial revenue from both the entirety of the Lancashire textile industry, as well as the significant shipping industry based in Liverpool, the amount collected appears far from satisfactory. This pattern is repeated in other significantly industrial-focused localities such as Somerset,\(^{196}\) and West Yorkshire.\(^{197}\) Importantly, moreover, this is consistent with what is known about the operation of the tax generally in areas that were distant from London, having been noted by economic historians that, ‘the geographically remote’ avoided the tax altogether more easily.\(^{198}\)

Later events also suggest that Beeke’s analysis was flawed. The abolition of the income tax was made possible by the 1802 Treaty of Amiens, but with the outbreak of renewed hostilities some twelve months later, the new Prime Minister, Henry Addington, was forced to impose another income tax. This second income tax was by all accounts significantly better administered, owing not least to the dividing of income between five ‘schedules’, each relating to a different form of income. The ‘secret procedure’ afforded to commercial income was abolished, as was the position of Commercial Commissioner, and instead commercial income was declared to Additional Commissioners.\(^{199}\)

\(^{195}\) Accounts Respecting the Income Duty in Great Britain, for the Year ended Fifth April 1801, HCSP 1802 (112) viii 879, 884-885.

\(^{196}\) From which £75,920 was collected by the Commercial Commissioners – ibid.

\(^{197}\) From which £72,198 was collected by the Commercial Commissioners – ibid.

\(^{198}\) O’Brien (n 17) at 4-5.

\(^{199}\) For an in-depth analysis of the changes implemented in the second tax, see Chapter 2, and also Hope-Jones (n 2) ch II, on the legislative development of the income tax.
Another important difference between the two taxes was that, at least initially, the rate was reduced, making immediate comparisons challenging. However, it is apparent that from the beginning the second tax was producing more. The rate in 1803, at one shilling in the pound, or five per cent, was half that of the first tax, yet £1.7 million was collected in gross assessment under Schedule D, the relevant schedule applying to income from both trade and professions. In contrast, the gross assessment made by the Commercial Commissioners in the 1800 tax year was just under £1.6 million, with a mere £1.2 million collected on income from trade.\textsuperscript{200} This demonstrates that, despite the much lower rate, a comparable,\textsuperscript{201} if not higher, figure was collected. By 1806, the rate was once more back up to two shillings in the pound, or ten per cent, and the commercial yield for that year grew to £3.46 million, with almost £13 million collected overall.\textsuperscript{202} As such, it seems that both the overall and the commercial yield were not only vastly improved upon the first income tax, but also on the £2.8 million suggested by Beeke as the maximum that could be collected on commercial income. That in just six years the commercial contribution to the tax had doubled significantly undermines Beeke’s argument that the tax was not capable of producing the figures estimated by Pitt.

From 1806 until the abolition of the tax in 1815, the commercial yield stabilised at around £3.5 million per year, with the overall yield steadily increasing to a peak of £15.8 million in 1813.\textsuperscript{203} It is a testament to the strength of the administration of the tax that it remained stable even in the years that commerce suffered. This was particularly seen in 1812, during which the harvest was so bad that Tooke went as far as to say: ‘that year we were on the very verge of famine’.\textsuperscript{204} However, the tax collected under Schedule D still amounted to £3.44 million for that year, over double that collected in 1800.\textsuperscript{205} That in a year of near-famine, at which point there had not been peace in Britain for almost ten years, the commercial yield amounted to almost triple that taken in 1799 during a time of relative economic stability, further calls into question Beeke’s view that the tax was not capable of producing Pitt’s estimates.

\textsuperscript{200} Accounts Respecting the Income Duty in Great Britain, for the Year ended Fifth April 1801, HCSP (112) viii \textsuperscript{879}.

\textsuperscript{201} Owing to the inclusion of professional income within Schedule D – see below for further discussion of this.

\textsuperscript{202} Commissioners of the Inland Revenue: Thirteenth Report, HCSP 1870 (C.82-I) xx 377 at 562.

\textsuperscript{203} Ibid.

\textsuperscript{204} Thomas Tooke, \textit{A History of Prices, and of The State of Circulation}, vol 1 (London 1838) 327.

\textsuperscript{205} Accounts Respecting the Income Duty in Great Britain, for the Year Ended Fifth April 1801, HCSP 1802 (112) viii \textsuperscript{879}.
Although the new Schedule D largely correlated to the ‘Fifteenth Case’ of income under Schedule A of the 1799 Act, the Commercial Commissioners during the first tax collected only income arising from those involved in trade and manufacture, and not that arising from professional men as included under Schedule D. As such, it is difficult to make an exact comparison between the income collected by the Commercial Commissioners, and that produced under Schedule D, owing to the absence of professional income in the former. However, if we consider Pitt’s estimates as to income, as set out above, we can see that he calculated the value of profits from professions to be £2 million, suggesting that £200,000 could be expected in returns. It therefore follows that profits from professions simply could not have accounted for such a gulf in commercial yield between the taxes.

The preceding discussion goes a long way towards evidencing that there was a significant problem with commercial under-contribution to the first income tax. However, it does not necessarily follow from this that evasion was the cause of this under-contribution. In the absence of detailed accounts of the first tax, it is impossible to prove that evasion was the definitive reason for the shortfall in the yield from commercial income, and not, for example, poor accounting. However, given the lax scheme of collection of commercial income discussed above, allowing evasion by under-declaration to take place without significant difficulty, it seems reasonable to assume that commercial evasion was the principal reason for the poor yield. Furthermore, the overwhelming magnitude of the commercial shortfall has been demonstrated at length: it is unlikely that poor administration could have occurred to such an extent as to explain a shortfall of almost three-quarters on that predicted. This conclusion is bolstered by contemporary opinion, which indicates that commercial evasion was well recognized at the time. Mr Johnes of the House of Commons referred in May 1800 to ‘the Commercial Men, who had been guilty of a gross evasion of the tax’, with Mr

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206 As both included income arising from trade alongside that from professions and employment.
207 See Table 1, detailing Pitt’s estimates, reproduced above.
208 Perhaps resulting from the limited availability of deductions. This led to taxable income for the purposes of the income tax proving discrepant with ‘actual’ profits calculated through commercial accounting. This formed the subject of much debate towards the end of the nineteenth century: see Margaret Lamb, ‘Defining “Profits” for British Income Tax Purposes: A Contextual Study of the Depreciation Cases: 1875-1897’ (2002) 29 The Accounting Historians Journal 105.
209 Based on £1.2 million of the predicted £4.5 million being collected in 1799 – see Figure 3.
210 As reported in The Oracle and Daily Advertiser (London, 27 May 1800) 6 col 4.
Tierney observing ‘the gross evasion of the mercantile world’.\textsuperscript{211} However, the most striking evidence comes from an amending bill proposed in April 1800 to remove from the commercial sector the benefit of the secret procedure under the Commercial Commissioners.\textsuperscript{212} This was never passed into law, ostensibly as the influence of the commercial interest was simply too strong,\textsuperscript{213} although the fact that it was proposed at all is strongly suggestive that the existence of commercial evasion was well known. Accordingly, it seems that, although there can be no conclusive proof that commercial evasion was responsible for the financial failure of the tax, the circumstantial evidence is overwhelming.

**IV. THE POPULAR FAILURE OF THE TAX**

From the foregoing discussion, it fair to say that the first income tax failed on a financial level. However, although it was significantly underperforming, the tax still generated several millions in revenue each year. The swift repeal of the tax in 1802, largely without protestation on the part of the government, therefore suggests another factor in its demise: the tax’s popular failure. As in the past, the tax was strongly objected to in 1802: it was referred to in Parliament as ‘the most oppressive, pernicious, and vexatious, that was ever imposed in any country’.\textsuperscript{214} The concerns that had taken shape prior to the inception of the tax, such as fear of inquisition and discontent over the large tax burden, were still very much alive. However, these complaints were reinforced by objections as to how the tax was operating and being administered. Many of the concerns were general in nature, and focused on unfairness inherent within the tax. These objections, it will be argued, were particularly pushed by the commercial community. Furthermore, the fact that the tax was significantly evaded, in particular by commercial taxpayers, also contributed to its general unpopularity. Therefore, it appears that the country’s commercial interest was behind much of the discontent surrounding the tax. It will also be contended that commercial actors played a crucial role in

\textsuperscript{211} Bell’s Weekly Messenger (London, 2 March 1800) 3 col 1.

\textsuperscript{212} See Stebbings’s discussion of Pitt’s motivation in proposing this Bill: Stebbings (n 7) 662-663.

\textsuperscript{213} See the assertions of Mr Tierney of the House of Commons that the bill was withdrawn owing to pressure from the trading sector, as reported in The Oracle and Daily Advertiser (London, 20 May 1800) 7 col 1.

\textsuperscript{214} Parliamentary Register (1796-1802) vol 17, 322 (29 March 1802). See also future Chancellor of the Exchequer Nicholas Vansittart’s opinion that ‘so strongly did the people of all classes detest this tax, and the mode of its exaction, that he was firmly of the opinion they would rather pay nine-tenths of their whole property in any other way, than be forced to pay this odious impost’: Parliamentary Register (1796-1802) vol 17, 441 (6 April 1802).
taking these complaints further, by mounting actual opposition to the tax. The example of the commercial community of the City of London in particular proved persuasive to the rest of the country, resulting in significant and wide-ranging pressure on government to abolish the tax. Therefore, in both fuelling discontent and actively advocating for its repeal, the country’s commercial interest was to a large extent responsible for the popular failure of the tax.

4.1 Continuing hostility to the tax

The complaints lodged against the income tax in the past had failed to lose their force by 1802, and, indeed, ex ante objections appeared to have only been compounded by the implementation of the tax. The traditional rhetoric that the tax was a breach of liberties was sustained, with continuing complaint over its alleged inquisitorial nature. A petition launched in 1802 for the repeal of the tax declared that: ‘the free principles of our once-envied Constitution are violated and infringed upon, by the establishment of an inquisitorial power.’ The existence of Commissioners to collect the tax was denounced as establishing ‘a dangerous inquisition…repugnant to the free principles of the British constitution’, allowing officials to:

arbitrarily indulge the most wanton, idle, or interested Curiosity, at the Expence [sic] of the Feelings, or the Commercial Advantage, of the Persons thus scrutinized, who must either submit to the Surcharges of the Assessors, or expose Publicity and vulgar Observation the Secrets of their Commerce, and the most delicate Arrangements of private Life.

Thus, even despite the concessions to these complaints in the substance of the tax, its administrative framework continued to be considered intrusive by contemporaries. That these complaints were based in part upon popular misconceptions of the extent of the ‘inquisition’ made them difficult to challenge, which likely factored into the government’s willingness to abandon the tax. A related complaint was that the tax tested the integrity of the country’s

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215 See Mr Jones MP’s statement in Parliament, proposing a motion for the repeal of the tax: ‘it was a tax at which the liberty of the British subject revolted’: Parliamentary Register (1796-1802) vol 17, 185 (12 March 1802).
216 Petition read out in Parliament: Parliamentary Register (1796-1802) vol 17, 257 (22 March 1802).
217 Accounted in the Morning Chronicle (London, 19 March 1802) 1 col 3.
218 Reproduced in Journals of the House of Commons, vol 57, 290-1 (2 April 1802).
219 Such as the lack of power of Commissioners to examine a taxpayer’s accounts: see text at note 149.
taxpayers,\textsuperscript{220} which was considered to undermine Britain’s character as a nation of gentlemen. In relying on personal declarations of income, the tax was considered to ‘[hold] out a reward to deception, and even perjury itself’.\textsuperscript{221} This attitude added to the strength of feeling against the tax, as it ostensibly offered a reward to behaviour inconsistent with honour and integrity, characteristics which were considered reflective of the ‘ideal Englishman’. Thus, it was argued, the tax served to ‘depress that independent spirit which has ever been the characteristic of Englishmen’.\textsuperscript{222}

A further claim made in objection to the tax was that it had a negative impact upon industry. The tax was declared to be:

destructive of the commercial greatness of the Country; it is a tithe on the produce of capital and industry, and must considerably diminish the motives to the employment of each, which have raised the commerce of England to its present eminence in the scale of nations; it blights those first fruits of industry from which, by successive cultivation, our Country has reaped so plenteous a harvest.\textsuperscript{223}

Furthermore, the tax was said to ‘[sap] those early accumulations of property which are the great springs of industry, and which have brought the country to its present eminence in the scale of nations’.\textsuperscript{224} However, there is little evidence of any drop in industry or trade. Despite this, the impact of the tax was probably not fully understood in 1802, and so the argument was likely taken at face value by the tax’s opponents. In any case, the legitimacy of the complaint was likely a secondary concern: public opinion was opposed to the principle of the tax, and this proved decisive in its repeal.

The country’s commercial taxpayers were particularly forceful in their hostility towards the tax, as they believed that it operated inequitably, in particular as between different sources of income. The petition of the City of London Liverymen against the tax alluded to the:

\textsuperscript{220} See Mr Jones’s argument that ‘it was a tax that put the morality and religion of the country to the test’ – \textit{Parliamentary Register (1796-1802)} vol 17, 185 (12 March 1802).
\textsuperscript{221} \textit{Parliamentary Register (1796-1802)} vol 17, 257 (22 March 1802).
\textsuperscript{222} \textit{Parliamentary Register (1796-1802)} vol 17, 258 (22 March 1802).
\textsuperscript{223} \textit{Parliamentary Register (1796-1802)} vol 17, 396 (1 April 1802).
\textsuperscript{224} Resolution of the meeting of the inhabitants of Southwark – reprinted in \textit{Morning Chronicle} (London, 26 March 1802) 1 col 2.
extreme hardship and partiality of taxing incomes arising from such temporary, precarious, and fluctuating sources, in the same proportion as the income proceeding from landed and funded property.225

The argument ran that, because the tax required a flat contribution of ten per cent of income despite differing pressures on and security of income, it affected some sectors with greater hardship than others. Thus, requiring the same contribution from a farmer, whose income may in future suffer as a result of poor harvests, as from stockholder or a landowners, whose income is much more secure, was considered by many at the time to demonstrate the injustice inherent in the tax, as the capacity of the farmer to withstand financial hardship would be curtailed through the payment of tax. This gave rise to the popular suggestion that an equitable tax system would tax property, and not income. This formed a significant platform for opposition to the tax.226 Complaints stemming from this perceived inequity were particularly pushed by Britain’s commercial community, which argued that income from trade was especially precarious given its responsiveness to market fluctuations. Therefore, it was argued that commercial income should not be taxed in the same manner and to the same degree as stable income, such as that arising from property, which was all but guaranteed.227

At a meeting in the Guildhall to discuss the repeal of the tax, merchants of the City of London passed a resolution that:

the Tax upon Income is highly partial and oppressive in its operation, no discrimination whatever being made between the temporary, precarious, and fluctuating incomes arising from the personal exertion of individuals in trade…and the incomes proceeding from landed and funded property.228

Another criticism made particularly strongly by commercial parties was that they were especially discriminated against by the exposure of their affairs. It has been already been noted that this formed an important part of the anti-tax rhetoric that existed prior to the tax’s

225 Petition reproduced in Parliamentary Register (1796-1802) vol 17, 257 (22 March 1802).
226 See the petition – ‘the petitioners conceive it to be an incontrovertible principle, that taxes ought to be equitable, and proportionally levied, and that property ought to be the basis of taxation’. This, it was argued, was especially the case in times of war, as ‘one of the avowed objects of [war] was preservation of property…and therefore] property should contribute to its own support’: ibid 256. For a good discussion of the debate inspired by this argument, see Fakhri Shehab, Progressive Taxation: A Study in the Development of the Progressive Principle in the British Income Tax (Clarendon Press 1953) 48-53.
227 This argument was not new – see the Resolution of the General Court of the Metropolis of 19 December 1798, cited in Phillips (n 74) 181.
228 Morning Chronicle (London, 19 March 1802) 1 col 3.
imposition, however the operation of the tax did little to allay those concerns. Thus, this grievance featured heavily in the opposition to the tax at the point of its repeal in 1802. At the meeting of the Liverymen in the Guildhall, one attendee argued that the tax:

falls with accelerated force upon the trading part of the community. It has induced...people of small property to exaggerate their income...to support their credit.\textsuperscript{229}

In exposing their private financial affairs, it was argued that the tax compelled businessmen to overstate their income and thus to overpay tax, in order to retain their good name and thereby ensure the continued willingness of creditors to supply credit. Furthermore, it was contended that, as Commercial Commissioners themselves were engaged in trade, and thus could be a taxpayer’s rivals, commercial taxpayers were subjected to ‘endless trouble and vexation, and may be attended with the most ruinous consequences’.\textsuperscript{230} The authenticity of these arguments is limited, in particular as, as noted above, the process by which commercial taxpayers could make a declaration was secret, with Commissioners sworn to secrecy. Moreover, had there been any significant overpayment of the tax in order to maintain reputation, the commercial yield of the tax would have been much higher than it was. Nevertheless, these arguments were made strongly both in and out of Parliament, and contributed to the overall push for the tax’s repeal.

It therefore appears that pre-existing public hostility towards the tax was exacerbated by the sense that it was administered in such a way as to exaggerate its inherent unfairness. The sense that the burden of the tax was falling disproportionately on some groups of taxpayers was an important element of the public objection, as has been explored. However, another strand of this argument that has been largely overlooked by historians is that the strength of feeling against the tax, and thus the impetus for the tax’s repeal, was compounded by the tax’s preferential treatment of commercial income.\textsuperscript{231} This had caused consternation early in

\textsuperscript{229} \textit{Morning Post} (London, 19 March 1802) 3 col 3. See also the argument made at a meeting of inhabitants of Middlesex, where an attendee stated that he knew ‘several tradesmen [who] were obliged to rate themselves higher than their just proportion, and pay much more than their share, in order to support that degree of credit which it was absolutely necessary that they should have in order to carry on their business’: \textit{Morning Post} (London, 1 April 1802) 4 col 4.

\textsuperscript{230} Account of the petition of Liverymen of London, printed in \textit{Caledonian Mercury} (Edinburgh, 27 March 1802) 2 col 3.

\textsuperscript{231} But see Patrick Karl O'Brien, 'The Impact of the Revolutionary and Napoleonic Wars, 1793-1815, on the Long-Run Growth of the British Economy' (1989) Fernand Braudel Center Review 335, at 365, which alludes to this issue but underestimates the extent of the hostility evident in the contemporary sources.
the tax’s operation: for example, George Tierney MP had strongly complained that the provisions of the Act were weighted so as to ‘favour the merchant and sweat the farmer’. 232 A contemporary pamphleteer had also objected very strongly to the preference given to commercial taxpayers, in particular to the secret procedure of assessing commercial income, in allowing returns to be made to Commercial Commissioners. This objection rested not only on the grounds that secrecy would enable evasion, but also that:

the public would be precluded from the knowledge of what is the contribution of the higher orders of society; their acquaintance with which is one great advantage of the measure, and will lead materially to its productiveness. 233

By 1802, it was apparent that these concessions had resulted in significant evasion: 234 the tax had fallen significantly short of its estimates. It was also acknowledged at the time that this evasion stemmed to a substantial degree from the evasion of commercial taxpayers. Pitt had alluded to commercial evasion as early as 1800, in announcing a reduction in the estimates of the tax yield: ‘it is in my duty to notice that in one branch from which much was expected, the amount of returns appears likely to fall below my expectations. I allude to the commercial part of the community’. 235 Thus, it seems that commercial evasion of the income tax was recognised at the time. This provided the tax’s opponents with another basis of opposition. The Times declared that ‘We are as much adverse to the Tax as its most inveterate opposer; not that we think it objectionable in its principle, but because it is evaded by the dishonest, and only paid by those who act from conscientious and loyal motives’. 236

The notion that many taxpayers were able to evade the tax thus significantly contributed to its unpopularity: it was put by one contemporary in a meeting to protest the tax that ‘as the honest man is induced by his principles to contribute a larger proportion than his less conscientious neighbour [sic], it may be considered a tax upon integrity’. 237 Therefore, in being responsible for much of this evasion, it is proposed that the commercial interest

233 Jenkinson (n 151) 26.
234 See Mr Jones’s declaration that ‘he was well informed that the evasion of it was beyond all calculation’: Parliamentary Register (1796-1802) vol 17, 185 (12 March 1802).
236 The Times (London, 20 March 1802) 2 col 4.
237 Petition of the inhabitants of the Borough of Southwark – reproduced in Parliamentary Register (1796-1802) vol 17, 396 (1 April 1802).
indirectly compounded the unpopularity of the tax. Thus, commercial players contributed to the tax’s popular failure by more than simply presenting significant objection to it: as the principal evaders of the tax, they also exacerbated its unpopularity amongst the other sectors of society.

4.2 The push for repeal

Opposition to the tax took the form of petitions and meetings denouncing the tax, and these became widespread throughout the country once peace was anticipated. Meetings protesting the tax were held in areas as diverse as Bath, Leeds and Southwark, with one newspaper accounting that:

> The opposition to the Income-Tax is becoming general throughout the country: numerous meetings are advertised to be held to obtain a repeal of this most obnoxious tax. The Sheriffs of Middlesex have called a meeting of the Freeholders at Hackney, on Wednesday next. A meeting of the City and Liberties of Westminster, and of the Common Council of London, is also convened for the same purpose.\(^\text{238}\)

This opposition has been largely ignored in the existing histories, and so it is unsurprising that the role of the commercial interest in stirring it up has also attracted little attention. However, upon examination of the original press reports and Parliamentary debates, the role it played is clear.

The first reported meeting protesting the tax was held at the City of London’s Guildhall on 18 March 1802, and comprised of ‘the Lord Mayor, Aldermen, and Livery of the City of London’.\(^\text{239}\) The meeting was said to have been ‘crowded and respectable’, and such was the feeling against the tax that one newspaper reported that ‘such unanimity scarcely ever prevailed on any occasion’.\(^\text{240}\) At this meeting, it was unanimously agreed that a petition calling for the repeal of the tax should be presented to Parliament, and that the City’s representatives in Parliament should be instructed to vote for repeal.\(^\text{241}\) The attitude of the City’s powerful commercial actors was seemingly clear, and there was no mood for

\(^{238}\) *Bury and Norwich Post* (Bury Saint Edmunds, 31 March 1802) 1 col 1.
\(^{239}\) *Parliamentary Register* (1796-1802) vol 17, 257 (22 March 1802).
\(^{240}\) As reported in *Morning Chronicle* (London, 19 March 1802) 2 col 4.
\(^{241}\) Ibid 1 col 3.
compromise: an amended Resolution suggesting that the tax should be allowed to remain until peace was officially confirmed was vehemently rejected.\textsuperscript{242} This then appears to have been followed by a deliberate attempt to incite further opposition to the tax: the meeting also resolved that a committee would be formed to ‘consider the most effectual means of obtaining the object of our Petition’, and that the Resolutions condemning the tax should be published in the newspapers.\textsuperscript{243} The commercial players of the City of London had publicly denounced the tax, and it appears that they were determined to instigate the opposition necessary for its removal.

It was widely predicted that opposition from the City would inspire further dissent elsewhere in the country. \textit{Jackson’s Oxford Journal} declared that ‘The public opinion of this Tax, in the Metropolis, has thus been clearly evinced, and it will, no doubt, give rise to a similar expression all over the kingdom’.\textsuperscript{244} These predictions ultimately proved correct, and the press reports show that, inspired by the City’s example, a large number of meetings took place across the country, from all of which petitions were delivered.\textsuperscript{245} The first of these meetings took place at Southwark, which followed the City’s example of publishing its Resolutions in the papers.\textsuperscript{246} As noted above, further meetings were also recorded as taking place in towns such as Bath,\textsuperscript{247} Salisbury,\textsuperscript{248} Warwick,\textsuperscript{249} and Leeds.\textsuperscript{250} The influence of the City petition was clear: even several weeks later, it was being reprinted in newspapers.\textsuperscript{251} Furthermore, at a meeting of the inhabitants of the ward of Castle Baynard in the City of London, a Resolution was agreed that ‘the Thanks of this Meeting be given to the Gentlemen of the Committee appointed by the Livery of London, in Common Hall assembled…for their exertions in promoting the several Meetings for the repeal of the Tax on Income’.\textsuperscript{252} It

\textsuperscript{242} See \textit{Morning Post} (London, 19 March 1802) 3 col 4 – (the proposer was ‘assailed with hoots and hisses from every part of the Hall…[until] he consented to withdraw it’).
\textsuperscript{243} See \textit{Morning Chronicle} (London, 19 March 1802) 1 col 3.
\textsuperscript{244} See also the \textit{Morning Chronicle}’s opinion that ‘The example of the Livery of London will probably be followed by other Corporate Bodies in praying for a repeal of the Income Tax’: \textit{Morning Chronicle} (London 16 March 1802) 3 col 2.
\textsuperscript{245} See the \textit{Bury and Norwich Post}’s statement that ‘The opposition to the Income-Tax is becoming general throughout the country’: (Bury Saint Edmunds, 31 March 1802) 1 col 1.
\textsuperscript{246} Reported in \textit{The Times} (London, 26 March 1802) 3 col 1.
\textsuperscript{247} See \textit{Jackson’s Oxford Journal} (Oxford, 27 March 1802) 3 col 2.
\textsuperscript{248} Ibid.
\textsuperscript{249} See \textit{Northampton Mercury} (Northampton, 27 March 1802) 3 col 4.
\textsuperscript{250} See \textit{Leeds Intelligencer} (Leeds, 5 April 1802) 3 col 5.
\textsuperscript{251} See, for example, \textit{Lancaster Gazetteer} (Lancaster, 3 April 1802) 4 cols 2-3.
\textsuperscript{252} Reported in \textit{Morning Post} (London, 2 April 1802) 2 col 2. See also that ‘The city of Bath has met and voted to petition for the repeal, and other places are following the example set by the Livery of London’: 3 col 3.
therefore appears that the opposition to the tax was spearheaded by the country’s powerful commercial actors. Moreover, it is notable the City of London’s call to repeal the tax seems to have been particularly heeded by the country’s centres of trade: many petitions emanated from areas characterised by trade. The Caledonian Mercury observed that ‘The inhabitants of most of the trading towns in England have met, and drawn up petitions to the House of Commons, against the Income Tax’. 253

Strong opposition continued even past the Chancellor of the Exchequer’s announcement of his intention to repeal the tax. A meeting of the Court of Common Council in the City of London resolved that a petition protesting the tax should be drawn up despite the declaration of repeal, and again the Resolutions were ordered to be published in newspapers. 254 This again appears to have been designed to send a message to the rest of the country, and other areas once again followed suit, continuing to oppose the tax until its repeal was made official. For instance, at a meeting of the inhabitants of Westminster it was argued that ‘[repeal is] no reason why their exertion should be remitted, and why the people throughout the country should not meet to express their indignation against a tax so odious and burdensome a nature’. 255 In light of this hostile and organised resistance to the tax, felt seemingly universally across the country, 256 it is unsurprising that the tax was quickly repealed after the signing of the Treaty of Amiens. 257 However, perhaps in anticipation of further conflict, the Chancellor of the Exchequer did reserve the tax for ‘the important occasions…which might occur hereafter, to which we should look forward as a possible event, and for which we should always be ready to provide’. 258 However, in March 1802 this likely appeared to most to be a distant reality: the much-hated income tax had at last been forced from the fiscal scene. 259 At the heart of this success lay the commercial interest, which had mobilised the

253 Caledonian Mercury (Edinburgh, 5 April 1802) 3 col 4.
254 Morning Chronicle (London, 31 March 1802), 1 col 4.
255 Ibid 3 col 3.
256 It is telling that neither the newspapers nor the Parliamentary debates suggest significant evidence of public support for the tax. The Morning Chronicle reported that ‘no plea can be offered by Ministers that there is any mixture of party spirit. Every meeting, fairly collected, shows such unanimity as to reduce the whole almost to a matter of form’: Morning Chronicle (London, 2 April 1802) 3 col 1.
257 Repeal was officially announced by the Chancellor of the Exchequer on 29 March 1802: Parliamentary Register (1796-1802) vol 17, 314 (29 March 1802).
258 Parliamentary Register (1796-1802) vol 17, 415 (5 April 1802).
259 Although Nicholas Vansittart MP did complain ‘that this odious tax was to be held as a rod of iron, in petto, over the heads of the people at any future time when the country may have the misfortune to be again involved in war’: Parliamentary Register (1796-1802) vol 17, 441 (5 April 1802).
opposition in such a way as to prove fatal to the tax’s fortunes. As Nicholas Vansittart MP expressed in Parliament at the time, ‘he had heard nothing of an intention to repeal the Income Tax till the City of London had called forth the sentiments of the Country upon it’.  

V. CONCLUSION

Historians of the first income tax have up to now focused primarily on its administrative failings, usually as part of a general study of the history of income taxes in Britain, when explaining its financial underperformance. Consequently, references to the role of the commercial sector in the financial failure of the tax have been limited and lacking in detail. This chapter breaks new ground by showing that, although poor administration certainly played a key role in the financial failure of the tax, a significant and largely unexplored explanation for its failure was the manner in which commercial income was treated, which resulted in significant financial underperformance. This chapter has tracked this issue from its source, the politically powerful ‘silent force’ of the commercial interest in Parliament, to its manifestation in the substance of the tax – namely through the secret procedure and commercial-specific tax collectors – up to the ultimate financial consequences of the resulting evasion: a shortfall of over forty per cent overall, with a commercial shortfall of seventy-three per cent. The impact of commercial influence over tax policy is thus clear: it is commercial tax evasion that is key in accounting for the financial failure of the first income tax.

Furthermore, this chapter has demonstrated that the commercial interest played a vital role in the popular failure of the tax. In claiming that the tax particularly compromised the interests of the trading community, the commercial sector added extra force to existing discontent over perceived inequity in the tax. Moreover, it has been explored that the country’s powerful players in the City of London were principally responsible for translating this discontent into overt opposition to the tax. This provided an important example to the rest of the country, and inspired a backlash against the tax, which in turn compelled the

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260 Ibid 440.
government to repeal the tax. It is therefore argued that the influence of a powerful commercial interest played a pivotal role in both the financial and the popular failure of the tax. In turning to the second tax, the following chapter will demonstrate the persistence of this pattern.
CHAPTER 2: THE TAX RENEWED

I. INTRODUCTION

For a little over a year following the announcement of the repeal of the income tax in March 1802, Britain enjoyed the absence of the measure that had been dubbed ‘repugnant to the spirit and feelings of Englishmen’.\(^1\) However, after the resumption of war in May 1803, marking the official start of the Napoleonic Wars, the British government once again turned to the tax to meet the financial costs of an expensive military campaign. Thus, the tax was restored, and remained until the end of the conflict in 1816.\(^2\) This second income tax has attracted more sustained attention from historians than its predecessor. This likely stems from the fact that the 1803 tax is considered to mark the beginning of the tax in its more permanent form: administrative features such as the principle of deduction at source and the declaration of income under schedules have persisted into modern times. Much of the existing commentary has painted a picture of the second tax as being automatically restored through necessity, faithfully borne by the public on the grounds of patriotic duty, and repealed at the end of the war in fulfilment of an ‘implied promise’ made by government. Insofar as the tax itself has received attention from historians, it has been to underline the improvements in administration and yield.\(^3\) Although undoubtedly important explanations for the tax’s development, the focus on these narratives has led to the failure to identify an important pattern that existed as a thread throughout the second tax: commercial influence. This chapter will examine each of the second tax’s central stages, namely its introduction, operation and repeal, and will conclude that at each of these stages a significant relationship between the commercial interest and the tax’s evolution can be identified. It is argued that, like its

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\(^1\) *The Times* (London, 23 June 1803) 2 col 4.

\(^2\) The official end to the Napoleonic Wars was 20 November 1815, however the tax was not repealed until March 1816.

predecessor, the development of the second income tax was driven by the influence and actions of a powerful commercial interest.

The chapter begins by exploring the proposed reintroduction of the tax in 1803, which many of the existing histories have taken to have occurred automatically upon the renewal of war. However, it is demonstrated that this was not the case: the tax met with public opposition, in particular from the country’s commercial community. Unlike in 1802, however, this opposition failed to prove persuasive, and the tax was successfully reintroduced. It is argued that the key to understanding this lies in the commercial interest’s reticence to launch strong opposition to the tax. This reticence is attributed to several key factors, including the particular vulnerability of businessmen in the event of French defeat, the reputational impact of appearing unpatriotic, and the government’s moderation of traditional hostility to the tax through administrative reforms. Together, these factors incentivised the commercial interest to accept the tax’s reimposition.

The chapter will then turn to consider the legal form and financial performance of the tax. It considers a popular argument in the existing histories: that the second tax was more financially profitable than the first owing to important reforms in the administration of the tax. This argument is examined at length, and new evidence will be presented in support of this conclusion. However, despite these improvements, it will be argued that the tax continued to fail to effectively target commercial income, in leaving untouched many of the sources of commercial evasion under the first tax. Thus, evasion by commercial taxpayers was permitted to continue, and this held negative consequences for the tax yield.

The chapter then moves on to consider the repeal of the tax in 1816. It first rejects the argument presented by some historians that the tax was repealed automatically when the war came to an end. Instead, it considers the proposed continuation of the tax in 1816, and examines the role that strong public, and particularly commercial, opposition to the tax played in Parliament’s decision to repeal it. The counterargument that this opposition was exaggerated by both politicians at the time and in subsequent literature is appraised, and it is concluded that, although this interpretation adds detail to the existing picture, it fails to
displace the argument that significant public opposition to the tax led to its removal. Instead, it is argued that, although the weight of opposition may indeed have been exaggerated in places, the fact that the opposition emanated in large part from the country’s most influential commercial actors likely played a decisive role in the decision to repeal the tax. Thus, the chapter concludes that the development of the second income tax was at all points influenced by a powerful commercial interest.

II. THE REINSTATEMENT OF THE TAX

On 13 June 1803, the Prime Minister, Henry Addington, opened his Budget speech with the statement that the resumption of war against France required ‘great privations, great inconveniences, and great sacrifices’, in order to meet the financial demands of war. The most contentious of these sacrifices was a return to the income tax, albeit with modifications. Although Addington was keen to express his dislike for the tax in principle, he argued that it was necessary in order to secure ‘the everlasting salvation of our country’. Given this powerful argument, which was surely designed to appeal to the public’s sense of patriotic duty, it is perhaps unsurprising that Parliament passed the necessary law to reinstate the tax with little delay. Addington also attempted to distance the tax from some of its traditional objections by rebranding it as a ‘tax upon property’, rather than an income tax, but this seems to have played little part in successful reintroduction, as contemporaries viewed the tax as a revival of its predecessor.

This reimposition of the tax in 1803 has been considered by many historians to have taken effect almost automatically, with few difficulties in its passage back into the fiscal

4 *The Parliamentary Register* (1802-1805) vol 3, 568 (13 June 1803).
5 Ibid.
6 Ibid 577-8.
7 The passage of the tax from proposal to Royal Assent took less than two months: from Addington’s proposal on 13 June to Royal Assent on 11 August 1803.
8 Thus, the Act was entitled: An Act for granting to his Majesty, until the sixth Day of May next after the Ratification of a Definitive Treaty of Peace, a Contribution on the Profits arising from Property, Professions, Trades, and Offices: 43 Geo III c 122.
9 See Alderman Combe’s assertion that ‘The altering the name of the measure could not change its nature; and this bill was, in all its objects and operations, neither more nor less than an Income Tax’: *The Parliamentary Register* (1802-1805) vol 3, 708 (5 July 1803).
The government in 1802 had reserved the possibility of the tax’s reintroduction should circumstances of national emergency occur again. Thus, some historians have argued, the reintroduction of the tax was inevitable. This narrative is perhaps unsurprising, given that Addington himself, when proposing the reinstatement of the tax, stated:

when he [had] moved the repeal of the income tax, he declared his decided approbation of the measure, however obnoxious it had been made to appear; and intimated, at the same time, that it must inevitably form part of our resources, in the case of war being again renewed’.12

Seligman has summed up the position: ‘In 1803 the war broke out anew, and Addington was soon compelled to resort to the old device’.13 Further consideration of the reintroduction itself has been limited, and instead discussion has tended to be confined to the substance of the proposed tax.14 It is true that, in the mind of the government at least, the revival of the tax may have been the natural next step upon the renewal of hostilities. Insofar as commentators have described opposition to the tax, it has been attributed merely to its longstanding opponents in Parliament, who were easily overcome by the arguments of necessity put forward by the ‘undeterred and undismayed’ government.15 However, given the popular resentment towards the tax witnessed at the point of its repeal in 1802, the idea that its reimposition was accepted without significant public objection is difficult to accept, even despite the strong financial case for its existence. Examination of the contemporary parliamentary debates and newspaper reports shows that there existed a significant body of opposition to the tax in 1803. Importantly, this opposition was once again spearheaded by the commercial community.

However, despite strong opposition from some quarters, this opposition fell short of forcing the government to abandon the tax. It will be argued that this can be attributed to the fact that the country’s commercial community was less united in its opposition than in 1802.

10 See, for example, Seligman (n 3) 89.
11 See Chapter 1, text at note 258. See also Sabine’s point that by June 1802, Addington had ‘directed the Treasury to instruct the Revenue Departments to prepare plans for a general consolidation and revision of all the duties under their care’, indicating that even in the immediate aftermath of its repeal, he was planning that it would be reintroduced: B E V Sabine, A History of Income Tax (George Allen & Unwin Ltd 1966) 35.
12 Parliamentary Register (1802-1805) vol 3, 577 (13 June 1803).
13 Seligman (n 3) 89. For an exception to this view, see Sabine, who acknowledged that ‘There was considerable opposition to the Bill’: (n 11) 36. However, Sabine gives very little detail of this.
14 See the lack of discussion in other seminal texts that consider the second tax, for example in Hope-Jones (n 3); Farnsworth (n 3); and Sabine, ibid.
15 Seligman (n 3) 99-100.
The hesitance of the commercial community to oppose the tax most likely stemmed from concern about the impact on their reputation in being seen to oppose a measure said by government to be necessary for the war effort, plus concern about consequences for business should Britain be defeated. Despite maintaining considerable antipathy towards the tax, it was simply not in the interests of the commercial community to actively oppose it. The powerful opposition of the commercial interest therefore failed to materialise. In this case the influence of the interest on the evolution of the tax was by omission: in failing to launch opposition, the commercial sector facilitated the reinstatement of the tax.

2.1 Opposition to reintroduction

The proposed reintroduction of the income tax in 1803 once again inspired significant debate. Although criticism of the income tax was relatively subdued in the parliamentary debates, with many Members of Parliament assenting to the tax on the grounds of financial necessity, anti-income tax rhetoric remained very much alive amongst its longstanding opponents. As in the past, much opposition stemmed from the administration necessary to ensure compliance. Mr Weston MP argued that the tax: ‘infringed[ed] on the fundamental principles of our free constitution…being odious, vexatious, and inquisitorial in the mode of its collection’, and William Smith MP complained that it necessitated ‘the establishment of an inquisition, which would be more intolerable than any tax’. Furthermore, the longstanding complaint of inequity in the tax’s application to different sources of income also resurfaced. Further evidence of these sentiments can also be observed from the

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16 The most detailed discussion appears to have been reserved for the terms of the Bill: see, for example, the prolonged discussion over abatements and exemptions in the course of the debates on the Bill – see Commons debates of 13 June – 1 August 1803: reproduced in Parliamentary Register (1802-1805), vol 3.
17 See, for example, the debate of 5 July 1803, in which a number of MPs gave assent to the tax’s wartime operation on the grounds that it ‘provide[d] extraordinary means for the security of the country against the projected invasion of an inveterate foe’: Parliamentary Register (1802-1805) vol 3, 715 (5 July 1803), per David Erskine MP.
18 Ibid 716.
19 Cobbett’s Parliamentary History, vol 35 col 1664, per William Smith MP (13 July 1803). Further to this see the varying opinions contained within, for example, the debate of 5 July 1803, upon which several members spoke at length both for and against the tax in general terms - Parliamentary Register (1802-1805) vol 3, 707-717 (5 July 1803).
20 See the argument that ‘it was not an equal tax upon property, but an equal tax upon income, which was an unequal tax upon property’, and that this meant that ‘they could not take two equal shares from two descriptions of property, in their nature unequal’: Parliamentary Register (1802-1805) vol 3, 713 (5 July 1803), per William Smith MP.
contemporary newspapers. The *Morning Chronicle* argued that the tax would continue to be ineffective: ‘Those who cheated the State while they paid ten per cent will cheat the State when they have five to pay’.\(^{21}\) The complaints made were wide-ranging and often contradictory: one newspaper noted that ‘the objections are as numerous as are the descriptions of persons to be affected by it’.\(^{22}\)

Given their role in opposing the tax in the past, it is unsurprising that many complaints came from the commercial community. Smith ventured that ‘the commercial men of London would rather pay a double tax than be subjected to a disclosure of their affairs’.\(^{23}\) Further criticism came from Alderman Combe, representative for the City of London, who stated that his constituents considered the tax ‘a measure so unjust in its principle, and partial in its operation, that no modification of it could remove their objections’.\(^{24}\) He objected to the tax based on what he saw as its inherent unfairness, in its application ‘upon incomes of unequal duration; upon the precarious produce of industry; and upon permanent income’.\(^{25}\) The opposition of City representatives suggests that amongst the country’s large commercial community at least, the decision to reintroduce the income tax was unpopular. Furthermore, according to press reports, two meetings were held by ‘Merchants, Bankers, and other Gentlemen in the City’,\(^{26}\) with the purpose of garnering support in opposition of the tax. The first such meeting took place on 22 June 1803, and denounced the tax as ‘unjust, inquisitorial, and unconstitutional’,\(^{27}\) and, in allowing inquisition into ‘the private affairs of commercial men’, as ‘repugnant to the spirit and feelings of Englishmen’.\(^{28}\) The second meeting, held on 29 June 1803,\(^{29}\) was a meeting in Common Hall of the Lord Mayor, Aldermen, and Livery of the City of London. Attendees argued that the tax was impossible to ‘reconcil[e]…to the habits of a commercial and free country’, and that ‘the people of this country ought rather to perish than to submit to such tyrannical imposts’.\(^{30}\) The overwhelming opinion of the

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\(^{21}\) Although the author admitted that the extent of evasion could be less: *Morning Chronicle* (London, 13 June 1803) 2 col 4.

\(^{22}\) *The Times* (London, 15 July 1803) 3 col 1.

\(^{23}\) *Parliamentary Register* (1802-1805) vol 3, 713 (5 July 1803), per William Smith MP.

\(^{24}\) *Cobbett’s Parliamentary History*, vol 36 col 1662, per Alderman Combe (5 July 1803).

\(^{25}\) Ibid col 1663.

\(^{26}\) As reported in *Morning Chronicle* (London, 23 June 1803) 2 col 4.

\(^{27}\) Ibid.


\(^{29}\) As reported in *Morning Chronicle* (London, 30 June 1803) 3 col 1.

\(^{30}\) Ibid.
commercial men present at the meetings was in favour of instructing the City’s MPs to vote against the tax, and resolutions were passed accordingly.

2.2 Pragmatic acquiescence

However, despite the impression given by these two meetings, actual opposition to the tax was limited. Unlike in 1802 and - as will be considered later in this thesis - in 1842, no attempts were made to present petitions against the tax, and meetings were few. Despite disagreement both in and out of Parliament over the terms of the tax’s operation, this did not hamper the progress of the tax into law, and by the beginning of August 1803 the Bill had received Royal Assent. It is argued that a key factor in the tax’s relatively uneventful passage into law was the failure of the country’s commercial community to take steps to actively oppose the tax. It was noted in Chapter 1 that the powerful commercial players of the City of London played an integral role in inciting public resistance to the tax after the Treaty of Amiens, both in petitioning against it, and in actively encouraging opposition from other areas. It is therefore clear that the business community was capable of orchestrating opposition strong enough to force a productive tax from the national accounts. However, the parliamentary debates and press reports bear no account of any similar opposition being launched in 1803. Furthermore, although, as noted above, meetings protesting the tax’s reintroduction were held in the City, the sentiments expressed were mixed. Only two meetings were held, and the first of these was very poorly attended. There is also no record of a meeting of the Court of Common Council, suggesting that City players did not feel the need to meet to consider the tax. This indicates that the City was more accepting of the tax’s reinstatement than they had been of its continuation in 1802. So confident were the City’s representatives in the ambiguous commercial attitudes towards the tax, that they felt able to

31 This was also recognised by City interests when debating the reimposition of the tax: one attendee at a meeting of the first City meeting alluded to above ‘adverted to the steps which had been taken under the former operation of the Income Tax to procure its repeal, and the influence which the sentiments of the City of London had in producing deliverance from so oppressive an impost’: reported in Morning Chronicle (London, 23 June 1803) 2 col 4.

32 This was noted in The Times (London, 23 June 1803) 3 col 2, and was also implied by one attendee, Robert Warithman, in suggesting that ‘a much more numerous attendance might [have been] expected’ if it had been better advertised: Morning Chronicle (London, 23 June 1803) 2 col 4. The first of the Meetings was recorded as having attracted only 150 attendees: Jackson’s Oxford Journal (Oxford, 25 June 1803) 2 col 3.

33 As noted at Chapter 1, note 47, this was the association of the Lord Mayor, Aldermen and various merchants and traders, and represented the trading interests of the City of London.
vote in its favour in Parliament, with Sir Charles Price, the Mayor of London as well as a Member of Parliament, even vocalising his support in the debates.\textsuperscript{34} The lacklustre attempt at opposition from the commercial community is therefore telling, and certainly supports the conclusion that acquiescence on the part of the commercial sector allowed the tax to re-enter the fiscal scene without significant challenge.

In explaining why the tax’s reintroduction failed to inspire significant opposition both from the commercial interest and more generally, an obvious explanation may be that the tax was accepted in the spirit of patriotic duty, given the resumption of war. This idea is implicit in much of the literature examining the first taxes, and is also evident in contemporary parliamentary debates and press reports. One article suggested that, although objections to the tax were well-founded, ‘The necessity of making great sacrifices in the present crisis supersedes…every ground of objection’.\textsuperscript{35} The Times, in an article addressed to those commercial actors protesting the tax’s reinstatement at the first City meeting, declared that:

\begin{quote}
We are now engaged in a contest to which we have been compelled by the continued encroachments and restless ambition of an usurping Despot, whose insatiable lust of power and dominion could not be bounded by whole nations already enslaved – a contest, entered into, not merely in support of our honour and dearest interests, but for our very existence as an independent nation!\textsuperscript{36}
\end{quote}

Daunton has suggested that the war had ‘fostered a sense of being British, encouraging a patriotic national identity’.\textsuperscript{37} Although the tax itself was despised as an imposition on individual liberties and on a taxpayer’s rights as an Englishman, it was probably considered a necessary sacrifice to protect Britain’s national interests, which was perceived as the ultimate goal by many contemporaries. This likely played an important role in softening commercial opposition to the tax. This rhetoric was evident even at the two City meetings protesting the tax. The Morning Chronicle reports that one attendee at the second City meeting declared that: ‘The present was a moment when great sacrifices were necessary; when it behoved all

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\textsuperscript{34} Price stated that, despite the opposition to the tax expressed at the meeting, he ‘would…go to Parliament as an independent man’: as reported in Morning Chronicle (London, 30 June 1803) 3 col 2. That the City’s Mayor was content to ignore the sentiments expressed at the meeting is telling, and likely indicates that he was confident that they did not represent the attitude of the City overall.
\textsuperscript{35} E Johnson’s British Gazette and Sunday Monitor (London, 3 July 1803) 2 col 2.
\textsuperscript{36} The Times (London, 22 June 1803) 2 col 4.
\textsuperscript{37} Martin J Daunton, Progress and Poverty: An Economic and Social History of Britain 1700–1850 (Oxford University Press 1995) 282.
\end{flushright}
ranks in the community to unite’. Similarily, William Curtis, Alderman and former Mayor of the City of London and present at the second City meeting, complained that, in passing resolutions condemning the tax, the attendees were showing their willingness ‘to receive Bonaparte, and to accept from him the fraternal hug’. Furthermore, the Mayor of the City of London argued that, despite sympathising with complaints of ‘the grievous operation of an income tax’, he was bound to take into account ‘the present state of the country’, and thus would vote in favour of the Bill in Parliament. It therefore appears that, for some commercial parties, the resumption of war may have motivated a change of perspective, facilitating their acceptance of the tax.

However, the notion that Britain’s commercial community were motivated to accept the tax on the grounds of patriotism alone is unconvincing. It was noted in Chapter 1 that at the great City meeting calling for the repeal of the tax in March 1802 – several days prior to the war’s formal conclusion – a resolution suggesting that the tax should remain in place until the war was officially over met with anger, until it was withdrawn. In 1802, City players had not been motivated by patriotic duty to continue to support the tax: the mood was for the tax’s repeal, even before the Treaty of Amiens was signed. Furthermore, any sense of patriotic duty felt by the commercial community during the previous operation of the tax had failed to extend to their compliance with the tax, as evidenced by the widespread commercial evasion. Given the example of evasion and opposition evidenced during the operation of the first tax, then, the decision of many businessmen to refrain from outright opposition to the tax in 1803 was probably influenced more by self-interest than patriotism. Thus, although a sense of national duty may have motivated some, it is reasonable to suggest that there must have been other factors incentivising the commercial interest to accept the tax in 1803. Three such

38 Opinion of Mr Perring, as reported in Morning Chronicle (London, 30 June 1803) 3 col 1. This was a sentiment supported by a number of attendees, and also seems to have been largely reflected by the newspapers themselves: one paper declared that ‘it is not for us to oppose a financial measure solely calculated to rescue the country from the difficulties which surround it’ (E Johnson’s British Gazette and Sunday Monitor (London, 17 July 1803) 3 col 1). Again, the impact of this on commercial thinking will be explored below.
39 Reported in Morning Post (London, 30 June 1803) 3 col 3.
40 Morning Chronicle (London, 30 June 1803) 3 col 2.
41 See Chapter 1, text at note 254.
42 Admittedly, it is likely that, at time of the meeting, the attendees were aware that a treaty was probable. However, it remains likely that, if they had been motivated only by patriotic duty, that this would have extended to allowing the tax to remain until war was officially concluded.
factors will be suggested, and it will be argued that this resulted in muted opposition to the tax from much of the commercial community, despite evident antipathy towards it.

One incentive for the commercial interest to accept the tax was the potential impact upon business should Britain lose the war. As in the past, the threat of invasion held grave implications for the country’s trading interests, and now that the war had resumed with a vengeance, that threat appeared more real than ever before. An attendee at one of the City meetings called on the Livery of London:

to consider what would be the consequence of French invasion. For the rich Bonaparte had prepared extortion and plunder…He desired them to figure to themselves the hall in which they were now assembled, filled with Septembrizers…the manes of the horses decorated with the tri-coloured flag, and the very wheels of the carriage greased with the fat and marrow of the Livery of London.

This graphic account illustrated a very relevant point to commercial opponents of the tax: in depriving the country of the financial means to fight the war, this would increase the likelihood of French invasion. Invasion would compromise business in a manner far worse than the income tax could: businessmen would be stripped of their property and markets abroad in favour of French traders, and perhaps also of their lives. *The Times* seized this opportunity to appeal to the self-interest of commercial men, encouraging them to view the income tax as ‘a surrender of a part of our property for the saving of the whole’, and likening it to insurance, reminding commercial readers that ‘goods, and credit, and custom, when once destroyed, are irrecoverable’. The sense that the income tax mitigated the risk of the total destruction of business may therefore have been an important factor in commercial acquiescence to the tax. As William Windham MP argued in Parliament: ‘The question was not, whether the income tax was a bad thing; but whether it was not a better thing than an income tax imposed by a French prefect?’ When presented the choice between paying the tax, or submitting to the consequences of French rule, commercial men considered the tax to be the lesser evil. Where opposition to the tax in 1802 had taken place against a backdrop of

43 In the months leading up to the resumption of war, Bonaparte had taken the opportunity to amass 160,000 soldiers at the port towns of Northern France, termed the ‘Army of England’, which, according to Bonaparte, was intended to ‘menace England with invasion’: see David G Chandler, *The Campaigns of Napoleon* (Simon & Schuster 1966) vol 1 321-322. This threat of invasion remained up to the Battle of Trafalgar two years later.
44 Opinion of Mr Jones, reported in the *Morning Chronicle* (London, 30 June 1803) 3 col 2.
46 *Parliamentary Register (1802-1805)* vol 3, 434 (24 May 1803).
dwindling military conflict, with the prospect of peace on the horizon, in 1803 the renewal of
the war presented an entirely different set of consequences should the tax be rejected. This
likely influenced commercial attitudes towards the tax, as the threat of invasion appeared
more real than ever before.

Similarly, appearing unpatriotic also risked significant negative implications for
business. At the first City meeting, a proposed resolution expressing willingness ‘to pay any
other taxes, not fraught with the same injustice’ was rejected. Most members of the
commercial interest did not want to create the impression that they were unwilling to
contribute financially towards the war effort. Addington sought to exploit this vulnerability.
In addressing opposition from the City’s representatives in Parliament, he responded with the
statement that:

He could not, however, bear the idea, that the citizens of London were unwilling to
pay their proportion; and he was sure, that if there was any unwillingness to do their
duty in this respect, the worthy alderman on the other side would not give it his
countenance or support.

In so doing Addington was drawing on a well of public anger. The day before Addington
delivered his remarks in Parliament The Times had published a letter addressed to the Lord
Mayor of London that noted:

Even the wretched and prostrate City of Paris can vote ships and men to aid its tyrant
in his malicious designs; and the City of London, the first in opulence, and
distinguished by its liberality, votes instructions to its Members to oppose a measure
of Government absolutely necessary at a moment of the most imminent danger!

In the early 1800s, business was heavily reliant on reputation, both for custom and for
credit. Customers and creditors might have been reluctant to deal with those seen as
unwilling to contribute to the national cause. This pragmatic concern likely further diluted
commercial objection to the reimposition of the tax.

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48 Parliamentary Register (1802-1805) vol 3, 711 (5 July 1803).
49 Letter signed ‘Valerius’, ‘To The Right Hon. the Lord Mayor of London’, The Times (London, 4 July 1803) 2
col 4 – 3 col 1. Several days before, the Morning Post had opined that ‘The public will judge the two Aldermen
[opposing the tax]…under the circumstances of these times’: Morning Post (London, 30 June 1803) 2 col 4.
50 As discussed in Chapter 1, text at note 59.
Another explanation for reduced commercial opposition can be found in the substance of the Act. Addington had modified the tax so as to alleviate some of the traditional hostility. He stated in his Budget speech that although objection to it could not be avoided, ‘as the measure was now framed, it would be attended with as little difficulty as possible’. The legislative framework of the income tax will be considered at length below in the context of the yield of the tax, however for now it is necessary to briefly consider the major changes that may have affected public willingness to accept the tax. Perhaps the most important change was that the ordinary tax rate was halved: from ten to five per cent. This appears to have ameliorated some dislike for the tax, especially given public recognition of the difficulties facing the national finances. One anonymous author argued in *The Times*: ‘After all, the tax is only five per cent on net income, and only during the war!’ The argument also found favour amongst commercial parties: for example, Alderman Curtis argued at a meeting of the Liverymen that ‘it was only to be five per cent, which was a material difference [to the previous tax]’. For commercial men, this held important implications: five per cent of profits in exchange for business and reputational security was a less objectionable price to pay than ten per cent had been. Furthermore, the introduction of a schedular approach to declaration also rendered the tax less objectionable. Under the new Act, separate statements of income were to be given according to source of income. Individual statements meant that ‘a person in trade is not obliged to make a return of his whole income, but only of that part of it which arises from the exercise of a particular trade or profession’. For businessmen, this meant that no accurate judgement as to their overall means could be made, which was probably an important pacifier. Moreover, the practice of deducting the tax at source in some limited areas, for instance when it came to interest on debts, may also have mitigated discontent. Although deduction at source forced compliance with the tax, it was rendered more acceptable to taxpayers because it avoided the need for a declaration, meaning that no exposure of financial affairs could occur, a particular benefit to commercial taxpayers. This, combined with the low rate, likely incentivised acceptance of the tax. In mitigating some of the previous objection, then, Addington reduced the strength of opposition to the tax. This may explain

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51 *Parliamentary Register (1802-1805)* vol 3, 571 (13 June 1803).
53 Account of the meeting of Liverymen on the proposed property duty, reported in the *Morning Chronicle* (London, 30 June 1803) 3 col 1.
54 The schedular approach will be considered in greater detail below.
55 As explained in the *Aberdeen Journal* (Aberdeen, 13 July 1803) 3 col 4.
why opposition to the tax was much weaker than in the past: as Alderman Curtis declared at the Livery meeting, ‘the tax, as now proposed to be renewed, was freed from many of the objections which formerly applied to it’. This, it is argued, resulted in a material reduction in commercial opposition to the tax.

2.3 The reinstatement of the tax: a summary

The lack of consideration given in the existing literature to the introduction of the second tax implies that the tax was reintroduced automatically in 1803, merely in reflection of the undertaking made in 1802 that the tax would be reinstated should war resume. However, this section has argued that the picture was more complicated than that. It has been demonstrated that the proposed reintroduction of the tax met was with appreciable hostility, in particular by the commercial community. Unlike in 1802, however, this poor reception failed to force the government to abandon the tax. In explaining this, an important explanation can be identified: that, unlike twelve months before, the country’s commercial community, and in particular powerful interests in the City, failed to launch opposition to the tax. Although there were undoubtedly opponents to the tax, it seems that these opponents no longer spoke for the whole commercial community. A sense of patriotic duty, the danger posed by war to business, as well as the reputational implications of being deemed unpatriotic, meant that many businessmen were unwilling to oppose the tax. Furthermore, the provisions of the tax also reduced controversy over the tax, in particular as a contribution of five per cent of profits was significantly more palatable to commercial taxpayers than ten per cent.

This lack of unity in commercial opinion served to dilute commercial opposition to the tax: only one of the four Members of Parliament for the City of London ultimately voted against the income tax. Unlike in the past, the two meetings held in the City appear to be the only such meetings, and there is no evidence of any concentrated effort from the City to stir

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57 Morning Chronicle (London, 30 June 1803) 3 col 1.
up wider public opposition, such as in 1802. This goes some way towards explaining why,
despite continued resentment towards the tax, Addington was able to reintroduce it: the
relative absence of opposition to the tax from the commercial community enabled its
reimposition. It therefore appears that, once again, the movement of income tax policy was
significantly influenced by the motives and actions (or inactions) of the commercial interest.

III. A MORE PROFITABLE TAX?

Despite opposition from some quarters, the second income tax passed quickly into law: less
than two months elapsed between Addington’s announcement of the tax’s reintroduction on
the 13 June 1803, to the passing of the Income Tax Act on 11 August. As noted above, the
tax was initially imposed at half the previous ordinary rate, at five per cent. However, the
Income Tax Act of 1806 increased that rate to ten per cent, or ‘two shillings for every twenty
shillings’, in line with the original rate imposed by the first tax, to meet the financial costs
of the increasingly expensive military campaign. The 1806 Act also marked the settling of the
administrative machinery for the tax’s collection. From this point the tax did not materially
alter until its repeal in 1816: as Hope-Jones has stated, ‘The final shape of the War Income
Tax was achieved in 1806’.

In comparison to its reintroduction, the substance and operation of the second tax has
attracted significant attention in the existing literature. It has been well-developed that

59 An Act for Granting to His Majesty, Until the Sixth Day of May Next After the Ratification of a Definitive
Treaty of Peace, a Contribution on the Profits Arising from Property, Professions, Trades, and Offices 1803 (43
60 An Act for Granting to His Majesty, During the Present War, and Until the Sixth Day of April Next After the
Ratification of a Definitive Treaty of Peace, Further Additional Rates and Duties in Great Britain on the Rates
and Duties on Profits Arising from Property, Professions, Trades, and Offices, and for Repealing an Act Passed
in the Forty-Fifth Year of His Present Majesty, for Repealing Certain Parts of an Act Made in the Forty-Third
Year of His Present Majesty, for Granting a Contribution on the Profits Arising from Property, Professions,
Trades, and Offices, and to Consolidate and Render More Effectual the Provisions for Collecting the Said
Duties 1806 (46 Geo III c 65) 1 (hereafter The Income Tax Act 1806).
61 Hope-Jones (n 3) 26.
62 See, for example, Seligman (n 3) 89-106; Hope-Jones, ibid 20-33 and chs 3, 4 and 5; Farnsworth (n 3)
especially at 49-60; Harris (n 3) 427-435; John F Avery Jones, 'The Special Commissioners from Trafalgar to
Waterloo' in John Tiley (ed), Studies in the History of Tax Law, vol II (Hart Publishing 2007); John F Avery
V (Hart Publishing 2011).
Addington significantly amended the operation of the tax, in particular in terms of its administrative framework for the tax’s collection.63 These reforms, it has been argued, served to reduce opportunities for evasion of the tax, and resulted in a greatly improved yield upon that generated by the first tax.64 This argument provides an important account of the productivity of the second tax, and indeed the yield did improve dramatically. Despite its initial rate of five per cent, the tax only produced under £300,000 less in 1803 than it had in 1801.65 At the point that the rate was restored to ten per cent in 1806, the yield rose to almost £13 million, and by 1815 the tax was producing over £15 million, almost triple the 1801 value.66 This large increase was almost certainly a result of the improved administration, in particular the introduction of the principle of deduction at source, which allowed the tax to be deducted from income before its payment to the taxpayer. For example, as Hope-Jones notes: ‘All salaries from Government offices, for instance, were taxed before the employees were paid’.67 This naturally circumvented self-declaration by the taxpayer in these instances, thereby drastically reducing the chance of tax evasion through a fraudulent declaration.68 It therefore appears that the second income tax was a relative success.69

However, although it is true that the second tax was more successful than the first from a financial perspective, this section will demonstrate that problems remained when it came to the yield from commercial income. This has been underdeveloped in the existing histories and, it will be argued, can be attributed to the fact that Addington’s reforms failed to fully solve the problem of taxing commercial income, allowing commercial under-contribution to continue. Thus, political unwillingness to aggravate the country’s powerful commercial interest resulted in the continued underperformance of the tax when it came to commercial

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63 See, for example, Hope-Jones, ibid, 21–33.
64 See, for example, Harris (n 3) 434. For a full exploration of the yield during the second tax, see Hope-Jones, ibid ch 6.
65 The produce of the tax was £5,341,907 in 1803, as opposed to £5,628,908 in 1801: Commissioners of the Inland Revenue: Thirteenth Report, HCSP 1870 C.82-I xx 377 562.
66 The 1806 figure was £12,822,056, and in 1815 this was £15,642,338: ibid. However, it is important to note that after 1806 the exemption threshold was reduced from £60 to £50, which would have by itself resulted in an increase in yield, even aside from the increased rate. Thus, it is difficult to make exact comparisons between the first tax and the second tax after 1806.
67 Hope-Jones (n 3) 22.
68 The second tax did not give officials any power to compel a taxpayer to reveal his accounts to the collectors, meaning that a self-declared statement of income was as difficult to challenge as it had been before. As such, in avoiding the declaration altogether, the tax was rendered significantly more effective.
69 See Phillips’s opinion that ‘Addington may not have been a very brilliant Prime Minister, and may perhaps be described as a bad war Prime Minister, but he was a magnificent Chancellor of the Exchequer’: William Phillips, ‘A New Light on Addington’s Income Tax’ [1967] British Tax Review 271 at 281.
income. Once again, it seems that the development of the income tax was underpinned by a pattern of commercial influence.

This section will first present new data to consider the yield of the tax in detail, and the interpretation of the existing literature will be affirmed: the tax was significantly more profitable overall than the 1799 tax. Addington’s major reforms will then be considered, most notably the introduction of the principle of deduction at source, the schedular system, and the decreased rate. The section will then undertake an original analysis of the impact of these reforms on the yield, to further support the interpretation that Addington’s reforms lay behind the substantial improvement in overall yield. However, despite this overall improvement, the section will then argue that the tax continued to under-perform in the sphere of commercial income: although undoubtedly improved in absolute terms, the proportionate contribution of the commercial sector remained low. This will be attributed to the fact that Addington’s modifications to the provisions of the tax dealing with commercial income did not go far enough in targeting commercial tax evasion. Thus, the tax remained unduly generous to commercial taxpayers. The section will conclude that the second income tax, like the first, was beset by a trend of commercial evasion.

3.1 An improved overall yield

The improvement in yield of the 1803 tax on that of the 1799 income tax is immediately evident on examination of the respective accounts. As discussed above, in its first year the new tax returned almost as much as in 1802, at half the rate.\(^{70}\) Indeed, the tax continued to improve even after the ten per cent rate was restored in 1806, from £12,822,056 in 1806, to a peak of £15,795,691 in 1813.\(^{71}\) This is demonstrated below, in Figure 4. The comparative success of the tax is also apparent from the increased number of assessments: where 303,772

\(^{70}\) It is important to note that the full tax rate had previously applied at £200, with income between £60 and £200 subject to a graduated duty. However, under the 1803 Act, the full tax rate applied at £150. These changes would have had a corresponding impact on the tax yield, in applying the full tax rate to more incomes than previously and thus increasing returns. However, there is no way of measuring this. Nevertheless, this is unlikely to have had an especially significant effect, given that the change only affected small incomes.

\(^{71}\) Commissioners of the Inland Revenue: Thirteenth Report, HCSP 1870 C.82-I xx 377 at 562.
people had been assessed to the income tax in 1801, those charged with the property tax in 1803 were estimated at 1,059,314, increasing over threefold.\footnote{An Account of the Number of Persons Assessed to Income Duty, 1801, and to Property Tax, 1803: HCSP 1806 (102) xii 359, at 359.}

**Figure 4: Overall Yield of the Second Tax in Selected Years, as Compared to the Yield in 1800.**\footnote{Source for 1800 yield (£5,710,573): Accounts Respecting the Income Duty in Great Britain, for the Year Ended Fifth April 1801: HCSP 1802 (112) viii 879, 881. Source for 1803, 1804, 1805, 1806, 1807 and 1813 yields: Commissioners of the Inland Revenue: Thirteenth Report, HCSP 1870 C.82-I xx 377 at 562.}

Furthermore, unlike the previous tax, the new tax exceeded its estimates. Addington had predicted that the tax would produce £4.7 million in its first year: the tax actually produced £5,341,907, almost twenty per cent more than expected.\footnote{Parliamentary Register (1802-1805) vol 3, 572 (13 June 1803). This contrasts with Pitt’s generous estimates in 1799, where he anticipated initially that the tax would produce £10 million, yet only £5.8 million was returned. However, this reflected more than just the tax’s increased productivity: Farnsworth has argued that it also reveals Addington’s acceptance of a certain...}
level of evasion. Addington’s private correspondence furthers this idea: in a letter written in 1803 he predicted that the total value of taxable trading income assessed to the tax under Schedule D of the Act would amount to between £10 million to £20 million. However, his official estimates predicted that the tax on income from trade would generate £625,000 in revenue, indicating a total value of taxable income of £12.5 million. This figure is noticeably low, given that the total value of income assessed by the Commercial Commissioners had amounted to almost £16 million in 1800. That Addington estimated that a lower amount of trading income would be assessed than during the first tax, despite the fact that the returns made to Commercial Commissioners had not accounted for the entire country’s trading income, and also despite widely acknowledged evasion from commercial taxpayers during the previous tax, suggests that he anticipated low Schedule D returns, and thus was erring on the side of caution.

Further evidence of Addington’s under-estimation can be seen in the fact that his Schedule D estimates were based on one twenty-fifth of the overall value of trading income, or four per cent, and not in line with the new rate of five per cent. This ties in with Schremmer’s view that, in introducing the new schedular system, ‘the government [had] resigned itself to the greater ease with which taxpayers could obfuscate their total incomes’. However, there may also have been another reason behind Addington’s low estimates. Given the precarious political position in which he found himself, in imposing a very unpopular tax, Addington had a vested interest in ensuring that the tax succeeded. Thus, his low estimates may have been deliberately engineered to be easily achievable, in order to ensure that the tax did not fall short of its estimates. In examining the yield of the second tax, then, it seems that it was significantly improved upon the first tax. However, it is necessary to exercise caution when using its improvement upon the estimates as further evidence of its success.

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76 Farnsworth (n 3) 90.
77 As set out in ibid 89-90.
78 For a full account of Addington’s estimates, see his Budget Speech: Parliamentary Register 1802-1805, vol 3, 571-573 (13 June 1803).
79 As implied by a ten per cent contribution amounting to £1,585,947: Accounts Respecting the Income Duty in Great Britain, for the Year Ended Fifth April 1801: HCSP 1802 (112) viii 879 at 881.
80 As Commercial Commissioners were only available in significant trading centres: see Chapter 1, text at note 169.
81 D E Schremmer, 'Taxation and Public Finance: Britain, France, and Germany' in Peter Mathias and Sidney Pollard (eds), The Cambridge Economic History of Europe from the Decline of the Roman Empire, vol 8 (Cambridge University Press 1989) 331-335.
In accounting for why the second income tax saw a significantly increased yield, it could be suggested that this simply reflected a greater willingness of the public to pay the tax. However, given that, as established above, dislike for the principle of the tax persisted in much the same way as it had under the first tax, it seems unlikely that taxpayers had any greater incentive to contribute. In explaining the increase, then, existing histories have placed emphasis on the reforms made to the administration of the tax. Seligman has stated that the administrative reforms had ‘at one blow doubled the efficiency of the tax’, stressing ‘the vital importance of good administrative methods in fiscal practice’. For Sabine, the reforms amounted to Addington ‘achieving almost as big a breakthrough as Pitt in his changeover from a tax on expenditure to a tax on income’. The reforms will now be examined, and the interpretation of the existing literature will be bolstered by evidence that they had a noticeable impact on the tax yield.

The most immediately obvious amendment was the rate, which was set at five per cent, or one shilling in the pound, on income above £150 per annum. As under the previous tax, income below £60 per annum was exempted entirely. However, where in the past abatements had applied to income between £60 and £200 per annum, under the 1803 Act the graduated duty only applied to annual income between £60 and £150. The abatements between £60 and £150 per annum were initially intended by Addington to apply to earned income in the form of wages and professional income only. This was likely intended as a concession to the complaint that the tax operated more harshly on earned than unearned income. However, this proposal proved unpopular amongst politicians and was dropped from the 1803 Act.

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82 Seligman (n 3) 98. Similarly, Farnsworth has argued that ‘the superior efficacy of Addington's system is…self-evident and this superiority was to be maintained throughout the Napoleonic Wars until the tax lapsed in 1816’: (n 3) 92.
83 Sabine (n 11) 37.
84 For an in-depth consideration of the 1803 legislation and how it differed to that in 1799, see Farnsworth (n 3) especially at ch 3.
85 The Income Tax Act 1803, s 193.
86 This has been well-developed in the literature: see, for example, Fakhri Shehab, Progressive Taxation: A Study in the Development of the Progressive Principle in the British Income Tax (Clarendon Press 1953), at 54-6.
Thus, abatements applied to all income between £60 and £150 per annum. This was ultimately modified by the 1806 Act, which instead provided that incomes between the exemption threshold and £150 would only be eligible for abatement if the income fell within one of the prescribed categories, which included ‘Profits arising from any properties belonging to any ecclesiastical person in right of his church’; and ‘Profits arising from any trade, manufacture, adventure or concern, in the nature of trade, or from any profession, employment, or vocation, chargeable under the first or second cases of Schedule (D.)’. Shehab has noted that, in practice, ‘these cases covered virtually all forms of earned incomes’, meaning that Addington’s initial ambition was ultimately achieved. The ordinary tax rate was increased to six and one-quarter per cent in 1805, and was later increased again to ten per cent in the 1806 Act, in line with the previous tax. The 1806 Act also reduced the exemption threshold to £50.

These changes to the rate and the exemption threshold in 1806 had two immediate effects. First, there was a significant increase in the yield of the tax. Gross assessments almost doubled, increasing from £6,429,599 in 1805 to £12,822,056 in 1806. Second, the reduction of the exemption rate reduced the value of income exempt from the tax. Income exempted from the tax in 1805 – on the grounds that it was below £60 – amounted to a national total of £5,885,012. However, in 1806 this dropped to £4,957,527, showing that the 1806 Act had brought almost £1 million worth of previously untaxed property into the remit of the tax. This had the obvious consequence of increasing the tax yield, however it also had an added benefit. As Hope-Jones has pointed out: ‘Once people had paid tax, it was comparatively easy for the Surveyors to force up assessments until they were paying an amount in fair proportion to their incomes’. In bringing those who had declared their income to be just below the previous exemption rate under the scrutiny of the tax collectors, it would become easier to

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87 Provided for in The Income Tax Act 1806, s 173.
88 Ibid.
89 Ibid (n 86) 57.
90 An Act for Granting to His Majesty Additional Duties in Great Britain, on the Amount of Assessments to be Charged on the Profits Arising from Property, Professions, Trades, and Offices 1805 (45 Geo III c 15) (hereafter The Income Tax Act 1805).
91 The Income Tax Act 1806, s 1.
92 Ibid s 173.
93 Commissioners of the Inland Revenue: Thirteenth Report, HCSP 1870 C.82-I xx 377 at 562.
94 Ibid.
95 Hope-Jones (n 3) 27-28.
detect those who had done so to evade the tax, and so enable a more accurate assessment for the future. It was a much easier, and less intrusive, task to increase the liability of those already paying the tax than to prove that a party was dishonestly claiming to be exempt from the tax. This reduced opportunities for evasion, positively impacting upon the yield.

Another significant reform came in the introduction of a schedular system. Where the previous tax had required an overall declaration reflecting a cumulative amount of all types of income, the new tax required separate declarations under different Schedules of the Act, each dealing with a different source of income.96 The declarations made under each Schedule were then paid separately, and each were filed in a different office, meaning that no disclosure of overall income was made.97 In introducing this process, Addington sought to address complaints, in particular from the commercial community, that the tax required disclosure of private financial affairs, potentially to competitors.98

However, perhaps the most important reform brought in by the 1803 Act was the introduction of the principle of deduction at source. This required that the amount payable in tax was deducted before it reached the hands of the taxpayer, avoiding the need for a declaration, and associated concerns over inaccuracy or fraud, altogether. This was imposed upon several types of income,99 most notably on that arising from rented land,100 on interest

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96 The Schedules were divided as follows: Schedule A applied the duty to ‘lands, tenements, hereditaments, or heritages’; Schedule B to ‘all dwelling-houses, lands, tenements, or hereditaments’; Schedule C to ‘profits arising from annuities, dividends, and shares of annuities…out of any publick revenue’; Schedule D to ‘the annual profits or gains arising or accruing to any person or persons residing in Great Britain, from any kind of property whatever…or from any profession, trade, or vocation’; and Schedule E to ‘every publick office or employment of profit, and upon every annuity, pension, or stipend, payable by his Majesty or out of the publick revenue of Great Britain, except annuities before charged to the duties in Schedule (C.)’: Schedules A-E, The Income Tax Act 1803. For more detail on this, see Seligman (n 3) 92-96.


98 See Stebbings’s point that: ‘The schedular system, based to an extent on Pitt's system of heads of income, satisfied popular demand for secrecy in relation to Revenue officials, by requiring each taxpayer to return his income under different schedules to the Act, according to the source of his income. Each return was to be made to a different official, and thus no one civil servant would know the whole of a man's financial situation’: Stebbings (n 56) 664.

99 See Harris (n 3) 429-431.

100 Second Rule for charging the said Duties, Schedule A of The Income Tax Act 1803.
arising from loans, and on incomes from public employments or offices, where the employer would deduct the tax. The Act of 1806 would extend this to incomes from public securities, where the tax was deducted by the Bank of England. In deducting tax from income before it was paid to taxpayers, the danger the declarations would be manipulated was circumvented. Thus, by negating the reliance on taxpayer honesty in these circumstances, evasion was made more difficult. Furthermore, it also mitigated taxpayer discontent, by negating the need for a declaration of the taxed income. For these reasons, deduction at source, along with the schedular system, has been heralded as Addington’s most important contribution.

That deduction at source made a significant difference to the produce of the tax can be seen from the yield breakdown. Although it is impossible to compare the produce of those incomes subject to deduction at the source with that from the previous tax, given that only aggregate income was declared under the first tax, it is possible to see the difference that it made to income declared under Schedule C. Schedule C covered income from annuities and dividends arising from the public funds, and although initially such income was not subject to deduction at source, the practice was introduced by The Income Tax Act 1806. Thus, in comparing the pre-1806 yield with that returned after the 1806 Act, the impact of deduction at source can be identified. Tax collected on Schedule C income in 1803 amounted to £644,826, dropping to £244,306 by 1805. However, after 1806 the figure increased sharply, to £2,236,020. Although a significant proportion of this rise will have been accounted for by the increase in rate to ten per cent, the fact that the 1806 yield increased

103 Fifth Rule for charging the said Duties, Schedule E of the Income Tax Act 1803.
104 See above at note 56.
105 See Sabine’s reference to deduction at source as a principle ‘of startling originality and durability’: (n 11) 37. See also Monroe’s point that it was ‘perhaps the only really effective method of collecting tax’. Hubert Holmes Monroe, Intolerable Inquisition?: Reflections on the Law of Tax (Stevens 1981) 13. However, it is important to note that the principle was not novel, and in several respects mirrored provisions in the Land Tax Acts: see Piroso A Soos, The Origins of Taxation at Source in England (International Bureau of Fiscal Documentation 1997) 156; Avery Jones (n 3) 9-22.
106 Therefore, there was no differentiation between different types of income. As such, accounts of the produce of the tax only provide the overall yield, with only contributions paid on income declared to the Commercial Commissioners provided separately. It is therefore impossible to ascertain the amount of tax collected, for example, on salaries, prior to 1803.
107 Schedule C. As will be noted below, this did not initially apply in 1803. See Seligman (n 3) 102.
109 Ibid.
110 Alongside the reduction in the exemption threshold, discussed above.
almost tenfold upon that in 1805 (rather than the two-fold that would be expected from a doubled rate) shows that the increased rate alone could not have accounted for such a great increase. As such, it seems that the introduction of deduction at source was key to the vast increase in the tax yield.

3.2 Challenging this interpretation: the continued difficulty of taxing commercial income

The administrative reforms to the income tax effected by Addington therefore appear to have made an important and calculable difference to the yield of the tax. This argument is evident in many of the existing histories, and this thesis has built upon this interpretation by providing an original exploration of the evidence of links between reforms and improvements in the yield. This section will now examine the tax yield generated from commercial income. The taxation of commercial income, as demonstrated in the previous chapter, had traditionally been hindered by significant evasion. At first glance, this issue appears to have been resolved in the second tax: like the overall yield, the commercial yield appeared to have increased significantly. In the 1800 tax year, returns made to Commercial Commissioners had amounted to £1,585,947. However, by 1803, returns associated with commercial income had increased to £1,700,279, despite the tax operating at half the rate. In 1806, when the rate rose once more to ten per cent, Schedule D returns amounted to £3,457,858, over double those collected at the same rate in 1800. At its peak in 1814, tax declared under Schedule D amounted to a little under £3.9 million. These figures suggest that the second tax was more effective at targeting commercial income than its predecessor, and that

110 There were other small-scale amendments to the schedule that may also have resulted in an augmentation of the yield, for example, as Seligman points out, the ‘taking over from the third case of Schedule D the duty on all securities issued at any governmental office’ – Seligman (n 3) 102. However, the fact that Schedule D returns still doubled in line with the rate (see Commissioners of the Inland Revenue: Thirteenth Report, HCSP 1870 C.82-I xx 377 at 562), and therefore seem not to have been greatly reduced between 1805 and 1806, suggests that the increase of almost £2 million cannot be accounted for by the addition of this duty alone. Therefore, the introduction of deduction at the source seems the most likely explanation.
111 Accounts Respecting the Income Duty in Great Britain, for the Year Ended Fifth April 1801: HCSP 1802 (112) viii 879 at 881.
113 Ibid.
114 Ibid.
therefore the tax was subject to significantly less commercial evasion. This is demonstrated in Figure 5.

**Figure 5: Schedule D Yield in Selected Years, as Compared to that Declared to Commercial Commissioners in 1800.**

Nevertheless, it will be demonstrated commercial taxpayers continued to evade the income tax on a significant scale. First, although Addington’s reforms did effect important improvements to the administration of the tax, it will be argued that these reforms did not eliminate opportunities for commercial tax evasion. This likely reflected continued political unwillingness to impose the tax strictly on commercial taxpayers, in order to secure commercial consent to the tax. Thus, the second income tax continued to afford commercial taxpayers with the means to evade the tax. Second, upon closer examination of the breakdown of the improved commercial yield, it appears that this does not bear out a narrative of reduced evasion, and that much of the increased productivity can be attributed to

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Source for 1800 yield (£1,585,947): Accounts Relating to Assessment and Produce of Income Duty, 1800-1801, HCSP 1801-1802 (41) iv 147 at 149.

Source for 1803, 1804, 1805, 1806, 1807 and 1814 yields: Commissioners of the Inland Revenue: Thirteenth Report, HCSP 1870 C.82-I xx 377 at 562.
other factors. Furthermore, even aside from this, commercial contributions remained an unduly low proportion of the overall yield. As such, rather than indicating that the second income tax was considerably more effective in taxing commercial income, it seems that it continued to be beset by commercial under-contribution. It therefore appears that the development of the income tax remained hindered by commercial influence over tax policy. These arguments are developed at length in the remainder of this chapter.

*Reforms in the assessment of commercial income*

As well as introducing a number of general administrative reforms, the 1803 Act also brought about several reforms to the process of taxing commercial income, which were aimed at improving the yield and mitigating evasion. These reforms were partially successful, and accounted for why the yield increased in absolute terms. However, despite each of these improvements, it will be shown that there remained significant opportunities for commercial under-contribution. Addington’s reforms, although mitigating commercial evasion to some extent, stopped short of fully addressing its causes, likely reflecting political reluctance to impose the tax on commercial taxpayers strictly. This, coupled with the difficulties inherent in taxing trade, once again proved to be a barrier to the tax’s development.

A particularly important reform came in the limited application of the principle of deduction at source to some forms of commercial income. The 1803 Act, unlike its predecessor, did not allow for deductions to be made for interest on debts. The ability to deduct interest from taxable income under the first tax had constituted a key source of evasion, as debtors over-declared and creditors under-declared their debts in order to minimise tax paid. However, Addington removed this option, and extended the principle of deduction at source to interest payable on loans, meaning that the tax would be deducted from interest before it was paid. Thus, a key opportunity for evasion was removed. Deduction at source was also imposed with respect to dividends. Under the first tax, dividends had been

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116 See Farnsworth (n 3) 20-21; Stebbings (n 56) 664-665.
117 The Income Tax Act 1803, s 208.
118 The Income Tax Act 1803, s 127.
tax deductible, and so were taxed in the hands of the shareholders. However, under the second tax, dividend payments formed part of a company’s taxable income.\footnote{119} Therefore, a company was entitled to retain the duty payable on those dividends, effectively deducting tax on dividends at source. Although the tax remained dependent on an accurate declaration of the company’s profits, reliance on the honesty of shareholders was circumvented. Together, these reforms likely go some way towards explaining the absolute improvement in the yield from commercial income, as reliance on self-declaration of liability was reduced. However, although deduction at source was introduced in these two respects, it was on the whole not imposed on Schedule D, owing to administrative difficulty. The nature of business meant that commercial income originated from a number of sources, and so it would have been virtually impossible to impose a comprehensive system of deduction at source. Thus, ‘the principle of stoppage at source was thought to be inapplicable to this schedule’.\footnote{120} Collection of the tax therefore remained mostly dependent on the self-declaration of commercial taxpayers, which, as was considered in Chapter 1, was inherently problematic given its reliance on honesty alone. As such, although deduction at source went some way towards improving the yield taken from commercial income, ‘it could not entirely resolve the essential difficulties’.\footnote{121}

This inapplicability of deduction at source to commercial income was compounded by a notable omission in tackling commercial evasion. The second income tax, like its predecessor, did not extend any power to assessors to examine a taxpayer’s accounts. Therefore, once again, any examination of the accuracy of a declaration was limited to external indicators of wealth. As noted in the previous chapter, this was extremely problematic in the context of commercial assessments, as, unlike a wealthy individual, the income of a business was less likely to be manifested in the purchase of luxuries, or the size of a property.\footnote{122} Therefore, it remained extremely difficult for a fraudulent declaration to be detected. In failing to address the issues that had enabled commercial evasion to take place between 1799 and 1802, therefore, continued evasion was inevitable. Schremmer has

\footnote{119} The rule on dividends applied to ‘any Corporation, Fraternity, Fellowship, Company, or Society’: ibid. For greater exploration of the rules surrounding dividends, see Avery Jones, ‘Defining and Taxing Companies’ (n 62) 13-25. See also Harris (n 3) 432-3; Bank (n 97) 22-26.

\footnote{120} Seligman (n 3) 96.

\footnote{121} Harris (n 3) 431. See also P K O’Brien, ‘British Incomes and Property in the Early Nineteenth Century’ (1959) 12 The Economic History Review 255.

\footnote{122} For a discussion of the issues raised by the Commissioners’ inability to access to a taxpayer’s accounts, see Chapter 1, text at note 152.
suggested that the government ‘resigned itself’ to evasion, favouring ‘greater protection of
individual privacy’ and maintaining ‘the character of the more traditional tax on revenues,
relying on external indicators for average incomes’. In failing to fully tackle the issues that
had enabled commercial evasion, policymakers continued to afford concessions to the
powerful commercial interest. This necessarily required acceptance of continued evasion.

The continued reliance on self-declaration when it came to commercial assessments was
compounded by the limited effectiveness of the new schedular system. Despite forcing
taxpayers making declarations to break down their income into Schedules, therefore allowing
for more detailed examination, the schedular system was of more limited effect when it came
to Schedule D. Although a declaration under Schedule D required some breaking down by
source, no further detail was required in the context of trading income than an aggregated
declaration of profit. This lack of detail, along with the inability of Commissioners to
examine accounts, made it difficult to challenge the accuracy of a declaration. Furthermore,
the Schedule also contained a ‘sweeping clause’, which provided that income falling outside
of the other Schedules should be declared under Schedule D. In this respect, the benefits of
the schedular system largely were lost: no further breakdown was required. In limiting the
capacity of tax officials to challenge Schedule D declarations by granting no power to
examine accounts, or compelling commercial taxpayers to give a detailed breakdown of their
taxable income, the government allowed commercial evasion to continue.

Another significant reform in the second tax was the abolition of the role of Commercial
Commissioner, which, as noted in Chapter 1, had attracted great criticism during the
operation of the previous tax on the grounds of bias. In place of the Commercial
Commissioners, Additional Commissioners were appointed to administer the tax in respect of
commercial income. Although these Commissioners were appointed by the General
Commissioners, they were local men, and were sourced from the commercial community in

123 Schremmer (n 81) 331-335.
124 See Schedule G to The Income Tax Act 1803 for the format of declaration. See also Phillips (n 69) 273-274.
125 See the ‘Sixth Case’ of Schedule D to the Income Tax Act 1803: ‘The Duty to be charged in respect of any
annual Profit or Gains not falling under any of the foregoing Rules, and not charged by virtue of any of the other
Schedules contained in this Act’.
126 The Income Tax Act 1803, ss 18-20. For discussion of the Additional Commissioners, see Sabine (n 11) 36.
trading hubs. Moreover, commercial players continued to have a hand in the selection of Commissioners in the City of London. Thus, reticence to enforce the tax strictly upon their counterparts was likely to persist. Furthermore, although the process of anonymous assessment of commercial income was not retained in the 1803 tax, some concessions to commercial concerns of exposure in the way of secrecy continued to be afforded. Certificates of assessment remained anonymised, and Commissioners dealing with Schedule D returns were required to swear an oath of secrecy. A particularly important concession to commercial concerns around exposure of financial affairs in 1803 was the introduction of a new system of Referees. Instead of submitting a declaration for assessment by a Commissioner, a taxpayer could elect to be ‘Charged by Reference’. This entailed the nomination of two Referees who would assess the taxpayer’s declaration. These Referees were chosen by the taxpayer. This process was open to all taxpayers declaring income under Schedule D, and was designed to compensate commercial taxpayers for the loss of the anonymous declaration available under the first tax. The opportunities that this provided for commercial evasion were significant. Although the Act specified that a Referee could not be business partner or close family to the taxpayer, and Commissioners did hold the power to veto the appointment of a particular Referee, these safeguards were largely ineffective. Without detailed knowledge of the relationship between taxpayer and Referee, it was unlikely that a Commissioner would detect any potential bias, and so evasion would go undetected.

It therefore appears that Addington’s administrative reforms, although almost certainly effective in increasing compliance with the tax overall, failed to fully address the issue of

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127 The Income Tax Act 1803, s 6. Moreover, Stebbings has noted that, even outside of mercantile areas, ‘Additional Commissioners were usually local businessmen, often retired, or active merchants or bankers’: Chantal Stebbings, *Legal Foundations of Tribunals in Nineteenth Century England* (Cambridge University Press 2006) 124.
128 The Income Tax Act 1803, ss 6-7.
129 See Chapter 1, text at note 156 for a discussion of the issues inherent in this. See also Hope-Jones’s reference to accusations of bias levelled against Commissioners in the City ((n 3) 55), discussed below.
130 The Income Tax Act 1803, s 166.
131 See the oath of secrecy contained in Schedule F of The Income Tax Act 1803, which was also extended to Schedule C returns: ‘I will not disclose any Particular contained in any Schedule, Statement, or Declaration delivered, with respect to any Duties charged under the Provisions and Regulations relating to Schedule (C.) or (D.).’
132 See Seligman (n 3) 98.
133 The Income Tax Act 1803, s 111. A third could be nominated by the Commissioner if the two Referees could not agree: s 113.
134 Ibid s 115.
135 Ibid s 112.
commercial evasion. Hope-Jones argued that ‘the administrative difficulties faced by the Tax Office organization were out of all proportion in Schedule D, as compared with the other schedules’.  

It is likely that this had an impact on the produce of the tax from commercial income. This has not been overlooked entirely in the existing histories: for instance, Hope-Jones has stated that ‘On the commercial side the tax was not a big success’. The existence of continued evasion has also been recognised: Tayler has argued that ‘great abuses were…found to exist, and considerable defalcations of the public money took place by collectors and others’. This evasion may even have been recognised at the time. Hope-Jones referred to ‘the famous incident when the General Commissioners [for the City of London] were suspended by the Commissioners for the Affairs of the Taxes’ due to accusations of bias and potential evasion.

It therefore seems that, despite improvements in the administration and accordingly the produce of the tax, evasion by commercial taxpayers continued to pervade its operation. However, notwithstanding some recognition of this by historians, the link between that evasion and the tax yield has been subject to no detailed analysis. This perhaps stems from the fact that, as noted above, the commercial yield increased in absolute terms. However, it will now be considered that, on closer inspection of the contemporary accounts, there is strong evidence that commercial under-performance continued. Given the failure of Addington’s reforms to fully address the causes of evasion, it is therefore logical to assume that a significant factor in this underperformance was commercial evasion.

136 Hope-Jones (n 3) 119.
137 Ibid 19.
138 William Tayler, The History of the Taxation of England, with an Account of the Rise and Progress of the National Debt (London 1853) 58. See also Sabine’s point that: ‘there was evasion especially in the assessment of profits under Schedule D’. Sabine (n 11) 46.
139 Hope-Jones (n 3) 55. Hope-Jones cites Hansard and The Times in March 1816 as evidence for this incident. However, the present author was unable to locate the relevant records despite an exhaustive search. Avery Jones discussed this issue in his article, stating that ‘There is, however, no reference to it in The Times although there are contemporary articles about the City complaining about income tax, particularly one on 14 Dec 1814 reporting a discussion at Common Hall, which must cast some doubt about whether it really happened’. Avery Jones, ‘The Special Commissioners’ (n 62) 45 note 231.
140 Some link is made by Deane and Cole, who, in producing estimates of national income at the time, estimate evasion under Schedule D to amount to up to fifty per cent of the yield in 1811: Phyllis Deane and W A Cole, British Economic Growth, 1688-1959: Trends and Structure (2nd edn, Cambridge University Press 1969) 328. However, the authors do not expand upon the causes of that evasion, nor give any explanation for the figure of fifty per cent.
The significant increase of the commercial yield in absolute terms is likely testament in part to Addington’s administrative reforms, in particular to the imposition of deduction at source as regards interest payable on debt, and dividends.\textsuperscript{141} The reduction of the exemption threshold and changes in abatement rules may also have accounted for some of the uplift, however, given that this affected only the smallest incomes, it is unlikely to have brought a significant increase.\textsuperscript{142} Despite these reforms, resulting in a genuine increase in yield, further examination reveals evidence that a significant portion of the apparent increase was probably artificial, and owed in part to changes in the recording of the yield rather than improved commercial contribution. One factor can be found in the fact that Schedule D of the 1803 Act comprised a much wider range of income than that submitted to the Commercial Commissioners under the first tax.\textsuperscript{143} This likely goes a long way towards explaining the vast difference between the produce of the first and second taxes. During the operation of the first tax, income from foreign possessions, for example, would not have been declared to Commercial Commissioners,\textsuperscript{144} given that it could not be categorised as trading income. Therefore, this non-trading income accounts for at least some of the significant difference in the returns made to Commercial Commissioners during the first tax, and under Schedule D during the second. However, no estimation of the value of this income can be made, as it would have formed part of a declaration of aggregate income to General Commissioners during the operation of the first tax, and under Schedule D during the second. The absence of records giving a breakdown of income for either tax therefore means that a comprehensive comparison of commercial contributions cannot be made.

\textsuperscript{141} Given that records were only kept of aggregated Schedule D returns, the extent of this cannot be ascertained. However, as will now be examined, it is unlikely that this accounted for all of the increase in yield as compared to the first tax.
\textsuperscript{142} For example, it was considered above that the lowered exemption threshold likely brought income to the value of less than £1 million into the remit of the tax. Given that this figure was for income from all sources, the amount of this income that would have been assessed under Schedule D would have been very small, and thus cannot account for the significant increase in commercial yield.
\textsuperscript{143} Although mainly covering income from trade and manufacture (First Case), Schedule D of The Income Tax Act 1803 included a range of other income, most notably that from ‘Professions, Employments, or Vocations’ (Second Case), ‘Property of an Uncertain annual Value, not charged in Schedule (A)’ (Third Case), and from ‘any annual Profit or Gains not falling under any of the foregoing Rules’ (known as the ‘sweeping clause’) (Sixth Case).
\textsuperscript{144} As noted in the previous chapter, the returns made to Commercial Commissioners are the only indication available of the commercial yield of the tax, despite not accounting for all commercial returns.
It is also likely that a significant portion of the increased yield stemmed from the ability of all commercial taxpayers to make declarations under Schedule D. It was noted in the previous chapter that, under the first tax, the only indicator of commercial contributions to the tax was the amount returned to Commercial Commissioners. However, Commercial Commissioners were installed in only a few commercial hubs, and so declarations of commercial income outside of these areas were made as part of the aggregate income declared to General Commissioners, making it impossible to gain a true picture of commercial tax contributions. In allowing all commercial income to be declared under Schedule D irrespective of the taxpayer’s location, the introduction of the schedular approach in the 1803 Act therefore resulted in an uplift of the yield attributed to commercial taxpayers. As such, although Addington’s reforms undoubtedly resulted in a genuine increase in commercial contributions, it seems that this may not have been as pronounced as the figures, or historians, have suggested.

However, even irrespective of any artificiality in the increase in the commercial tax yield, it appears that commercial taxpayers continued to under-contribute as against other sectors of society. It was argued in the preceding chapter that commercial under-contribution during the first tax can be seen not only in terms of the absolute amount, but also in terms of the proportion of the yield accounted for by commercial returns. To this end, it was noted that returns to Commercial Commissioners in the 1800 tax year amounted to a little under £1.6 million. This was around twenty-five per cent of the overall yield of the tax.\(^{145}\) This was at odds with the forty-four per cent initially estimated by Pitt, and later supported by economic historians such as Lindert and Williamson, and Deane and Cole.\(^{146}\) As such, in order to succeed where the first tax failed, commercial contributions during the second tax should not only have improved in absolute terms, but also as a proportion of the entire yield. This did not occur.\(^{147}\) Although commercial returns accounted for thirty-two per cent of the overall

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\(^{145}\) On the basis of £1,585,947 in returns to Commercial Commissioners out of £6,244,439 overall (gross) yield: Accounts Respecting the Income Duty in Great Britain, for the Year Ended Fifth April 1801: HCSP 1802 (112) viii 879 at 881.

\(^{146}\) See Chapter 1, text at note 187.

\(^{147}\) It is necessary to advert to the difficulties in comparing the commercial yield under the first tax with that under the second, owing to the wider range of income included under Schedule D, and the limited availability of Commercial Commissioners under the first tax. However, if anything this ought to have artificially improved the
yield in 1803, a significant improvement, this dropped to twenty-seven per cent in 1806, and again to eighteen per cent by 1815. Between 1803 and 1815, average commercial returns accounted for just over twenty-four per cent of the overall yield. Thus, not only did commercial contributions fail to account for forty-four per cent of the tax yield, as Peel and subsequent commentators thought possible, but proportionately commercial contributions remained stagnant, if not actually decreasing, as compared to the first tax. This is demonstrated by Figure 6. This lack of proportionate improvement is particularly notable given the genuine increase stemming from Addington’s reforms, and the artificial increase in yield discussed above. This is strongly indicative that, despite clear improvements in administration, the tax continued to fall significantly short when it came to the yield from commercial taxpayers.

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149 On the basis of £3,457,858 in Schedule D yield out of £12,822,056 overall (gross) yield: ibid.
150 On the basis of £2,830,130 in Schedule D yield out of £15,642,338 overall (gross) yield: ibid.
151 On the basis of £38,066,187 total Schedule D yield for 1803-1815, as against £157,756,268 total overall (gross) yield: ibid.
152 This proportion should have arguably been even higher than forty-four per cent, considering that, as noted above, Schedule D provided for income from a wide range of sources that were not envisaged by Peel when making his estimates. Therefore, not all of the amount returned under Schedule D can be accounted for as commercial income. Unfortunately, this is not delineated in the accounts.
3.3 **Summary: a more profitable tax?**

It therefore seems that the second income tax, like its predecessor, was plagued by commercial evasion. Although the new reforms had some positive impact on the yield of the second income tax, as evidenced by the fact that there was an increase in contributions in absolute terms, they failed to fully address the causes of commercial evasion in the past, meaning that the behaviour of many commercial taxpayers remained broadly unchanged. This indicates the continued influence of the commercial interest over tax policymaking: despite attempting to improve the administration of the tax overall, Addington was compelled to retain concessions to commercial opinion. It has been argued that this negatively impacted on the yield, meaning that much of the increase in commercial contributions reflected the inclusion of a wider range of contributions under Schedule D, rather than increased commercial compliance with the tax. Furthermore, as a proportion of the overall yield, commercial contributions remained low. Thus, it is argued that, once again, the influence of the commercial interest served as a barrier to the successful development of the income tax.
IV. THE REPEAL OF THE TAX

Despite the opposition that had occurred at the point of its reintroduction, the second income tax remained virtually uncontested after 1806, and was mentioned only infrequently in the parliamentary debates. This likely reflected recognition by its opponents of the futility of opposing the tax while the country remained at war. However, as the end of the war approached in November 1815, public attention once again began to turn to the income tax, and by March 1816 the tax had been repealed. The factors that led to the tax’s repeal have attracted significant attention in the existing histories of the income tax, and from these histories two central, and alternative, explanations for the tax’s repeal can be identified.

The first is that the government repealed the tax in order to honour the promise that had been made at its outset: that the tax was only a wartime measure.\(^{153}\) It was noted above that even in the title of the Act, the tax was explicitly limited as being ‘until the sixth Day of May next after the Ratification of a Definitive Treaty of Peace’. Thus, historians have argued, the repeal of the tax once the war was over was inevitable.\(^{154}\) However, this interpretation alone fails to explain the repeal of the tax. The tax had become a profitable part of the country’s revenue, providing over £15 million in revenue each year, around nineteen per cent of national income.\(^{155}\) Accordingly, in February 1816 the Chancellor of the Exchequer Nicholas Vansittart proposed the continuation of the tax for a further year.\(^{156}\) This proposal, however, was ultimately defeated in Parliament. Therefore, the argument that the tax was automatically repealed at the end of the war in order to uphold Addington’s promise is too simplistic: far from passively conceding the tax’s withdrawal from the fiscal scene, the government made active attempts to retain it.

\(^{153}\) See Sabine’s description that ‘The objection of the average MP to an income tax was the very simple one, that it was a war tax and there was no place for it in the fiscal system of peace’: Sabine (n 11) 51.
\(^{154}\) See Hope-Jones’s statement that ‘The Income Tax was borne by the people only because it was a war tax’: Hope-Jones (n 3) 111.
\(^{155}\) Calculated as against a national income figure of £79.1 million: B R Mitchell, Abstract of British Historical Statistics (Cambridge University Press 1962) 392.
\(^{156}\) HC Deb vol 32 cols 376-389.
In light of this, other historians have instead turned to a second argument in accounting for the tax’s repeal: that strong public opposition forced the government to abandon the tax. This narrative holds that, once the justification for the tax’s existence evaporated with the end of the war, the tide of public opinion was sufficiently strong to force the repeal of the tax. The end of the war merely provided the opportunity, and not the reason, for the tax’s repeal. This argument has been well-developed in existing histories, and it is widely suggested that the strong public dislike for the tax resulted in a powerful movement by the British public against the tax, which the government were unable to withstand. The continued public hostility towards the tax will first be examined, and this section will then develop the existing interpretation by arguing that the opposition to the tax was spearheaded by the country’s commercial interest. It will be contended that opposition to the tax proved to be so strong that it is unsurprising that it proved influential to politicians.

The section will then turn to consider the argument of historian Fakhri Shehab, who has disputed this account and argues that the opposition was neither as strong nor as persuasive as has been previously argued. Instead, Shehab contends that the weakness of government is a more persuasive explanation. This, it will be suggested, is an important and underdeveloped factor in explaining the tax’s repeal. Furthermore, Shehab’s interpretation does cast some doubt on the traditional interpretation that public opposition to the tax was too strong to withstand. However, it will also be considered that there are significant issues with this analysis, and that, as a result, it fails to displace the narrative of strong public opposition to the tax forcing its repeal.

The section will conclude by drawing together these two interpretations in order to propose an alternative argument: that the opposition to the tax was rendered particularly persuasive to politicians because it was orchestrated by the country’s powerful commercial

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157 See, for example, Dowell’s account that ‘in obedience to the popular clamour Vansittart was compelled to give up the tax’: Stephen Dowell, *A History of Taxation and Taxes in England from the Earliest times to the Year 1885* (2nd edn, Longmans, Green, and Co 1888) vol III 105.

158 See Tayler’s account that: ‘such was the tide of national opinion on the subject of this odious tax, that the opposition to it by all classes became overwhelming; and the popular voice against it became so determined and unequivocal…’: (n 138) 71. See also Seligman’s description that: ‘So fierce was the clamor [sic] of opposition that the newspapers discussed what might be done to prevent the further execution of the law in case the government should succeed in continuing the tax’: Seligman (n 3) 112.
interest. Thus, although Shehab’s contention that opposition to the tax has been overstated in the histories is partially correct, nevertheless this opposition proved decisive to the tax’s fortunes because it emanated in large part from the powerful commercial interest. In building on the existing literature, this argument therefore constitutes an important, and hitherto underdeveloped, explanation for why the tax was repealed in 1816. This also furthers the overall conclusion of this chapter: that the development of the second tax was underpinned at all stages by a theme of commercial influence.

4.1 Organised opposition forcing the tax’s repeal

Objections to the tax

In considering the opposition of the British public to the tax in 1816, it is first necessary to consider the grounds upon which this opposition was based. Three main genres of complaint can be identified: mistrust of government interference; the heavy and inequitable tax burden; and the perceived incompatibility between the tax and the growing push for retrenchment in government expenditure. These will be explored in turn.

The complaint that can be seen most clearly when examining the opposition of the income tax in 1816 is that it amounted to government interference in personal affairs. As during the first tax, this was compounded by a popular mistrust of centralised bureaucracy. That contemporaries did not trust the government to impose the tax fairly is evident in the popular debates of 1816: speaking in the House of Lords, the Marquis of Douglas declared that the powers given to the state by the tax were ‘incompatible with a free constitution’, and asked ‘what prevent[s] its imposition at 99 per cent…?’ Frustration over the perceived interference of centralised government was likely exacerbated by another factor: that taxpayers felt that they were being taxed without their consent. The previous chapter considered the argument that taxpayers at the time believed that they had a constitutional

159 HL Deb 11 May 1815 vol 31 col 242.
right to consent to taxation.\textsuperscript{160} In imposing a tax perceived as inquisitorial and objectionable, the government was therefore breaching the constitutional right to ‘real consent’ to the tax.\textsuperscript{161} This consent, Stebbings notes, had been secured in the past through a localised system of tax collection.\textsuperscript{162} However, although the income tax was collected by local Commissioners, it was administered centrally, and so was perceived to take money away from the local community for the benefit of the central machine. In view of this, the opportunity to challenge the tax in 1816 offered the chance for taxpayers to reassert their constitutional rights.

Many concerns surrounding the involvement of government through the tax centred on the notion of the tax as an inquisition. This was discussed at length in the Chapter 1, and so does not require repetition. However, it is important to note that this fear remained a significant theme of the anti-tax discourse throughout the operation of the second tax. The contemporary pamphlet ‘Resist or Be Ruined!’ referred to: ‘[the tax’\textquotesingle s] inquisitorial and despotic character, totally subversive of constitutional right’,\textsuperscript{163} and argued that ‘[t]he Property Tax must be abolished now, or a state inquisition will be established in England for ever’.\textsuperscript{164} Concerns over the involvement of the government in a taxpayer’s private affairs were also expressed the parliamentary debates: in May 1815, Pascoe Grenfell MP recounted the tale of a Commissioner discussing the private matters of a gentleman ‘whose residence they passed’ while travelling on a train.\textsuperscript{165} This misuse of public power was exactly what taxpayers had feared, and such stories, whether true or not, likely served to stir up significant resentment towards the tax. Hope-Jones has argued that these concerns were compounded by the suspicion that Commissioners were induced to collect as much tax as possible: ‘it was

\textsuperscript{160} As Stebbings put it, ‘The right to private property was highly valued by the Englishman and was prima facie inviolable, but necessarily inherent in it was the power in an individual to consent to parting with his property if he so chose. It was on this basis that taxation of the subject by the executive could be legitimate and not violate this fundamental liberty’: Chantal Stebbings, ‘Consent and Constitutionality in Nineteenth Century English Taxation’ in John Tiley (ed), \textit{Studies in the History of Tax Law}, vol III (Hart Publishing 2009) 313.

\textsuperscript{161} Stebbings argues that taxpayers perceived consent as twofold: first through Parliamentary approval, and second through ‘real consent’: ibid 313-314.

\textsuperscript{162} This ensured that taxpayers were part of the tax process, that they were to some extent taxing themselves, and that therefore their consent to being taxed was implicit’: ibid 314.

\textsuperscript{163} Resist or be Ruined! The Property Tax Must be Abolished Now, Or a State Inquisition Will be Established in England for Ever: the Immediate Resistance of the Whole Nation Shewn to be the Only Means of Averting an Inquisitorial and Perpetual Income Tax, from which Mr. Vansittart Has Declared No Class of Society Will be Exempted: with a Full Account of the Proceedings in London (first printed 1816, London 1872) 4.

\textsuperscript{164} Ibid, title.

\textsuperscript{165} HC Deb 1 May 1815 vol 30 col 1023.
foolish [of the state] to expect the people to trust tax officers who were dependent for the greater part of their salaries upon increasing the amounts contributed by the taxpayer’. In the public mind, the state’s power to examine into personal and financial affairs paved the way for breaches of personal liberty and abuses of bureaucratic power. That the Income Tax Acts had limited these powers by failing to afford tax collectors the power to examine accounts was conveniently ignored.

A closely related concern was that examination of financial affairs via the income tax would lead to their exposure. This complaint was particularly pushed by the commercial sector. For example, an article in The Times in February 1816 described the tax as ‘Rushing into the counting-house, it spreads wide the ledger, and thereby blasts commercial confidence, and chills mercantile speculation.’ However, this complaint had long been doubted by contemporaries: The Times had suggested at the very beginning of the second tax’s operation that these concerns were ‘to a great degree imaginary’. As Avery Jones has described, ‘the information was given to the general commissioners, who took an oath of secrecy, rather than to the world’, and therefore it was unlikely that any person other than the relevant Commissioner would be acquainted with the details of the return. It therefore seems likely that, as during the first tax, the real objection to the tax was less fixed on the method of its collection, and more on the payment of the tax itself. The income tax marked a shift from a system largely based on expenditure taxes, which were easily avoided by commercial entities, to a tax which deprived them of ten per cent of their annual profits. It is therefore unsurprising that the commercial interest utilised all avenues of complaint in its opposition to the tax.

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166 Hope-Jones (n 3) 117.
167 The Times (London, 6 February 1816) 3 col 2.
168 The Times (London, 19 October 1803) 2 col 1.
169 Avery Jones, ‘The Special Commissioners’ (n 62) 47. However, he did note that this was likely different in the City, as the Commissioners were likely to be a taxpayer’s competitors. Despite this, the Commissioners remained sworn to secrecy. Furthermore, there is no actual evidence that potential revelation to competitors impacted negatively on business.
170 See, for example, the Earl of Liverpool’s opinion in the House of Lords that ‘It was singular...that those on whom the tax bore least heavily—he meant the commercial classes—had been the loudest in their opposition to it’: HL Deb 11 May 1815 vol 31 col 243.
Another common complaint in 1816 was the heavy burden of taxation. It was explored in the previous chapter that high taxation was also a factor in the opposition to the tax at the point of its inception in 1799. However, in the seventeen years of the tax’s operation, this burden had only increased.\textsuperscript{171} Gross public income had almost doubled since the imposition of the second tax, from £41.2 million in 1803, to £79.1 million in 1816, with the produce of customs and excise duties increasing from £7.7 million to £14.3 million, and £15.5 million to £29.5 million respectively.\textsuperscript{172} Various taxes on expenditure had also been introduced in an attempt to offset the cost of the Wars, further adding to the overall tax burden.\textsuperscript{173} The effect of the high tax burden was exacerbated by increases in prices and unemployment:\textsuperscript{174} John Atkyns Wright MP argued in March 1816 that ‘many of the inhabitants of Oxford could not pay the tax, without utterly ruining themselves’.\textsuperscript{175} This drove much of the opposition to the tax’s renewal: Sir John Owen described that ‘the great body of the country was completely hostile to the tax, for the best possible reason - if it were renewed; they were quite unable to pay it’.\textsuperscript{176}

Another complaint lodged against the second tax, as it had been against the first, was that it operated inequitably. Despite attempts to address this concern by restricting abatements on income between £50 and £150, the tax continued to operate broadly evenly across all sources of income. This was a significant source of discontent, as contemporaries argued that taxing unearned income on the same basis as earned income did not give adequate consideration to its long-term security, or to the effort required to generate it.\textsuperscript{177} Thus, although on its face the tax was equitable, in operating at a standard rate and allowing abatements to almost all taxpayers, its incidence was not. As Schremmer has put it: “Proportionate ability to pay”

\textsuperscript{171} Daunton has noted that, by 1815, ‘taxation [had] reached 20 per cent of the national income of England’: (n 97) 33.
\textsuperscript{172} Mitchell (n 155) 392.
\textsuperscript{173} See, for example, Tayler’s account that ‘The chancellor of the exchequer at this period also greatly increased the taxation by fresh impositions on hides and skins, an excise duty on glass, an additional duty on the postage of letters, and a new tax upon dogs and gamekeepers; by which it appears that the legislature had not arrived, in that day, at the practical good sense of their successors, in seeing that a moderate, instead of an excessive scale of duties, increases alike the consumption and the revenue of a commercial country’: Tayler (n 138) 60.
\textsuperscript{174} See Mr Dickenson MP’s opinion in Parliament that ‘how, indeed, could the people be supposed so capable of paying taxes now that prices had fallen, as when those prices were high and the country generally prosperous?’ - HC Deb 19 April 1815 vol 30 col 692.
\textsuperscript{175} HC Deb 1 March 1816, vol 32 col 1041.
\textsuperscript{176} Ibid, col 1046.
\textsuperscript{177} For a more detailed discussion of this argument, see Chapter 1, text at note 225, and, with regard to the tax’s reintroduction in 1842, Chapter 5, text at note 14.
need not always be “proportionate to revenue received”’. Although two taxpayers contributing the same amount in tax would appear to be doing so in the same proportion, the differing demands on their income would mean that it was disproportionate in terms of their ability to pay the tax. As Shehab described, affording the same exemptions and abatements to taxpayers irrespective of the source of their income would overlook ‘the hardship which a man with a small and precarious income would undergo when made to pay just as much as another taxpayer with an income of the same amount, but of a secure and permanent nature’. As in the past, this complaint was pushed particularly strongly by commercial taxpayers, who argued that it was inequitable to tax trade to the same extent as from land or fund holdings. The fact that the second tax, like its predecessor, failed to differentiate between income originating from different sources meant that landowners and fundholders were left in a better financial position by the tax than those in receipt of earned income, such as employees, farmers, or businessmen.

Despite the complaints of the commercial interest of inequality in the operation of the tax, it is likely that the preferential treatment of commercial taxpayers also added fuel to complaints of inequity. It has been demonstrated that, although some improvements had been made upon the first tax, the second tax continued to offer concessions to the commercial interest, which meant that the tax remained easy to evade, in particular by doing little to mitigate against under-declaration of income. Given the increasing emphasis on expenditure taxes through the course of the war, and their limited application to businesses, the commercial interest was allowed to escape much of the burden of taxation. Tayler, speaking of the latter half of the Napoleonic Wars, accounts that:

to such an extent was the science of raising taxes carried…[that] it had even been suggested that taxes should be imposed on all articles whatever of dress, as boots, shoes, and leather breeches (then much in fashion), as also on all articles of furniture in houses, as locks, keys, and bells; to such small and insignificant means of raising revenue had political economy descended, whilst the colossal fortunes amassed by capitalists and monopolists, the large revenues of corporate bodies, and the transmission of land, (which ought to have been legitimate objects of taxation,) remained comparatively untouched by its pressure.

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178 Schremmer (n 81) 337.
179 Shehab (n 86) 56.
180 Shehab has noted that ‘This was practically the gist of the petition which the City of London submitted to Parliament’: ibid 62 note 4.
181 Tayler (n 138) 59.
Thus, when considering the tax system as a whole, the commercial community was a chief beneficiary of inequity in the tax system. Much of the anti-income tax discourse at the end of the Wars focused on the plight of farmers, who were acknowledged to be struggling to pay the tax in the face of poor harvests: \(^{182}\) ‘The profits of the farmer…were as easily ascertained as those of a merchant or tradesman, and he saw no reason why he should not have similar advantages with those individuals’. \(^{183}\) In offering preference to some taxpayers over others, the tax therefore compounded to its own unpopularity.

The tax was also disliked by those concerned by over-spending within government. Public expenditure had doubled since 1803, \(^{184}\) and, given the poor economic situation and the personal sacrifices of the British population, it is unsurprising that this was a source of significant discontent. Pensions, sinesures, and interest on the ever-increasing national debt were all perceived as being funded by oppressive taxes on ordinary taxpayers, \(^{185}\) and, according to Halévy, it would have appeared that: ‘every year more than half the income of the nation was taken from the working classes and given to idle fundholders and to civil or military officials’. \(^{186}\) This discontent led to popular attacks on what has been termed ‘Old Corruption’, which centred on the rhetoric that the British government was corrupt and fiscally improvident, with the effect that policy was enacted with only the interests of the decision-maker’s political benefactors in mind. \(^{187}\) The general public were becoming increasingly aware of the spending malpractices of the state, and this resulted in, as Harling

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182 The argument ran that the income of farmers, which fell under Schedule A, was unduly impacted by the tax, as returns were based on the gross rental paid to the landowner, and not net profits or income as in other schedules. Thus, ‘the duties pressed unevenly on different sections of the people; particularly that they were unfair to the landowner and farmer, as compared with the merchant, manufacturer or trader’: Hope-Jones (n 3) 117. This inequity was recognised in the 1842 Act, and the rate was reduced.

183 Mr Dickenson MP, HC Deb 5 May 1815 vol 31 col 160.

184 From £54.8 million in 1803, to £112.9 million in 1815: Mitchell (n 155) 396.

185 Interest payments were particularly disliked, and this was only exacerbated by complaints that the burden of the income tax on the fundholders receiving these payments was much less than to those who possessed earned income: Halévy has pointed out that: ‘Both spectators and fundholders were abhorred by the public. They were said to have prolonged the war so that their activities might be given a wider field by the increase of the National Debt’: Elie Halévy, A History of The English People in the Nineteenth Century: Vol I, England in 1815 (2nd edn, Ernest Benn Ltd 1949) 361.

186 Ibid, 382.

187 See W D Rubinstein, Elites and the Wealthy in Modern British History (Essays in Social and Economic History, The Harvester Press 1987) 281. It will be explored in Chapter 3 that these concerns over corruption and wastefulness resulted in significant efforts in the way of retrenchment in government expenditure over the 1820s and 1830s.
has argued, a ‘broadened…gap between elite and popular political culture’.¹⁸⁸ This led to expressions of concern over the integrity of government: in April 1815, George Tierney MP asked of his political peers ‘Could any man who had read the papers recently published in a public journal… say, that the Ministers deserved blind confidence?’¹⁸⁹ It is therefore unsurprising that this hostility extended to the income tax, perceived as the instrument by which the excesses of government could be funded.¹⁹⁰ Pascoe Grenfell MP posited that ‘if proper retrenchments were made in every department of government, particularly in the military department, it would be quite unnecessary to continue that odious burthen, the property tax’.¹⁹¹ Grievances surrounding the income tax were compounded by disaffection towards the government’s fiscal and administrative practices more widely. Repeal of the income tax therefore promised an opportunity to force a change to the old order.

Evidence of opposition to the tax

At the point of its repeal in 1816, it appears that the income tax was significantly unpopular on a number of grounds. According to many historians, this unpopularity was an important driver behind the repeal of the tax in 1816. Sabine has argued that popular attitudes to the tax throughout its operation are best characterised by ‘general, if somewhat reluctant, acceptance’.¹⁹² However, once the end of the war was anticipated, this provided an important opportunity for the repeal of the tax to be secured, especially given the government’s promise that the tax would be limited to wartime. Thus, Sabine argues, ‘when the war was over, it was understandable that the Government should be subject to the strongest pressure to redeem an implied promise’.¹⁹³ This pressure manifested itself in campaigns for the tax’s repeal, both prior to the end of the war in 1815, and in the face of Vansittart’s proposal to continue the tax in 1816. An anonymous pamphlet published later in the century described the position in

¹⁸⁹ HC Deb 19 April 1815 vol 30 col 684.
¹⁹⁰ Daunton (n 97) 45. See Tierney’s argument in Parliament in April 1815 that ‘they should try economy as the first thing, and the Property-tax only as the second thing’ (ibid col 685).
¹⁹¹ Opinion of Pascoe Grenfell MP, HC Deb 1 March 1816, vol 32 col 1042. See further the opinion of Henry Martin MP that ‘If a strict and regular economy had been introduced into every branch of the public expenditure, this shocking scourge might have been avoided’: ibid col 690.
¹⁹² Sabine (n 11) 39-40.
¹⁹³ Ibid 42.
1816: ‘All thought was now directed to this tax…[which] had excited the most intense hostility, and filled the minds of the middle classes with suspicion, duplicity, and revenge’. Tayler has argued that this opposition was ‘overwhelming; and the popular voice against it became so determined and unequivocal…’ Historians have relied upon this opposition in explaining the tax’s repeal: the strength of resistance to the tax, the argument runs, was too strong for Parliament to resist. This interpretation will now be considered, and it will be argued that, as at all other points during the tax’s early development, the commercial interest lay at the heart of this opposition.

The tax’s ability to inspire social turbulence had been proven on several occasions during the later years of its operation: a notable example was documented in The Times, reporting an incident in St Ives, Huntingdonshire, which accounted that, when notified of the prospect of a rise in income tax, a group of 800 men stormed ‘into the Commissioners’-room, seized the Inspector, and forced him out through the glass window into the yard, by which he was considerably cut and bruised’. However, once its continuation past the end of the war was anticipated, opposition moved from small-scale skirmishes and complaints in newspapers, to organised protest. The vehemence of this protest is evident in much of the contemporary literature and parliamentary debates. Large numbers of petitions were presented from all areas of the country, complaining that the tax was ‘in its principle unjust’, and ‘most hateful to the people of the country’. The tax was denounced as ‘a mischievous, wicked, and immoral tax [which] was utterly at variance with civil liberty’. The intention of the British public to oppose the tax’s continuation to the bitter end was clear, and this proved pivotal to the decision of parliamentary representatives to reject the tax.

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185 Tayler (n 138) 71.
186 See, for example, Hope-Jones’s description that ‘Parliament, partly bowing before the storm of protest, partly carried along with it, was to force the Ministry to smash the tax’: (n 3) 121.
187 The Times (London, 23 December 1814) 3 col 2.
188 For further details, see a number of parliamentary debates around the beginning of March 1816. See also Seligman’s description of petitions ‘pour[ing] in by the thousands’: Seligman (n 3) 112. Shehab suggests that there were over 400 petitions: (n 86) 61.
189 Opinion of Sir Francis Burdett MP, HC Deb 19 April 1815 vol 30 col 681. It is worth noting that some petitions were presented in 1815, after Napoleon’s exile to Elba, whereupon it was believed that the war was over. However, the recommencement of war resulted in the dismissal of these on the grounds of necessity. After the true end to the war in November 1815, opposition to the tax raised its head once more, with the result of another round of petitions.
190 Opinion of Mr Tierney, ibid col 683.
191 Mr Coke MP, HC Deb 1 March 1816, vol 32 col 1047.
Given the great involvement of the commercial community in opposition to the tax in the past, it is unsurprising that the commercial interest played a leading role in the events of 1816. It was argued above that, likely owing to the difficulties posed by the war and the inadvisability of being seen to be unpatriotic, commercial parties had stopped short of actively opposing the tax in 1803. However, the end of the war marked the end of that justification, and once again commercial opinion became to a great extent united against the tax.\textsuperscript{202} Anti-income tax petitions signed by ‘merchants, bankers, and traders of the City of London’ were presented in both 1815 and 1816,\textsuperscript{203} the latter attracting over 22,000 signatures.\textsuperscript{204} The scale of this opposition was unprecedented, with Sir Francis Burdett remarking in 1815 that petitions witnessed that year ‘had been more numerous than those which had been presented on any other occasion’.\textsuperscript{205} The petitions denounced the tax as ‘[a] galling, oppressive, and hateful inquisition’,\textsuperscript{206} and opinion on the matter appeared almost unanimous. Sir William Curtis noting that a counter-petition to the City petition garnered just twenty-seven names:\textsuperscript{207} the merchants ‘spoke the sense of the city’,\textsuperscript{208} and that sense was overwhelmingly for repeal. Faced with this determined opposition from the influential commercial interest, it is probable that this further contributed to political unwillingness to sanction the tax’s renewal.

\textbf{4.2 Shehab’s argument}

The interpretation that the repeal of the tax can be accounted for by a significant force of public opposition to it is undoubtedly based on strong evidence, and was likely an important factor in the tax’s demise. However, this interpretation has been challenged by some commentators, in particular by Shehab. He has argued that the notion that the tax was brought

\textsuperscript{202} See Seligman’s point that the end of the war ‘seemed a golden opportunity to the business classes’: (n 3) 110.
\textsuperscript{203} See HC Deb 01 May 1815 vol 30 cols 1002–14, and HC Deb 18 March 1816 vol 33 cols 391–455 respectively.
\textsuperscript{204} HC Deb 18 March 1816 vol 33 col 407.
\textsuperscript{205} HC Deb 19 April 1815 vol 30 col 682.
\textsuperscript{206} HC Deb 01 May 1815 vol 30 col 1010.
\textsuperscript{207} HC Deb 18 March 1816 vol 33 col 410. See also Sir James Shaw’s assertion that, at the City meeting to put forward the petition, ‘With the exception of one solitary hand, which was held up against the petition, the most perfect unanimity prevailed’: col 411.
\textsuperscript{208} Opinion of Mr Baring, HC Deb 1 March 1816 vol 32 col 413.
about by a ‘popular movement based on a genuine aversion for the tax’ is incorrect. There are two central themes to his argument. First, he contends that the opposition was artificially inflated by Whig attempts to incite hostility, which were permitted to succeed by the weakness of the government at the time. Second, he submits that the extent of the public opposition to the tax has subsequently been exaggerated, and that in particular the importance of the City petition has been overstated.

The role of weak government

The first aspect of Shehab’s argument begins with the idea that Whig politicians took advantage of the difficult immediate post-war situation, as a ‘favourable opportunity to challenge the Government’. The government’s unpopular proposition to retain the income tax provided an ideal opportunity to present this challenge, as part of the party’s support for retrenchment. Thus, the Whigs launched a campaign in favour of the tax’s repeal, which manifested both in and out of Parliament. This has also been noted by Seligman, who argued that the Whigs ‘fomented…[the agitation] in every conceivable way.’ He accounts their delaying tactics in Parliament, in producing lengthy speeches and insisting on prolonged debate, as ‘for the longer the decision could be postponed, the greater the chances of their fanning the flames of discontent’. In the meantime, Whig politicians organised and attended several meetings against the tax: Shehab argues that this owed less to a genuine dislike for the tax, and more to the notion that the government ‘wanted beating on something or other’. On this view, then, public opposition to the tax was not the only explanation for the tax’s repeal: it was empowered by the efforts of the Whigs, who were ‘busily fomenting the agitation at a time, and among a public, particularly suitable for the purpose’.

However, both Shehab and Seligman argue that the Whig efforts were unlikely to have been effective without the poor response from the government. Shehab argues that, in

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209 Shehab (n 86) 60-1.
210 Ibid 61-2.
211 Seligman (n 3) 111.
212 Ibid 112.
213 Shehab (n 86) 66.
214 Ibid 62.
the face of Whig attempts to incite opposition, the government made two key mistakes. First, they acquiesced to attempts to delay the progress of the Bill by granting more time to debate it. This allowed the opposition more time to whip up hostility to it both in and out of Parliament. Second, the government ‘made no effort to counter-attack’ the Whig arguments. As Seligman has described, instead of making a coherent effort to justify the tax to the public, the government:

contended that all this agitation was being artificially engendered by the opposition; that in reality the country was not opposed to the tax; that they were not guilty of betrayal of promise, since every parliament had a perfect right to continue any tax it saw fit. Above all, they maintained that the excitement was due to machinations of a few wealthy individuals who desired to escape their fair share of taxation.

The Government’s failure to go on the front foot allowed anti-tax rhetoric to take hold, and failed to combat the increasingly hostile narrative put forward at meetings and petitions against the tax, and subsequently reported in the press. This significantly undermined the government’s case for the tax’s reintroduction: Whig politician Henry Brougham argued in his memoirs that the government’s failure to challenge the opposition ‘damaged them in the House and in the Country and encouraged to an extraordinary degree the petitions’. In light of this, it seems that the repeal of the tax cannot be accounted for by public hostility towards the tax alone: some credit must also be given to both the tactics of the political opposition, and the government’s ineffectual response.

Overstated opposition to the tax

The argument that there was a political dimension to the tax’s repeal is valuable, and sheds important light on why the opposition to the tax in 1816 reached fever pitch. However, Shehab takes this interpretation further, in also suggesting that the extent of the opposition may have been exaggerated. In support of this argument, Shehab focuses mainly on the great City petition, which, as noted above, attracted over 22,000 signatures. This is problematic.

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215 See ibid 63.
216 Ibid.
217 Seligman (n 3) 112.
218 Lord Henry Brougham, The Life and Times of Henry Lord Brougham (Edinburgh 1871), vol II 312.
219 See Seligman’s contention that the repeal of the tax was ‘in reality only a victory of parliamentary strategy’: Seligman (n 3) 114.
even at the outset, as by Shehab’s own admission there were over 400 petitions received by Parliament, and the vast majority were in favour of the tax’s repeal, yet his analysis only extends to the City petition. As Shehab points out, the petition was destroyed, and so there is no way to identify its signatories. However, he uses several key pieces of evidence to undermine the notion that it was demonstrative of ‘genuinely convinced opponents of the Government’s measure’, suggesting that ‘[although] hostility towards the tax existed…that hostility has been greatly exaggerated’. First, he argues that the account of the *Annual Register* that the petition contained 22,000 signatures ‘does not inspire confidence’. In this regard he relies on Brougham’s memoirs, which states that the City petition attracted 12,000 signatures. However, the figure of 22,000 is recorded in Hansard at the point that the petition was presented in Parliament. This figure was then repeated by several MPs in the subsequent debates. On balance it is probably more likely that the figure of 22,000 is correct and that Brougham’s reference to a figure of 12,000 was a mistake, mis-recollection or a transcription error.

Shehab also uses income tax returns to undermine the idea that there were 22,000 taxpayers in the City of London who could have put their name to the petition. Supported by the 1812 tax returns, he argues that the total number of Schedule D taxpayers in the country stood at 152,927. He discounts 117,306 of those taxpayers as they enjoyed abatements, owing to their income falling under £150 per annum. The remainder he divides into two groups: first, 31,929 ‘middle-class business men’ with income between £150 and £1,000; and 3,692 ‘top-rank business men’ with income over £1,000. Thus, in Shehab’s words:

Bearing in mind that these returns were for the whole country, it seems very difficult to see how the City of London alone could be said to have accounted for twenty-two

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220 Shehab (n 86) 61.
221 Ibid 66.
222 Ibid 69.
223 Ibid 64.
224 HC Deb 18 March 1816 vol 33 col 409.
225 Shehab (n 86) 64-5.
226 This figure has been reached by deducting the number of taxpayers with income under the exemption threshold given by Shehab (100,760), from the overall number of assessments that he provides (253,687).
227 Shehab (n 86) 65.
thousand income-tax payers “among whom were many persons of the first property and character”.

There are several arguments that can be levelled against this interpretation, which will now be developed.

First, the petition originated from a meeting held in the City, which many sources state to have been very well attended. For instance, William Curtis, the MP presenting the petition, suggested that ‘a more numerous and respectable nature never had met in the city of London’. Furthermore, James Shaw MP, who claimed to have attended the meeting, noted that ‘On no occasion did he ever see a greater number of persons, of elevated character and large property, assembled together’. Neither of these MPs were Whigs, and it therefore seems unlikely that they would have misrepresented the truth to artificially inflate the perceived opposition.

Second, Shehab’s argument that there were less than 4,000 ‘top rank business men’, and that therefore the petition cannot have been signed by ‘twenty-two thousand income-tax payers “among whom were many persons of the first property and character”’, can also be contested. Upon further examination, the wording of the Annual Register’s account does not intimate that many of the 22,000 were top-level businessmen, as Shehab implies. Instead, it is worded as ‘among [the 22,000]…were many’ such men. This is subtly different. For instance, 3,000 top-level businessmen could not be said to account for many of the 22,000. However, 3,000 such men can be described as ‘many’, irrespective of the total number of signatories. Thus, it is likely that the account given in the Annual Register was intended merely to suggest that there were ‘many’ top-level businessmen amongst the signatories, and not that these

228 Ibid. The suggestion that the signatories had been ‘many persons of the first property and character’ was made in The Annual Register, or a View of the History, Politics, and Literature, for the Year 1816 (London 1817) 24 col 2.
229 HC Deb 18 March 1816 vol 33 col 408.
230 Ibid col 411.
signatories accounted for ‘many’ of the total. Furthermore, the fact that not all, or even the majority, of signatories were top-level businessmen does not mean that the petition cannot be taken as indicative of strong opposition to the tax from such parties. William Curtis suggested that ‘if the House were to examine the list of names, they would find many among them who had rallied round government in the most difficult crisis’, suggesting that significant support for the tax’s repeal came from wealthy and influential commercial men. Moreover, it was stated that a counter-petition to the tax attracted only 27 signatures, and that, at the meeting that preceded it: ‘[w]ith the exception of one solitary hand, which was held up against the petition, the most perfect unanimity prevailed’. The absence of support for the tax suggests that the feeling amongst all levels of businessmen, including the wealthiest, was significantly in favour of repeal of the tax. Therefore, whether there were 22,000, 3,000, or even 1,000 ‘top-level business men’ amongst the signatories, it remains indicative of overwhelming opposition to the tax from the wealthy business interests of the City of London.

Furthermore, the notion that not all 22,000 signatures came from top-level business interests does not necessarily suggest that many of the signatories were not genuine opponents to the tax, as Shehab implies. It was noted above that Shehab excluded many taxpayers from his analysis on the grounds that they did not pay the full rate of the tax, or that they were ‘middle-class business men’ with annual income of under £1,000. However, the fact that signatures may have come from men among these two classes does not undermine the idea that there was a significant wealth of support for the tax’s repeal, which proved persuasive to government. Furthermore, although Shehab relies on tax returns under

232 James Shaw MP, HC Deb 18 March 1816 vol 33 col 411.
233 After attempting to cast doubt on the number of ‘top-level’ signatories to the City petition, Shehab bolsters this with discussion of a petition against the tax from Glasgow. The politician who presented this petition, Kirkman Finlay, suggested that ‘many of [the signatories] were not directly liable [to the tax]’, suggesting that it was not signed by taxpayers in genuine opposition to the tax: Shehab (n 86) 66. Thus, Shehab argues, doubt may be cast as to ‘how many of the petitions which were submitted against the tax were signed by genuinely convinced opponents of the Government’s measure’.
234 Indeed, one of the major attractions of petitioning Parliament was that, unlike voting, it was open to all: see Richard Huzzey and Henry Miller, ‘Petitions, Parliament and Political Culture: Petitioning the House of Commons, 1780–1918’ (2020) Past and Present (forthcoming) at 4-5. Moreover, some of the signatories to the petition may not have been ‘business men’ of any kind: the period witnessed the increasing use of petitioning by women as a method of exerting political pressure: see Huzzey and Miller’s point that ‘petitions and petitioning were critical in enabling women’s political agency during a period in which they were “borderline citizens” in a gendered polity’: at 5. Thus, simply because the signatories may not have been powerful commercial men does not suggest that the petition was not a powerful indictment of popular hostility towards the tax, nor that the signatories were not genuine opponents.
Schedule D, this did not account for the entirety of taxpayers of the City. One MP described that the petition was ‘not merely signed by those who were their constituents, but by several thousand respectable persons, who were residents in the metropolis’. Moreover, the petition was styled as being representative of the ‘Merchants, Bankers, and Traders of the City of London’, suggesting that it likely also contained signatures from ‘monied interests’, who would have paid tax under Schedule C rather than Schedule D. Given London’s status at the time as the heart of the financial world, there were a significant number of fundholders in the metropolis who may have signed the petition. Thus, even if Shehab is correct in suggesting that the 22,000 signatures cannot be entirely accounted for by businessmen in the strict sense, it does not mean to suggest that they therefore did not arise from taxpayers in genuine opposition to the tax. According to the City’s tax returns of 1814, there were 35,822 income tax payers. It is certainly possible that the taxpayers of the City of London accounted for the 22,000 signatures on the petition.

4.3 Reconciling these approaches: the influence of the commercial interest

Shehab’s argument that the scale of opposition to the tax has been ‘greatly exaggerated’ by the City petition is therefore unpersuasive. However, neither does this necessarily mean that opposition to the tax was unanimous. Shehab gives the example of two petitions, from Glasgow and Edinburgh, in favour of the temporary retention of the tax. These petitions were not the only examples of sentiments in favour of the tax: for instance, a petition was presented from the city of Sheffield in which ‘[t]he petitioners stated, that they believed the renewal of the property tax to be the best measure that could be resorted to, under all the

235 HC Deb 18 March 1816 vol 33 col 417.
236 See, for example, William Smith MP’s argument that ‘if the sentiments of the monied interest, in general, were not to be collected from the subscribers to the city petition, he was really at a loss to know where they were to be looked for’: ibid.
238 Account of Number of Assessments to Income Tax in City of London, and Number of Surcharges and Appeals, 1814-15, HCSP 1816 (88) xiv 93.
239 Shehab (n 86) 65.
circumstances of the country...' The decision to support the tax, at least for the petitioners of Sheffield, came from the understanding that without the income tax, the government would once again resort to regressive expenditure taxes. Furthermore, support for the tax was also found in some of the literature at the time. Seligman has argued that 'There were not wanting, indeed, able and far-sighted men, both in and out of parliament, who contended that it would be a serious mistake to destroy the system that had been so laboriously built up'. Shehab cites the example of the politician Richard Preston and the economist Robert Torrens, both of whom published extensively in support of the tax’s retention. He therefore argues that there was a significant body of support for the tax, and as such, ‘the thirty-seven votes which beat the Government did not represent an 'almost universal' feeling against the income tax as previous writers have often assumed to exist in 1816.

Although it is true that there was some support for the retention of the tax, this was undoubtedly in the minority. It was considered above that there was an overwhelming wealth of opposition to Vansittart’s proposal to continue the tax: hundreds of petitions were submitted to Parliament over the course of eighteen days, each stemming from anti-income tax meetings held across the country. On the day of the tax’s rejection alone, 18 March 1816, Hansard accounts that:

Petitions respecting the Property Tax were presented from Guildford, Callington, Aberdeen, Godalming, Worcester, Thornbury, Lanark, Hungerford, Stafford, St. Alban's, Plomesgate, Pontesbury, Coningsby, the county of Kent, Rochester, Chatham, Henley-upon-Thames, the county of Sussex, Southampton, the county of Berks, Newbury, Kircudbright, Market-Deeping, Louth, Spilsby, county of Lincoln, Sheffield, Morpeth, county of York, county of Perth, and from the merchants and traders of the metropolis.

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240 See record of this in Hansard: HC Deb 18 March 1816 vol 33 col 399.
241 This argument is also evident in some of the contemporary literature: ‘what is not paid in Income Tax will be paid in some other tax’: Cobbett’s Weekly Political Register (London, 10 February 1816) 170 col 2.
242 Seligman (n 3) 107.
243 Shehab (n 86) 67-8. See, for example, Richard Preston, A Review of the Present Ruined Condition of the Landed and Agricultural Interests (London 1816); R Torrens, A Letter to the Right Honorable The Earl of Liverpool, on the State of the Agriculture of the United Kingdom, and on the Means of Relieving the Present Distress of the Farmer, and of Securing Him Against The Recurrence of Similar Embarrassment (London 1816).
244 Shehab, ibid 68. See also Seligman’s statement that: ‘so slight a majority, attained in such a way, in favor of the repeal of the tax, did not really represent the well-considered opinion of the great mass of the public’: (n 3) 113.
245 HC Deb 18 March 1816 vol 33 col 391.
The vast majority of these petitions were in favour of the tax’s repeal, and one newspaper declared it to be a lesson to government that ‘they cannot carry any measure they please, against the common sense, faith, and feeling of the people of England!’ However, the existence of support for the continuation of the tax, combined with, as Shehab and Seligman have pointed out, the fact that opposition was likely exacerbated by the Whigs’ political agenda, does add an important new dimension to the picture of the tax’s repeal. It therefore cannot be said that the tax was repealed as a result of strong public opposition to the tax alone. However, neither can it be suggested that hostility was ‘greatly exaggerated’, and that therefore public opposition to the tax was disingenuous, as suggested by Shehab.

Instead, an alternative argument can be presented: that public opposition, although not unanimous, was rendered especially compelling to politicians on the grounds that it came from the country’s most influential interests. It has been demonstrated throughout Part I that the tax’s development was met at all points by opposition from the commercial sector, and that only the wartime imperative, and the ease of evasion, had induced them to bear it. Furthermore, it was argued above that opposition to the tax in 1816, as in 1802, was dominated by commercial players in the City of London, who appeared almost unanimous in their quest for the tax’s repeal now that the justification for its existence had disappeared. Thus, as Robert Waithman argued before the Court of Common Council:

> It was a proud satisfaction to reflect that the voice of the people had at last been heard in the House of Commons, and that this Court had set the example, which had been followed by the whole country, of petitioning parliament against this inquisitorial measure.

It seems that the country’s commercial interest was once again a crucial and powerful force in the opposition to the tax. It was argued in Chapter 1 that the commercial interest, centred on the City of London, exerted significant indirect power over politicians, and provided vital support in furthering the country’s financial and political objectives. Furthermore, they also possessed considerable influence over public opinion, having spearheaded opposition to the tax in the past. Even despite the financial benefits of retaining the income tax, the persuasive influence of the commercial sector was too strong a force for the government to withstand in

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246 *Examiner* (London, 24 March 1816) 1 col 2.

247 As reported in *The Times* (London, 23 March 1816) 3 col 4.
As Halévy has argued, Parliament: ‘would have been most unwise…to arouse the enmity of the business world by maintaining this tax’. Perhaps a better description of the situation would therefore be that, in ultimately rejecting the tax, politicians were less persuaded by the extent of opposition to the tax, and more by the strength of the interests that drove it. It is therefore argued that the opposition of the commercial community, especially that of powerful commercial players in the City, was critical to the repeal of the income tax.

V. CONCLUSION

Histories of the second income tax have painted a picture of a financially successful tax, driven both into and from existence by the financial necessity of war. However, this chapter has instead argued that its development was also driven by a powerful commercial interest. Although the reintroduction of a tax so decisively rejected the previous year may have been prompted by wartime necessity, its reinstatement likely was able to take place only as a result of pragmatic acquiescence on the part of the country’s commercial community. The chapter has also demonstrated that, owing to continued concessions afforded to commercial taxpayers, the tax remained challenged by the same issue of commercial evasion that had plagued its predecessor. This held important implications for the tax yield, as although reforms meant that commercial contributions increased in absolute terms, they still accounted for an unduly small proportion of the overall yield. Finally, it was also argued that the commercial interest played a crucial role in the tax’s repeal in 1816. The fact that powerful players in the City of London put forward strong opposition to the tax likely amounted to significant pressure on Parliament to reject the tax, despite its financial utility. This

248 See Hope-Jones’s point that ‘There was so much concentrated wealth and influence in the City that the opposition to the Income Tax could not be crushed as it would have been elsewhere’: (n 3) 134.
249 Halévy (n 185) 375. See also a pamphlet published anonymously later in the century, which attributed the 1816 repeal of the tax to ‘…the great pressure exercised by the professional and trading community’ (The Income Tax: A Review of its History ((n 194) 9), and Hope-Jones’s argument that: ‘it was the great City petition to abolish the tax that definitely weighted the scale against the Government’ – ibid 55.
250 It is worth noting that, although this thesis has presented circumstantial evidence to support this hypothesis, it cannot be ‘proved’. Further testing could be undertaken to add weight to this assertion, for instance by examining of the personal records of individual politicians to ascertain the drivers that lay behind decision-making. Nevertheless, it would likely remain very difficult, if not impossible, to speak to the general motivations of politicians at the time, or indeed to the attitudes of all commercial players in the City of London.
contributes to the overall conclusion: that the development of the second tax, like the first tax before it, was underpinned at all points by a trend of commercial influence.

Part I of this thesis has examined the early years of the income tax, from its introduction in 1799 up to its decisive repeal in 1816. Existing histories of the income tax have attributed its early development primarily to the wars throughout the period, giving rise to a narrative that military expenditure was the major driver behind the evolution of the tax. Part I has challenged that interpretation by highlighting another factor: the relationship between the tax and a powerful commercial interest. It has been argued that commercial influence pervaded the tax at each stage of its development, and this can be evidenced in two central ways. First, commercial influence over policymaking resulted in a generous system of taxation which in turn allowed for significant evasion to take place, undermining the financial effectiveness of the tax. Second, the commercial interest also launched significant opposition to the tax, and by 1816 could claim responsibility for forcing the tax from the fiscal scene on two separate occasions. Thus, two particular themes running through the early experience of the tax can be identified: commercial influence over tax policymaking, and powerful commercial opposition to the tax. The commercial interest therefore represented two key barriers to the tax’s development which influenced its movement during the early years of the century. This supports the conclusion that the early development of the income tax was determined not only by war, but also by the relationship that it had with the commercial interest.
PART II: THE INCOME TAX OF 1842

The next three chapters consider the enactment and reception of the 1842 Income Tax Act. In particular, they will draw out the significance of the commercial interest in the development of tax policy. By revealing gaps in the received history of the tax and drawing out the importance of key social and financial changes in the aftermath of the Wars, the chapters propose a new understanding of Peel’s success in imposing an income tax on the British people.

The Income Tax Act of 1842 was tabled in the spring of the 1842 session of Parliament. It was proposed by Prime Minister Peel on 11 March 1842, and was given Royal Assent three months later, on 22 June. The tax that it imposed was in most respects indistinguishable from the tax that had been repealed in 1816, with key features such as the schedular structure and deduction at source retained. Thus, to some extent the tax simply picked up where it had left off. However, there were some key modifications. Dowell has identified three particularly important changes: the first was the raising of the exemption limit to from £50 to £150, so as to lay the tax only on the indisputably wealthy. Furthermore, the tax was not imposed in Ireland, reflecting the difficulty of assessment due to a lack of administrative infrastructure there, and instead a duty on spirits was imposed. The process of attributing an estimated profit to farmers was also changed to better reflect the costs of running a farm, and the precarity of their situation given their reliance on the harvest. However, perhaps the most notable feature of the Act for the purposes of this thesis was a return to the old policy of secrecy in commercial assessment. So as to ‘prevent the necessity of any disclosure of a man’s circumstances to his neighbours the ordinary commissioners for the district’, a

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1 The Income Tax Act 1842 (5&6 Vict c 35).
4 Ibid.
method of declaration to so-called Secret Commissioners was put in place, designed specifically to deal with commercial contributions.

Clearly, there is little to separate the 1842 Act from its failed predecessor. How Peel managed to successfully pass the Act (and not have it repealed) is the question to which most tax historians of the nineteenth century have directed their attention. The prevailing explanation given by these historians reflects the rhetoric Peel himself used to promote the tax. That is, that there was no other viable alternative to rescue Britain from its dire economic straits, and so Parliament capitulated to the government despite continued opposition. Most historians seem to accept this explanation with little critical analysis. Indeed, Britain was in dire financial straits, and the tax was a good solution, so their acceptance of this position is understandable. However, as this Part will demonstrate, on closer examination this explanation cannot on its own account for such a profound change in the political and social climate of the day.

The overarching thesis put forward in these three chapters is that the commercial interest continued to drive income tax policy. In putting forward this argument, Chapter 3 will first closely examine and contest the received history of the tax that closely parallels the rhetoric used by Peel to promote the tax. Broadly, these arguments are that the tax was a financial necessity and would serve additionally to promote social and political stability in the aftermath of war. However, the chapter will show that neither of these ‘imperatives’ necessitated the tax and cannot explain the political will to implement it, nor the public’s willingness to accept it.

Chapters 4 and 5 will then propose that this gap in the existing histories can be remedied by another interpretation: that, owing to a complex and interdependent confluence of developments in the political and social landscapes in the years leading up to 1842, the climate for the tax’s reception had become more receptive to its reinstatement. In particular, these changes had eroded the two longstanding barriers to the tax’s development that were identified in Part I, which had proved so detrimental to the tax’s fortunes earlier in the century: commercial influence over tax policymaking, and commercial hostility to the tax.
Thus, although the general climate was more receptive to the tax, it was the changed commercial climate which proved key to the tax’s successful reinstatement. The chapters therefore argue that in order to understand the movement of income tax policy in 1842, we must once again consider the relationship that the tax had with the country’s commercial interest.

Chapter 4 will argue that the political environment was more conducive to the tax’s reintroduction than it had been earlier in the century. In support of this conclusion, it will examine evolutions in politics and intellectual theory, alongside the nature of political decision-making, and will propose that these changes made the political task of getting the tax through Parliament significantly easier. It will argue that each of these developments had an important commercial dimension, which once again stresses the importance of the commercial interest in fully historicising the development of the income tax. In particular, a key factor in this changed political environment may have stemmed from fundamental changes in the nature of the commercial sector over the period. Increasing diversity in the commercial community arising from the ongoing process of industrialisation served to fragment the influence of the commercial interest, diminishing the power of the commercial influence over tax policymaking. This therefore eroded the first of the longstanding barriers to the tax’s development.

Chapter 5 will then argue that the wider social climate had also become more receptive to an income tax. It will debunk the accepted view that the populace was bitterly opposed to the tax, instead proposing that the reception the public gave to the tax in 1842 was less heated than in the past. It will be suggested that there was a particular mitigation in commercial hostility to the tax, with little evidence of organised opposition to the tax being launched by the commercial interest. This is in stark contrast to the experience of the earlier income taxes. This trend, it is submitted, arose from developments in the administrative, economic and social spheres, each of which reduced opposition to the tax. It will be established that each of these changes featured a strong commercial dimension, which explains the particularly noticeable mitigation in commercial dislike for the tax. In particular, the popular perception that the tax was the price of a move towards an economic system of free trade was likely a significant factor in softening the commercial response to the tax’s reinstatement. Although
commercial opinion towards the tax cannot be described as favourable, the country’s commercial interest was probably more willing to accept the tax in 1842 as a result of the societal changes witnessed since 1816. This to some extent removed the second longstanding barrier to the tax’s development: commercial opposition. This supports the argument underpinning this thesis: that, in order to fully understand the development of income tax policy over the first half of the nineteenth century, the role of the commercial interest at all points must be acknowledged.
CHAPTER 3: CHALLENGING THE RECEIVED VIEW

I. INTRODUCTION

The reinstatement of the income tax in 1842 was framed by those introducing it as a necessary evil. Peel stated at the outset that it would only operate ‘for a time to be limited’,¹ and the Duke of Wellington promised that its ‘odious nature…will not be continued one moment longer than is absolutely necessary’.² This attitude from its proponents is surprising,³ and begs an important question: what prompted the government to adopt such a controversial measure, especially after its overwhelming rejection by the public in 1816? The factors which lay behind this decision have been explored at length, and feature heavily in many histories of tax.⁴ From this, a narrative has emerged which emphasises the financial necessity of the tax, given the difficult economic backdrop at the time. This has been built upon by other commentators, especially Daunton, who has argued that the tax also offered political benefits to government, in particular by providing the opportunity to demonstrate fiscal responsibility, thereby promoting trust in the state. This chapter will consider these two themes, and will conclude that together they paint a comprehensive picture of the government’s motivation in introducing the tax. However, it will be argued that the existing narrative fails to explain why the government was able to reintroduce the tax. It was considered in Part I that the early

¹ Three years in the first instance: HC Deb 11 March 1842 vol 61 col 444.
³ As Monroe has remarked,’If the income tax had such friends as this, it scarcely needed enemies’: ibid 20-21.
income taxes came up against significant political and social barriers, which impeded their development and ultimately led to repeal once the impetus of war had disappeared. Thus, an account of Peel’s government’s motivations alone cannot account for why these barriers did not prove fatal to the tax’s reintroduction in peacetime in 1842.

In putting forward this argument, the chapter will first turn to consider the argument common to many histories of tax: that the tax was necessary to set Britain’s finances on an even footing. By way of context, it will consider the financial and economic difficulty witnessed in the post-war period, alongside the measures taken by way of tax reform and retrenchment of government expenditure throughout the 1820s and 1830s. It will explore the initial success and ultimate failure of these measures, alongside the state of the country’s financial affairs at the point of Peel’s rise to power in 1841, in order to assess the financial case for the income tax in 1842. It will then be argued that, although undoubtedly a strong motivating factor, the financial imperative for the tax stops short of explaining why it was the income tax in particular to which the government chose, and was able, to turn.

The chapter will then move to consider the socio-political imperative for the reinstatement of the tax. First, it will explore the major social changes witnessed over the twenty-six year interval between the tax’s previous repeal and its reintroduction in 1842, in order both to provide a foundation for the analysis of the social and political climate for the tax’s reception, which will be undertaken over the course of Chapters 4 and 5, and to situate the argument of a socio-political imperative for the tax’s reinstatement in its full context. It will be seen that changes in the social fabric, alongside growing discontent amongst the population, led to the emergence of a threat to the government’s political position. The chapter will then move to explore Daunton’s argument that this concern prompted the government to adopt the income tax in order to demonstrate its legitimacy, which would have the effect of re-establishing trust in the state.5 This argument will then be evaluated, and it will be submitted that, although adding a valuable dimension to the picture surrounding the government’s motives in reintroducing the tax, it fails to explain why the tax was able to pass through Parliament, or why its repeal was not forced by public opposition, as it had been in

5 Daunton, ibid.
the past. This will lead to the conclusion that existing explanations for the tax’s reinstatement are sufficient only to explain the incentive of the government to accept it. Thus, the question of why Peel was able to overcome the longstanding barriers to the tax’s instatement remain unanswered.

II. THE FINANCIAL IMPERATIVE

The explanation most common to existing histories is that of financial necessity. The financial situation inherited by Peel in 1841 was indeed dire, seemingly more so than at any point since the end of the French Wars. As Peel famously remarked at the time: ‘Can there be a more lamentable picture than that of a Chancellor of the Exchequer seated on an empty chest—by the pool of bottomless deficiency—fishing for a Budget?’ Furthermore, Hansard records that Lord Brougham, who had himself protested against the income tax during the French Wars, considered that the woeful state of the national accounts was justification enough for the tax’s reintroduction: ‘His opinion of an income-tax was the same as before, but he was not prepared to say, that the state of our financial embarrassments might not force us to resort to such a tax, when we found it impossible to adopt any other alternative.’ Given this rhetoric from politicians on both sides of the debate, it is unsurprising that the existing histories focus on this difficult financial situation as a key factor in explaining the tax’s reintroduction.

This argument of financial necessity will be explored at length over the course of this section, and it will be shown that the income tax was indeed a financially attractive option to politicians at the time. Given this alone, it would appear that the existing histories are justified in placing weight on the prospect of financial improvement offered by the tax. However, the chapter will then move to argue that there are significant issues presented by reliance on this explanation alone. Although the situation was undoubtedly grave, other

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6 See, for example, Shehab’s argument that ‘The justification [for the income tax] was the desperate situation of the country’s finances’: Shehab (n 4) 85. See also Buxton (n 4) 52.
7 HC Deb 18 May 1841 vol 58 col 639.
8 Speech of Lord Brougham, HL Deb 17 March 1842 vol 61 col 727.
9 See Rees’s argument that the income tax was the ‘keystone of the arch’: the only way to unlock revenue, and in turn to revive Britain’s economic fortunes: Rees (n 4) 92.
periods of financial difficulty since 1816 had failed to prompt Parliament to reintroduce an income tax. Furthermore, given the fact that the tax had been so strongly rejected both within and outside of Parliament in 1816 as a tool of oppression wielded by an inquisitorial government which amounted to a breach of civil liberties, financial benefit alone fails to explain why the tax was accepted both in and out of Parliament. One explanation can be found in the contention made by Peel and subsequent commentators that the tax was the only option in solving the financial problem. However, this chapter will demonstrate that alternatives to the tax were available, and were mooted in Parliament. Peel’s assertion that the income tax was the only chance of financial salvation was therefore a strategic overstatement of the truth. Although the tax was undoubtedly the best and most sustainable solution, this alone cannot account for why Peel was willing to risk imposing a tax which had inspired such revulsion in the past. Thus, although the undeniably poor financial situation provides a compelling account of Peel’s decision to reintroduce the tax, it cannot account for it fully. Instead, in assessing why the tax was both reintroduced by government and accepted by the public, it is argued that there must have been a shift in how the tax was perceived. This interpretation will be built upon in the following chapter.

2.1 The growing financial problem

Britain after 1815

At the close of the French Wars, the government was able finally to address the financial consequences of the most expensive war that Britain had ever waged. Mathias has calculated the overall cost of the wars, taking both wartime taxation and loans into account, as £1000 million.10 This, according to Colley, cost ‘close to three times the total cost of all the other major wars Britain had fought since the Glorious Revolution’.11 Despite popular expectations, the post-war economic situation only compounded these financial woes, as the transition from war to peace had resulted in a significant drop in trade. This was especially

10 Peter Mathias, The First Industrial Nation: An Economic History of Britain 1700–1914 (2nd edn, Methuen 1984), 131. For a discussion of the overall position of the national finances, see, for example, Buxton (n 4) 13; Tayler (n 4) 71-72.
noticeable when it came to foreign trade: the official value of exports to Northern Europe fell by almost twenty per cent between 1814 and 1816, with those to Southern Europe dropping by over twenty-seven per cent. Countries across Europe, financially weakened by the prolonged and expensive wars, were less able to afford British manufactures: Buxton has argued that ‘War…had impoverished [Britain’s] best customers’.

At home, peace had ended the effective monopoly of British producers and traders over the domestic market, in opening it up to foreign goods once more. This resulted in saturation of the domestic market, which was compounded by the re-entry of British goods and services previously dedicated to the war effort. The reduced opportunity to profit from the domestic market, coupled with a drop in exports given the equally difficult situation abroad, resulted in reduced domestic purchasing power, as those experiencing reduced demand for their own goods at home and abroad were themselves left with reduced income with which to purchase goods. Together, these factors led to reduced prices, which further worsened the state of trade. Combined with a consequential drop in capital available for investment and progression, society had entered a downward spiral, and this had the inevitable result of an economic slump. The effect of this downturn in trade on society was profound. One MP complained in 1821 that:

The distress of the agriculturists had been described as almost unexampled; manufacturing capital had suffered no less; and commercial transactions of every description produced profits scarcely sufficient to make it a matter of interest to carry them on.

It seems that the post-war governments were faced with a miserable state of economic affairs. This held profound implications for the national finances, which were already in severe difficulty. In 1816, the deficit of national income as against expenditure stood at £2.5

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13 Buxton (n 4) 9.
14 For example, soldiers, wartime equipment suppliers, and merchant seamen. See Buxton’s statement that: ‘It had artificially maintained the price of many of the chief products of British manufacture; and with peace came a great collapse of prices. Peace deprived of profitable employment much mercantile marine that had been used for transport and other purposes during the war; while the great reduction of the fleet itself threw additional shipping on to an overstocked market’: ibid.
15 HC Deb 27 June 1821 vol 5 col 1345.
million,\textsuperscript{16} and the National Debt, which had tallied at a little under £243 million before the war, had ballooned to almost £750 million by its end.\textsuperscript{17} The annual cost in interest payments alone on this debt came in at £30 million,\textsuperscript{18} almost forty per cent of gross public income,\textsuperscript{19} amounting to a significant source of expenditure and thus eroding opportunities for state spending elsewhere. However, these difficulties were magnified by a drop in revenue resulting from the poor state of trade: customs receipts dropped by £2.9 million between 1815 and 1817, and excise receipts fell by £2.6 million.\textsuperscript{20} The situation was worsened further by the repeal of the income tax which, alongside other tax reforms, resulted in a loss of over £18 million to the revenue. According to Dowell, writing later in the century, the abolition of the income tax had ‘shatter[ed] our fiscal system to pieces’.\textsuperscript{21}

The task that faced the British government in the late 1810s, in balancing the national accounts, was therefore prodigious. Sound national finances were vital in order to inspire confidence in British credit, and so enable further borrowing and investment. Furthermore, financial stability was also necessary to invest in trade, with the aim of securing the country’s place in an increasingly commercialised world, and therefore reaping the corresponding rewards in tax revenue. In the absence of a single large source of revenue such as the income tax, the solution adopted by government after 1816 was familiar: reversion to the traditional eighteenth-century policy of borrowing to navigate economic difficulty, secured upon new and increased indirect taxation. Although an undesirable fiscal policy on a number of grounds, not least because of the regressive tendency of such a system,\textsuperscript{22} such practice had proven useful in generating revenue in the past. As Sabine has pointed out: ‘although the system was cumbersome, anomalous, and encompassed a multitude of articles, it did work’.\textsuperscript{23} Thus, the government chose to increase customs and excise duties, particularly on raw materials. The expected increase in revenue would then be used to offset the deficit in the

\textsuperscript{16} Return of Public Income and Expenditure; Statement of Excess or Deficiency over Income Compared with Expenditure, 1816-58, HCSP 1859 sess 1 (100) xiv 19 at 20.
\textsuperscript{17} The value of total funded and unfunded debt being £242.9 million in 1793, and £744.9 million in 1815: Mitchell (n 12) 402.
\textsuperscript{19} Based on a figure for income of £77.9 million in 1815: Mitchell (n 12) 392.
\textsuperscript{20} Ibid.
\textsuperscript{21} Dowell (n 4) vol II at 264.
\textsuperscript{22} See below at note 128, and Chapter 1, text at note 76.
\textsuperscript{23} See Sabine (n 4) 51.
national accounts, and also be applied to the sinking fund, into which annual contributions were made with the ultimate aim of repaying the national debt.24

Duties were imposed upon various articles ranging from soap, to tobacco, to pepper,25 and were levied ‘irrespective of the burden, incidence, or injurious nature of the duty’.26 However, these new and increased duties were particularly problematic insofar as they applied to raw materials, as they increased the cost of production and drove up the prices of manufactured goods. This made trade in manufactured goods less profitable (there being little ability to pass on prices to consumers), and thus ultimately exacerbated the difficult economic situation. With manufacturers too poor to produce and purchasers too poor to buy, a ‘commercial crisis’ occurred,27 with a drop in the value of foreign trade from £97 million in 1814 to £77 million in 1822 amounting, according to Buxton, to ‘clear proof that something was radically wrong’.28 The continuing stagnation of trade inevitably had a knock-on effect on revenue: the produce of customs duties dropped by seventeen per cent between 1816 and 1821.29 According to Sir Henry Parnell MP in 1821, of the £3 million predicted revenue from the new taxes, only around £700,000 was actually collected, a shortfall of over seventy-five per cent. This, he argued, indicated that ‘the sources of taxation were dried up’.30 In fact, including the gap in revenue left by the income tax, gross public income dropped by a quarter between 1816 and 1821: from almost £80 million in 1816 to a little under £60 million in 1821.31 Against this backdrop, it was likely clear to policymakers that their attempts at generating revenue through increased taxation, as per the eighteenth-century model, were proving fruitless.

At the same time, the issue of the national debt was becoming of increasing concern to politicians. The national debt stood in 1816 at £744.9 million, but by 1820 had ballooned to

24 See Chapter 1, note 11.
25 For comprehensive discussion of these tax increases, see Dowell (n 4) vol II 264–271.
26 Buxton (n 4) 19.
27 See Gibbins: ‘Amid all this disturbance and distress the country was plunged into a severe commercial crisis which reached its climax in 1819, in which year no less than 3552 bankruptcies took place in England alone’: Henry de Beltgens Gibbins, The History of Commerce in Europe (Macmillan and Co 1891) 183.
28 Buxton (n 4) 20.
29 From £14.3 million in 1816, to £11.9 million by 1821: Mitchell (n 12) 392.
30 HC Deb 01 June 1821 vol 5 col 1097. See also the assertion by Rees that: ‘the general view of contemporaries was that taxation had reached its maximum’: Rees (n 4) 40.
31 Mitchell (n 12) 392.
£840.1 million.\textsuperscript{32} The loss to the revenue of the income tax, coupled with the failure of increased taxation to fill the resulting gap, meant that national income remained low. However, high expenditure persisted, in part as a result of large interest payments on the existing debt. This was compounded by payments into the sinking fund, which, although vital in maintaining confidence in national credit,\textsuperscript{33} and intended eventually to redeem the national debt in its entirety, placed great strain on the country’s diminished income.\textsuperscript{34} However, surplus in the budget proved to be a rarity, and so the government found itself in the circular position of borrowing in order to maintain payments into the fund. In other words, during this time Britain was increasing her national debt in order to find the means to reduce it. Rees has argued that, by 1820, the dire financial situation had forced the government to borrow back the contributions made into the sinking fund from the Commissioners administering it, in order to adequately meet all necessary expenditure commitments.\textsuperscript{35} This was aggravated by increasing interest rates, meaning that, as Evans has argued: ‘the government found itself in the ludicrous position of raising “dear” money to pay off old and “cheaper” debts, adding to the stock of national debt in the process’.\textsuperscript{36} In seeking to improve the financial situation, the government instead exacerbated it: between 1815 and 1820 annual debt charges increased by over £1 million.\textsuperscript{37}

\textit{Policies of tax reform and retrenchment}

By the time that William Huskisson became President of the Board of Trade in 1823, patience with the fiscal model had begun to wear thin. At the same time, support began to grow for the idea that tax reduction, rather than tax increases, could hold the key to financial

\textsuperscript{32} Mitchell (n 12) 402.
\textsuperscript{33} See Daunton’s statement that ‘payment into the sinking fund was needed to maintain the confidence of the public in government loans’: (n 4) 50.
\textsuperscript{34} The sinking fund accounted for annual contributions of between fourteen and eighteen million pounds between 1815 and 1823, which, according to Buxton, was a ‘heavy…incubus on the finances of the country’: (n 4) 14-15.
\textsuperscript{35} Rees (n 4) 43.
\textsuperscript{36} Evans (n 18) 240. The absurdity of this situation prompted political economist and Whig MP David Ricardo to argue in Parliament in 1821 that the sinking fund should be abolished, and instead ‘let the money remain in the pockets of the people. When the ministers want supplies, whether for carrying on a war, or for any other purpose, let them come down to the House and ask for them, without having any such fund to resort to’: HC Deb 01 May 1815 vol 30 col 1095.
\textsuperscript{37} From £30 million in 1815 to £31.1 million in 1820: Mitchell (n 12) 396.
stability, in removing the barriers to trade posed by high and numerous levies.\(^{38}\) Levi has argued that Huskisson, bringing with him liberal economic thinking inspired by Adam Smith’s philosophies of free trade,\(^ {39} \) translated into British economic policy the view that, ‘in the arithmetic of customs, two and two instead of making four sometimes makes only one’.\(^ {40} \) Instead, as Buxton has argued, economic policymakers came to recognise that ‘remission and financial reform would in the end do more for the revenue…than the mere retention of oppressive and vexatious burdens’.\(^ {41} \) Consensus on this point seemed to have been reached by many contemporaries at the time: the Marquis of Lansdown argued in the House of Lords in February 1821 that reduction of the national debt required a system of ‘free distribution of capital and produce’, and therefore it was necessary to ‘remove every species of restrictions which operated against that free distribution’.\(^ {42} \) This shift in fiscal and economic policy is widely considered to mark the birth of liberal economic policy, and laid the foundations for the fiscal policy of the nineteenth century.\(^ {43} \) More importantly for the purposes of this chapter, however, it resulted in a significant and immediate improvement in the national finances.

The successive governments of the 1820s and early 1830s therefore chose to adopt a scheme of tax reduction, in the hope that this would stimulate the market and elicit higher yields from the remaining taxes. Consequently, during the period 1820 to 1836, taxes accounting for over £30 million in revenue were repealed or reduced.\(^ {44} \) This had important knock-on effects in the national finances, with revenue generated through customs increasing by a substantial sixty-four per cent between 1821 and 1827,\(^ {45} \) which comfortably offset falls in excise income resulting from tax remission.\(^ {46} \) Thus, national income also rose, from £291

\(^{38}\) In modern times, this idea might be expressed in terms of the Laffer Curve theory: that increasing tax rates only produce high yields up to a point. Once that point is reached, the taxpayer becomes disincentivised, and thus yields fall. For a good description of this, and how the concept ties in with theories of utilitarianism, see Kerrie Sadiq and Bronwyn McCredie, ‘The Taxonomy of Taxation’, in Andrew Johnston and Lorraine Talbot (eds), Great Debates in Commercial and Corporate Law (Red Globe Press 2020), at 190.

\(^{39}\) This will be discussed further in Chapter 5.


\(^{41}\) Buxton (n 4) 14.

\(^{42}\) HL Deb 21 February 1821 vol 4 cols 826-827.

\(^{43}\) In particular, such arguments inspired and reflected the growth of the free trade movement, which came to hold important implications for the income tax. This will be explored at length in Chapter 5.

\(^{44}\) Dowell (n 4) vol II 306.

\(^{45}\) Evans (n 18) 242.

\(^{46}\) Of thirty per cent between 1821 and 1827: see ibid.
million in 1821 to over £452 million by 1841.\textsuperscript{47} Given the initial aim of averting financial crisis, it therefore seems that the fiscal policy of tax reduction exceeded expectations.

However, contemporary policymakers understood that tax remission alone could not be a viable solution to the economic distress. The hoped-for improvement in trade would not be immediate, and so the government would be faced with an uncertain period during which they would be forced to operate without a number of profitable taxes. Furthermore, in the event of economic depression in future, revenue would once again dramatically reduce, and the government would be forced to increase taxes. As such, a second, complementary strand of financial policy was developed: retrenchment. This involved dramatically cutting government expenditure, in order both to offset the immediate loss to the revenue resulting from tax reduction, and to enhance budget surpluses in future years.\textsuperscript{48} The overarching principle, as stated by the Select Committee on Public Income and Expenditure in 1828, was that the government was not ‘justified in taking even the smallest sum of money from the People, unless a case can be clearly established to shew that it will be productive of some essential advantage to them’.\textsuperscript{49} Like the scheme of tax reform, retrenchment also appeared to be successful. Government expenditure over the period significantly reduced: public spending hit its lowest point during the nineteenth century in 1834.\textsuperscript{50} This was achieved by streamlining the costs of civil administration wherever possible: government expenditure dropped from £6 million in 1819, 10.1 per cent of gross national income, to £4.3 million at its lowest point in 1834, 8.6 per cent of income.\textsuperscript{51} The costs of tax collection also fell,\textsuperscript{52} despite an increase of almost £2 million in the revenue taken from customs, excise and stamp taxes.\textsuperscript{53} The policy set a strong example of the benefits of cutting expenditure, so much so that

\textsuperscript{47} Mitchell (n 12) 366. Although it is impossible to say conclusively that these increases resulted from tax remission, the fact that they took place during a period of tax reduction designed to remove restrictions from trade, would seem to indicate that it played a role.

\textsuperscript{48} It was also motivated by the political situation, as allegations of state corruption and fiscal excess grew in popularity over the period. This will be considered at length below.

\textsuperscript{49} Select Committee on the State of Public Income and Expenditure of United Kingdom Second Report, HCSP 1828 (420) v 3 at 6.

\textsuperscript{50} According to Mitchell, gross public expenditure in 1834 stood at £48.8 million. This was a reduction of almost one-sixth on the 1820 figure of £57.5 million: (n 12) 396.

\textsuperscript{51} Using figures from ibid 392-7.

\textsuperscript{52} The Finance Accounts of the United Kingdom of Great Britain and Ireland, for the Year 1841, Ended Fifth January 1842, HCSP 1842 (135) xxvi 1 14.

\textsuperscript{53} Based on a combined value of £44,646,552 in 1816 (see Finance Accounts of Great Britain, for the Year Ended Fifth January 1817, HCSP (98) 1817 xii 1 at 20, 23 and 33), and £46,598,375 in 1841 (see The Finance Accounts of the United Kingdom of Great Britain and Ireland, for the Year 1841, Ended Fifth January 1842, HCSP 1842 (135) xxvi 1 8).
Buxton remarked in 1888 that ‘the years between 1825 and 1840 were the halcyon days of economy in finance…as the time when Tory and Whig alike strove, and strove successfully, to reduce the public expenditure, and to maintain a balance on the right side’.\footnote{Buxton (n 4) 29.}

However, the economic policies launched in the early 1820s proved to be unsustainable in the long term. The initial boom in trade occasioned by the repeal of taxes proved temporary, and the revenue surplus dwindled. Once economic conditions deteriorated in the late 1830s, the true impact of over £31 million in lost revenue became apparent.\footnote{Figure given by Dowell (n 4) vol II 306. See also Sabine (n 4) 52.} Initially, the implications of wholesale tax reduction had been offset by retrenchment. However, the impressive cuts in spending that had already taken place meant that by the late 1830s there was little prospect of reducing expenditure further to mitigate for the declining economy. Thus, there was no escape from the financial predicament. The country gradually slipped back into deficit, such that by 1842 the cumulative deficit incurred in the five-year period since 1837 stood at £7.5 million.\footnote{Evans (n 18) 314. Tayler described the situation in 1841 as: ‘one of the most unprofitable sessions…to be found in the annals of modern parliaments’: (n 4) 102.} In an attempt to mitigate these difficulties, the latter part of the decade witnessed first the announcement of additions to the existing taxes, and then once more of reductions.\footnote{See the experiments of 1840 and 1841: Dowell (n 4) vol II 307-315.}

Thus, there was no escape from the financial predicament. The country gradually slipped back into deficit, such that by 1842 the cumulative deficit incurred in the five-year period since 1837 stood at £7.5 million.\footnote{Evans (n 18) 314. Tayler described the situation in 1841 as: ‘one of the most unprofitable sessions…to be found in the annals of modern parliaments’: (n 4) 102.} In an attempt to mitigate these difficulties, the latter part of the decade witnessed first the announcement of additions to the existing taxes, and then once more of reductions.\footnote{See the experiments of 1840 and 1841: Dowell (n 4) vol II 307-315.} However, these efforts failed to generate the desired revenue. It is on this financial crisis that many historians have focused in explaining the reintroduction of the income tax, in arguing that the tax was necessary in order to restore the country’s finances. This argument, alongside a full view of the financial situation in 1842, will now be explored in detail, and it will be shown that, although undoubtedly a key motivation, financial necessity cannot alone explain why it was to the income tax that Britain turned.

\subsection{The case for the income tax}

The prolonged economic downturn of the late 1830s had profound effects across society. Writing in 1867, Noble described the circumstances:

\begin{quote}
Every interest in the country was alike depressed: in the manufacturing districts mills and workshops were closed, and property daily depreciated in value; in the seaports
\end{quote}
shipping was laid up useless in harbour; agricultural labourers were eking out a miserable existence upon starvation wages and parochial relief.\textsuperscript{58}

After conditions had failed to abate by the early 1840s,\textsuperscript{59} it would likely have been clear to the government that a new approach would be needed to counter the depression, particularly given the effect that the downturn was having on the national finances. With rising expenditure necessitated by military action,\textsuperscript{60} and government spending elsewhere pared to a minimum, retrenchment was impossible. Similarly, tax reform had been adopted to such an extreme that further remission was implausible: the revenue base was simply too narrow to bear any further streamlining. Furthermore, even if taxes suitable for repeal or reduction could be found, Britain could scarcely afford another hit to national income, even if it ultimately proved temporary. The drop in revenue occasioned by the turn to tax remission at the beginning of the 1820s had to some extent been offset by retrenchment, however there could be no such serendipitous substitute offered this time. Any loss to income through tax reduction would likely be absolute and unqualified, and would even be exaggerated by the growing expenditure. Thus, Peel argued that: ‘I feel confident that… the adoption of any other plan for raising revenue by means of diminished taxation, would not afford any immediate relief, or provide any resources on which we might rely for supplying the deficiency of the revenue’.\textsuperscript{61} As Shehab has argued: ‘retrenchment and tax remission no longer offered a way out…[this] was clear to enlightened men of all parties’.\textsuperscript{62} Instead, it was necessary to identify a new fiscal strategy to address the poor state of the national finances, and it is on this necessity that many accounts of the reintroduction of the income tax are predicated.


\textsuperscript{59} Mathias has referred to the 1842-3 depression as ‘possibly the worst two years in the whole century after the famine that opened it’: (n 10) 214. See also Dowell’s account of the position: ‘It was a time of high prices for provisions. There was much suffering among the poor. Manufactures languished. Employment was dwindling day by day’: (n 4) vol II 322.

\textsuperscript{60} The half-decade leading up to 1842 witnessed rebellion in Canada, and British involvement in conflict in Afghanistan and China. For Peel’s discussion of the financial implications of these military interventions, see HC Deb 11 March 1842 vol 61 cols 426-8.

\textsuperscript{61} Ibid col 437.

\textsuperscript{62} Shehab (n 4) 79.
Financial benefits of an income tax

The income tax was an ideal solution to this financial quandary in three central ways. First, and most importantly, it would provide the national finances with a much-needed injection of revenue. Peel estimated that the tax as introduced in 1842 would generate around £3.7 million in revenue. This would amount to a seven per cent increase in gross national income, and promised to more than counterbalance the annual deficit, estimated at £2,101,369 for 1841. This would have an immediate positive impact on the national accounts, and by itself could prove to be the difference between deficit and surplus.

Another potential benefit can be seen in how the revenue generated by the tax could be used, in allowing for a scheme of tariff reform to be undertaken. Huskisson had proved in the 1820s that reductions in customs and excise duties were capable of improving trading conditions, and in turn having a positive effect on the national finances. However, in order to pursue this policy in the 1840s, an alternative source of revenue would need to be found in order to substitute that lost through tariff reform. In providing this revenue, the income tax could be used as a tool to re-inspire trade, and to increase revenue from remaining customs and excise duties. The usefulness of the income tax in this regard was stressed by Peel at the time, and this function of the tax was relied upon heavily by proponents of free trade. The relationship between income tax and free trade has been explored extensively by historians, and this will be discussed at length in Chapter 5. However, for now it suffices to say that, by enabling tariff reform, the income tax provided an opportunity for significant financial improvement.

63 HC Deb 11 March 1842 vol 61 col 444.
64 As against a figure of £51.6 million for total gross income in 1841: Mitchell (n 12) 393.
65 Return of Public Income and Expenditure; Statement of Excess or Deficiency over Income compared with Expenditure, 1816-58, HCSP 1859 sess 1 (100) xiv 19 at 24.
66 Peel’s stated that his decision to reintroduce the tax was ‘for the purpose of not only supplying the deficiency in the revenue, but of enabling me with confidence and satisfaction to propose great commercial reforms, which will afford a hope of reviving commerce, and such an improvement in the manufacturing interests as will re-act on every other interest in the country; and, by diminishing the prices of the articles of consumption, and the cost of living, will, in a pecuniary point of view, compensate you for your present sacrifices, whilst you will be, at the same time, relieved from the contemplation of a great public evil’: HC Deb 11 March 1842 vol 61 col 439.
67 See, for example, Henry Parnell, On Financial Reform (London 1830).
The third financial benefit offered by the tax was that of greater sustainability. As was explored above, fiscal policy was at a crossroads in 1842. The traditional strategy of borrowing secured upon high indirect taxation had caused problems in the immediate post-war years, however the subsequent policy of reducing indirect taxes had also ultimately proven unsustainable. In changing direction and opting for an income tax, therefore, Peel could open up the possibility of wholesale fiscal reform. The traditional reliance on indirect taxation to generate revenue had caused problems: too high, and the economy became restricted and vulnerable to depression; too low, and the national finances were compromised. The income tax would provide an opportunity to circumvent this quandary in taxing wealth after it had been created, unlike indirect duties which risked hampering the generation of wealth by increasing trade and production costs. Thus, the tax would generate revenue without directly obstructing trade. Although Peel likely only considered the tax to be a temporary measure, it would ultimately allow for a transition from the financially precarious and unsustainable policy of the early decades of the century, to a more sustainable model of public finance which would come to characterise the later Victorian period.

The financial case for the income tax was therefore strong, mainly as the revenue generated by the tax would prove invaluable in solving the financial problem. The revenue would also enable the reduction of a number of indirect taxes, which it was hoped would alleviate the difficult economic situation in the short-term, and in turn increase revenue from the remaining taxes. Furthermore, the instatement of the tax would allow the establishment of a more sustainable fiscal approach, in allowing the burden of supporting government to fall away from problematic indirect taxes and by preventing taxation from acting as a barrier to wealth generation. However, Peel likely knew that, given the strength of feeling towards the tax a quarter-century before, financial benefit alone would not be sufficient to justify its reintroduction. Key to the successful reintroduction of the tax, then, was that it be the only

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68 See Noble’s view that: ‘A tax on income causes much less interference with production and exchange, than duties of Customs and Excise. It leaves industry free, it imposes no restraint upon trade, it presents no obstruction to the creation of wealth, and in its economic results it is in every respect superior to any form of indirect taxation’: John Noble, The Queen’s Taxes: An Inquiry into the Amount, Incidence, & Economic Results, of the Taxation of the United Kingdom, Direct and Indirect (Longmans, Green, Reader, and Dyer 1870) 184. See also Daunton’s argument that the income tax provided the opportunity for transition ‘from a regime of high duties and low yields to a dynamic economy based on low duties and high yields’: from wholesale taxation spread across a vast number of revenue sources, to a handful of well-administered taxes individually making substantial revenue contributions: Daunton (n 4) 80.

69 See Chapter 5, text at note 216.
viable way of re-inspiring Britain’s finances. This was the narrative developed by Peel, and has formed the central explanation for the tax’s reintroduction adopted in the literature.

**The only option?**

In proposing the income tax, Peel adverted not only to financial benefits that an income tax would bring, but also detailed why recourse to previous expedients would prove insufficient to improve the financial and economic situation. Thus, he argued, he held ‘a deep conviction that [the income tax] is necessary for the public interest’. The implication of his argument was clear: the income tax was the only option. In order to assess the plausibility of this claim, the potential alternatives must be considered.

It was established in earlier chapters that the tried and tested fiscal practice of the eighteenth-century had been the taking on of loans, secured upon a particular tax, to stabilise the country’s finances until economic conditions improved. However, in the years after 1815 there had been a considerable shift in thinking on this point. Contemporaries had begun to express alarm at the level of national debt, and, as a result, fiscal practice began to evolve away from that of the fiscal-military state. This echoed the arguments of fiscal theorists, who for almost a century had been advocating a move away from traditional emphasis on borrowing. Furthermore, bitter experience of high debt charges and interest rates over the decades since the war had likely dampened the political appetite for taking on further debt. The policy of borrowing to meet the deficit was therefore left both politically and

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70 HC Deb 11 March 1842 vol 61 col 439.
71 See, for example, the contemporary pamphlet, authored by ‘Pro Patria’: Thoughts on the National Debt. (London 1838). The author argues that ‘[a] national bankruptcy…is the most probable result of our present financial system’, should steps not be taken to reduce the national debt: 13. See also, for example, The National Debt of Great Britain (no publisher or place given, 1832) <https://link.gale.com/apps/doc/U0104827907/MOME?u=su_uk&sid=MOME&xid=4ab08aeb> accessed 4 July 2020; An Essay on the National Debt and Finance of Great Britain, Wherein is Shewn the Ruinous Tendency of the Public Debt and the Serious Evil of Connecting the Revenue with Trade and Commerce, the Practicability of Liquidating the National Debt, and the Necessity of Adopting a More Simple System of Finance (London 1833); On the Public Debt, With a Plan for its Final Extinction (London 1839).
72 One of the first theorists to express concern as to the size of the public debt was David Hume, who argued that ‘either the nation must destroy public credit, or public credit will destroy the nation’: ‘Of Public Credit’, in Political Discourses (Edinburgh 1752) 135.
73 In 1840, the national debt accounted for almost 55 per cent of government expenditure, which amounted to 57 per cent of gross national income: Mitchell (n 12) 393-396.
economically undesirable, as it created a circular problem. Further borrowing would increase
the debt, which in turn would require higher repayments, resulting in increased expenditure
and likely further deficit, which would incentivise further borrowing. It is therefore
unsurprising that Peel sought to move away from the eighteenth-century approach of
borrowing to weather periods of financial difficulty.\footnote{See Peel’s justification for the income tax in the Budget speech: ‘Shall we, in time of peace, have resort to the miserable expedient of continued loans? Shall we try issues of Exchequer-bills? Shall we resort to saving-banks? Shall we have recourse to any of those expedients which, call them by what name you please, are neither more nor less than a permanent addition to the public debts?’: HC Deb 11 March 1842 vol 61 col 430.}

Another potential solution to the financial problem would have been to resort to another
staple feature of eighteenth-century fiscal policy, by adding to the indirect tax burden in the
form of new or increased customs and excise duties, or expenditure taxes. Peel argued that
this policy was also an inadequate solution to the financial condition. The imposition of new
indirect taxes risked a return to the post-war experience of high taxes and low returns, thus
undoing two decades of fiscal progress. Peel also argued that existing taxes could not be
increased as they had reached saturation point. In his Budget speech of March 1842, Peel
referred to the experiments of the previous Chancellor of the Exchequer, Francis Baring, who
had imposed a five per cent increase on all customs and excise duties, and a ten per cent
increase on some assessed taxes.\footnote{See further: Elie Halévy, \textit{A History of the English People in the Nineteenth Century: Vol III, The Triumph of Reform 1830-1841} (2\textsuperscript{nd} edn, Ernest Benn Ltd 1950), 336-348; Shehab (n 4) 82.} According to Peel, rather than the predicted improvement
of £1,895,000, the tax increases resulted in an actual rise of just £206,000.\footnote{HC Deb 11 March 1842 vol 61 col 432.} This, Peel
argued, demonstrated that indirect taxation had reached its maximum.\footnote{See Seligman’s statement that: ‘To augment to indirect taxes he dismissed as impracticable; …he stated that Baring’s experience was decisive on his point’: Seligman (n 4) 130.} Peel’s position was
therefore that traditional methods of increasing revenue were impossible.\footnote{He also alluded to the difficulty of continued indirect taxation for political reasons: ‘Shall I then, if I must resort to taxation, levy that taxation upon the articles of consumption, upon those articles which may appear to some superfluities, but which are known to constitute almost the necessaries of life. I cannot consent to any proposal for increasing taxation on the great articles of consumption by the labouring classes of society.’ HC Deb 11 March 1842 vol 61 col 431.} The only way to
improve economic conditions and solve the financial predicament was to reduce taxes, but
this required alternative revenue. On this view, then, a change in form of tax was the only
viable alternative, and the income tax was a financial necessity.

\footnote{See Peel’s justification for the income tax in the Budget speech: ‘Shall we, in time of peace, have resort to the miserable expedient of continued loans? Shall we try issues of Exchequer-bills? Shall we resort to saving-banks? Shall we have recourse to any of those expedients which, call them by what name you please, are neither more nor less than a permanent addition to the public debts?’: HC Deb 11 March 1842 vol 61 col 430.}
That the broad financial situation was worse in the early 1840s than it had been since the end of the war is incontrovertible. Although occasional years during the 1820s and 1830s had posed a deficit, the decades following the war had been mostly profitable, and expenditure had not exceeded income to the extent seen in 1841 since the 1816 financial year.\(^79\) Given this grave situation, combined with Peel’s argument that all other alternatives had failed, it is unsurprising that the narrative presented both at the time and subsequently has been that the tax was reintroduced on the grounds of financial necessity. However, although the financial situation was indeed poorer than it had been for decades, it cannot be argued that the income tax was the only solution. A number of alternatives were suggested in Parliament in the aftermath of Peel’s Budget,\(^80\) perhaps the most notable of which was put forward by Francis Baring, the former Whig Minister who had been Chancellor of the Exchequer for the two years immediately prior to Peel taking office. As discussed above, in 1840, Baring had attempted to address the growing deficit by amending customs and excise duties and assessed taxes. According to Peel, this had not generated the expected revenue, and so was proof that additional indirect taxation could not provide a solution to the financial difficulties. However, Baring argued that these amended duties had not extended to corn, which his initial estimates had included.\(^81\) Furthermore, he pointed out that his proposals in 1841 to implement reductions on a range of protective tariffs, including duties on sugar and timber, had also never come to fruition.\(^82\) This, he contended, meant that the policy of amending indirect taxes had not been pursued to its fullest extent, and so it could not be said that all other alternatives to the income tax had been exhausted. As such, the poor financial situation could not, in the

\(^79\) For details of the yearly deficits or surpluses in the national accounts between 1816 and 1858, see Return of Public Income and Expenditure; Statement of Excess or Deficiency of Income compared with Expenditure, 1816-58, HCSP 1859 sess 1 (100) xiv 19.

\(^80\) These were mainly posited by Whig politicians critical of Peel’s Budget and defensive of their own financial policy, and so admittedly it could be argued that such points were made in an attempt to save face, rather than being well-informed and unbiased suggestions. However, the point remains that politicians were by no means convinced of the necessity of the income tax from a financial perspective. See, for example, the arguments made by politicians in the debate on the income tax on 18 March 1842, which detail a number of alternative proposals: HC Deb 18 March 1842 vol 61 cols 839-929.

\(^81\) Ibid col 845.

\(^82\) See ibid cols 846-852. For a detailed discussion of these proposals, and their rejection, see Halévy (n 75) 342-8.
view of some well-informed contemporaries at least, justify the imposition of the hated income tax. As Viscount Howick argued:

the House of Commons is not justified in imposing new burdens on the people, unless their necessity can be very clearly shown; for one, I should not think it consistent with my duty, under any circumstances, least of all in such a time of admitted distress as the present, to consent that any additional weight of taxation should be placed upon the people unless it can be proved to me that there are no other means by which the wants of the public service may be met…

It is impossible to know what the result would have been had Peel turned to amending existing indirect levies rather than an income tax. With hindsight, it seems probable that, even if the financial situation had improved in the short term, the shift in fiscal policy would have become necessary at some point: indirect taxation alone could not sustain a modern industrialised country such as Britain in the long term. Furthermore, the amendments proposed by Baring were politically contentious, especially respecting the duties on corn, and so it could be suggested that they did not constitute a practical option. It could therefore be argued that, even if the income tax was not the only option, it was the best given the circumstances. However, the fact that it was the most logical and efficient mode of solving the financial difficulty is, by itself, insufficient to explain the tax’s reintroduction, on three central grounds.

First, the fact that the tax would provide much-needed revenue was nothing new: although the financial situation was certainly poorer in 1842 than it had been in the past, the income tax would have also been a welcome addition to the fiscal scene at other points of difficulty, for example in the post-war period, and in the late 1830s. Of the twenty-six years that had elapsed since the end of the French Wars, Britain experienced a deficit of income

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83 See Baring’s statement that ‘they had not exhausted either of the sources of revenue which he had stated…there was none of that impossibility in raising a revenue from other taxes which could alone justify their recurrence to the odious impost which they had adopted’: ibid cols 851-852. However, it is worth noting that some historians have argued that the Whigs were in denial over the severity of the situation: see A A W Ramsay, Sir Robert Peel (Constable and Company Ltd 1928) 231.

84 HC Deb 18 March 1842 vol 61 cols 876-877.
over expenditure in ten. Accordingly, financial difficulty by itself cannot explain why the tax was reintroduced in 1842, and not at any other stage in the twenty-six years previously.

Second, given the strength of feeling that had been witnessed against the tax in the past, it seems unlikely that the financial situation, however bleak, could have incentivised both politicians and the public to accept it without some other incentive to do so. For a tax which traditionally had been branded as an inquisitorial breach of civil liberties, the fact that it was the best option is insufficient to explain the willingness of Parliament and the wider public to accept it. Furthermore, the tax had previously operated in wartime only, and thus was considered by many to be a wartime measure. This casts further doubt on the argument that financial necessity alone justified the tax’s imposition in peacetime. Even during the French Wars, the tax had been reluctantly borne, and rejected as soon as the overriding national danger had lapsed. In light of this, it is very unlikely that the country’s financial difficulties in 1842 alone, although severe, could have engendered a willingness to make the same sacrifice in peacetime. Through this lens, the argument of simple financial necessity breaks down: the tax was not the only option, and the fact that it was nevertheless the best solution would likely have been of little importance had it continued to be faced with the strength of feeling that had traditionally existed against it. In explaining the successful reintroduction of the tax, then, other factors must be looked to, in particular those which account for changed attitudes to the tax.

Finally, the fact that Parliament accepted Peel’s argument that the tax was the only option, despite the existence of alternatives, betrays an important point. It indicates that the decision to accept the tax was coloured not only by financial motivations, but also by political agenda, as those alternatives were considered politically undesirable. This is important as it shows that political perceptions of the tax had changed: the income tax had at some point ceased to become the least desirable option, and instead had become the least worst option in the circumstances. In 1816, MPs had denounced the tax as a breach of individual liberty, and reserved it only for wartime. However, the acceptance of the tax in 1842 despite the availability of alternatives indicates that political priorities had changed, and that other fiscal

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85 Return of Public Income and Expenditure; Statement of Excess or Deficiency over Income compared with Expenditure, 1816-58, HCSP 1859 sess 1 (100) xiv 19.
options were now considered less desirable than an income tax. Thus, the tax was seemingly no longer the last resort: it was considered more appropriate to risk the public ire by imposing an income tax than to interfere with monopolies on sugar and corn. This suggests that there was more than simple financial necessity at play in Peel’s decision to reintroduce the tax, and the decision of politicians to accept it. The political context surrounding the tax had changed, and this also played an important role in the tax’s revival.

It appears that the financial imperative for the tax’s reintroduction was what could be expressed as a necessary but not sufficient explanation. Although it was undoubtedly an important factor in the decision to reintroduce the tax, by itself the financial imperative fails to provide a full account of why the tax was successfully reinstated. Other factors were at play in explaining both Peel’s decision to reimpose the tax, and in the willingness of Parliament and society to accept it. One such ground that speaks further to Peel’s motivation is that advanced by Daunton: that the income tax was designed to engender trust in the state, in order to defuse social tension and solidify the position of the political élite.

III. THE SOCIO-POLITICAL IMPERATIVE

The period between the repeal of the income tax in 1816 and its reintroduction in 1842 witnessed an evolution in the social and political fabric of the country. Given the broad scale of this change, it is unsurprising that this held significant implications for the income tax, and for fiscal policy more generally. Over the course of the remainder of this thesis, it will be shown that changes in the political and social spheres, both guided by and impacting upon the commercial interest, lay at the heart of the reinstatement of the income tax. They explain not only the political decision to propose the tax, but also both why it was able to pass through Parliament, and why, unlike in the past, the public were willing to accept it. In order to support these arguments, this section will begin by setting out the broad changes witnessed through the period, in particular the transformation of the British economy from reliance on agriculture to industry, and the opportunities and pressures that this held for the population. It will be seen that the period witnessed a blossoming sense of class consciousness, which,
when coupled with increasing discontent over the political, economic and social order, resulted in an emerging threat to the power of the political élite.

As well as providing an important foundation for the remainder of this thesis, the section will consider the argument, principally put forward by Daunton, that the socio-political backdrop contributed to Peel’s decision to reintroduce the income tax. Daunton contends that the government sought to use fiscal policy, and in particular the income tax, to demonstrate its even-handedness, thereby re-establishing public trust in the political élite. This would defuse social tension and demands for political reform, and thus bring greater political security. According to Daunton, ‘Peel's decision to reintroduce the income tax was less an attempt to increase the revenue of the state at a time of budgetary deficits than a means of removing political tensions and improving governability’.86 On this view, then, it appears that, in addition to a financial imperative, there also existed a socio-political imperative for the tax’s reintroduction.

This section will explore this view, and it will be acknowledged that it provides an important insight into the political motivations for the tax’s proposed reintroduction. However, it will also be demonstrated that Daunton fails to paint a full picture of the situation surrounding the tax’s reinstatement. Although it is undoubtedly an important answer to the question as to why the government wished to introduce the tax, it does not explain why Peel was able to reintroduce it, given the hostility that had previously existed both in and out of Parliament. No matter how desirable the tax was to government, its proposal would likely have floundered in the face of the opposition witnessed in the past, that had been strong enough to force its repeal in 1816. Therefore, it will be argued that the concept of a socio-political imperative, like the argument of financial necessity, leaves a gap in the narrative. This will be remedied in the following chapters, which will build upon the socio-political changes analysed in this section to argue that the wider climate for the tax’s reception had evolved by 1842. This had the effect both of making easier the political task of reintroducing the tax, and of defusing some of the longstanding public (and particularly commercial) opposition, allowing the tax to pass back into the fiscal scene.

86 Daunton (n 4) 80.
3.1 Changes in the social fabric

By far the clearest change that took place over the period was in the economic life of the country, in Britain’s transformation into an industrial nation. The period 1816-1842 fell at the heart of an ongoing shift in the nature of the British economy.\textsuperscript{87} the longstanding predominance of agriculture was diminishing, and in its place industry came to reign supreme.\textsuperscript{88} As Stebbings has described: ‘profound economic changes in the fabric of national life were transforming Britain from an agricultural economy to the leading industrial nation in the world’.\textsuperscript{89} The scale of this industrial growth was unprecedented:\textsuperscript{90} for example, by 1841 Britain was producing 5.2 times more cotton textiles than in 1815.\textsuperscript{91} This increased industrial output both fuelled and was fuelled by a marked increase in the number of factories. Daunton has suggested that the number of cotton mills in operation increased from between 15 and 20 in 1780 to 1,932 by 1850.\textsuperscript{92} There was also a transformation in the nature of smaller-scale industry: Behagg has documented a dramatic shift in the quarter-century leading up to 1850, marking ‘the transformation of the small-scale employer from artisan-type small master to petit bourgeois manufacturer’,\textsuperscript{93} who began to organise their businesses along a similar line to the factories.\textsuperscript{94} The informal artisan workshop therefore began to decline in importance, and in its place rose the small factory, able to produce quicker and

\textsuperscript{87} It is important to note that this process began long before 1816 and would continue into the later nineteenth century, however this nevertheless resulted in a noticeable shift over the first half of the century.

\textsuperscript{88} See Harley’s assertion that the early nineteenth century saw a change in ‘the basic character of the economy’: ‘from one governed by the balance of land and population to one dominated by technological change and capital accumulation’: C Knick Harley, ‘Reassessing the Industrial Revolution: A Macro View’ in Joel Mokyr, \textit{The British Industrial Revolution: An Economic Perspective} (Westview Press 1993) 197.


\textsuperscript{90} See Evans’s account that growth in industrial production increased from 1.5 per cent between 1700 and 1780, to between 2 and 3 per cent between 1780 and 1830: Evans (n 18) 133.

\textsuperscript{91} Harley (n 88) 202. Such was the scale of the demand for British textiles abroad (accounting for over 70 per cent of British exports) that Evans has likened the situation to ‘oil sheikhdoms in the late twentieth century’: ibid 132-133.

\textsuperscript{92} Martin J Daunton, \textit{Progress and Poverty: An Economic and Social History of Britain 1700–1850} (Oxford University Press 1995), 196.


\textsuperscript{94} According to Behagg, the role of traditional small-scale producers was by 1850 primarily to supply large manufacturers with the necessary resources to conduct their business. In order to do this, smaller manufacturers needed to optimise their production, and the most effective way to achieve that was to emulate the organisational prowess of the factories. See the point that: ‘Economic pressures pushed such individuals to reorganize production; the role of the small firm was increasingly to service the needs of the larger firm and in order to do this it needed to organize itself on a similar basis’ – ibid 9.
faster than ever before. Industrialisation had thus transformed Britain’s economy, accelerating manufacturing output, and by 1842 this was evident: national income arising from mining, manufacturing and building has been estimated to have amounted to £155.5 million in 1841, an almost threefold increase on the figure from 1801, at £54.3 million.\(^95\)

A natural corollary of this evolution was a corresponding shift in social structure. Owing to the rapid springing up of factories in the country’s towns and cities, a rural to urban transition occurred. The new factories relied upon a populous workforce, and so as the factories emerged, the number of workers engaged in industry began to grow: where 30 per cent of the British labour force had worked in manufacturing and mining in 1801, this had risen to 40 per cent by 1841.\(^96\) Correspondingly, the proportion of workers involved in agriculture decreased.\(^97\) The period therefore witnessed a marked change in the geographical distribution of the population, as workers left rural areas for the profitable employment opportunities offered in the towns, which also offered greater security than those in the harvest-driven agrarian sector. This had the effect of concentrating the population in particular areas: where in the past agricultural workers had been scattered disparately across small rural communities, largely disconnected from one another, by the middle of the nineteenth century the industrial workforce overwhelmingly inhabited the growing urban centres. Semmel has pointed out that, by 1841, over one-third of the population of England and Wales resided in a town with a population of over 20,000 inhabitants.\(^98\) The 1816–1842 period lay at the very centre of this change: Evans has suggested that where in 1750, only around fifteen per cent of Britain’s population lived in towns, this had increased to twenty-five per cent by 1800, and again to a colossal eighty per cent by 1880.\(^99\) This meant that, for the first time, the working classes were living and working in close proximity. This, it will be considered below, presented unprecedented opportunities for organisation.

\(^95\) Mitchell (n 12) 366.
\(^96\) Bernard Semmel, The Rise of Free Trade Imperialism: Classical Political Economy and the Empire of Free Trade and Imperialism 1750–1850 (Cambridge University Press 1970) 130-131. In 1811, there were 90,000 workers in cotton factories alone; by 1841 this had increased to 264,000: Mitchell (n 12) 187.
\(^97\) According to Semmel, the proportion engaged in agriculture, forestry, and fishing dropped from thirty-five per cent in 1801, to twenty-two per cent in 1841 - ibid.
\(^98\) Ibid, 131. The population of industrial towns such as Manchester, Leeds and Sheffield vastly increased over the period: for figures, see Mitchell (n 12) 24.
\(^99\) Evans (n 18) 130.
This shift in the working class environment coincided with a shift in perceived social identity. Perkin has argued that the Industrial Revolution marked a change in the way that the British people viewed their place in society. He argues that, prior to the nineteenth century, social identity was not dictated by class, but rather by place in the hierarchy of individual ‘pyramids’, each reflective of a particular economic sector. Thus, identity was defined by both membership of a particular economic group, and an ‘accepted order of precedence’ within that group. In other words, social affiliation depended on the economic sector in which an individual made his living, despite natural ‘vertical antagonism’ within the sector. However, the Industrial Revolution brought with it an alternative emphasis: class. The ‘old’ society was replaced by one ‘based on the horizontal solidarities of class in place of the old vertical connections of dependency or patronage’. Hudson has described that the emergence of the ‘new’ society gave rise to three strands of ‘class’: ‘the landed aristocracy whose income derived primarily from rents, the bourgeoisie whose income came from profits, and the mass of the working population who were wage dependent’. This growing awareness of social identity presented significant issues for government, as the language of class became an increasingly large component of contemporary politics.

A major consequence of this new perception of social identity was that, where in the past enmity had been directed towards other sectors, the nineteenth century increasingly saw discontent between those belonging to different strata of wealth. Thus, the shift in social identity naturally resulted in a shift in social conflict. Smith has identified three types of social conflict that emerged throughout the nineteenth century. The first involved hostility between rural aristocrats and the bureaucracy of central government. The second pitted

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100 Harold Perkin, *The Origins of Modern English Society* (2nd edn, Routledge, 2002). See also E P Thompson, *The Making of the English Working Class* (Penguin Modern Classics, Penguin Books 2013), in which it is argued that ‘In the years between 178- and 1832 most English working people came to feel an identity as between themselves, and as against their rulers and employers’: 11.
102 Ibid xiii.
103 Pat Hudson, *The Industrial Revolution* (Edward Arnold 1992) 203. This idea is supported by Behagg’s point that ‘the reorganisation of production drew a firmer line between the employer of labour and the workforce than had existed previously’: (n 93) 223.
104 It will be explored below that this increased rhetoric of class fed into the contemporary narrative around fiscal policy, which in part encouraged Peel to introduce the income tax, as a tool of political and social balance.
traditional social groups against those arising out of industrialisation and urbanisation: ‘old society’ versus new. The final form developed:

from the response of participants to the unequal division of labour and distribution of rewards expressed through the new or transformed institutional orders which developed in the course of attempts to control and exploit the new resources and capacities of the urban industrial nation-state.\(^{106}\)

In other words, the period saw developing conflict between those exploiting the labour force in order to maximise economic benefit, and the exploited. It will be seen over the remainder of this chapter that existing histories have attributed the government’s decision to reintroduce the tax to increasing socio-political pressure arising from these latter two forms of conflict. Similarly, it will be demonstrated in the following two chapters that these conflicts underpinned the emergence of a more receptive climate for the tax’s reception.

The social scene facing policymakers in 1842 was therefore substantially different to that which had faced their predecessors at the beginning of the century. The increasing economic emphasis on industry and production, and the decreasing importance of land, had brought important changes to the social structure, as well as the perceptions of the country’s population as to their place within that structure. This changed social order led to the emergence of considerable discontent, especially amongst the working classes. In particular, the industrial society of the 1840s proved to be a fertile breeding ground for complaints of political, economic and social inequity. Historians who have considered the tax have rightly pointed to this discontent, coupled with social unrest and increasing organisational pressure for reform, to argue that together these factors posed a significant threat to the power of the political élite.

### 3.2 The sources of social discontent

A major source of social discontent over the period emanated from the poor living and working conditions of the lower classes. The rural to urban shift, exacerbated by an explosion

\(^{106}\) Ibid.
in the country’s population, had created significant problems for the state to address, in placing pressure on the primitive infrastructure of new industrial areas. In particular, the sudden urban expansion had a critically detrimental effect on the living conditions of the working classes. The rapid need to cater for ever-increasing numbers of urban migrants had resulted in the construction of cramped and poor-quality housing, intended to accommodate quickly and cheaply as many inhabitants as possible. The housing of large numbers of people in such close quarters resulted in unsanitary conditions, and left workers and their families susceptible to epidemics of deadly diseases such as cholera and typhoid. Moreover, the generous supply of labour resulted in a fall in wages, compounding the difficult conditions and thus adding to working class discontent. This was exacerbated by poor working conditions in the new factories, in response to which health and safety legislation had yet to evolve. The working classes of the early 1840s were therefore mistreated and exploited, politically disenfranchised and mistrustful of authority. This made governing the population difficult: the challenges wrought by the process of industrialisation had laid in place the foundations for a serious threat to political authority.

Grievances over poor working and living conditions chimed with social discontent more widely. Government policy was criticised on a number of grounds throughout the period, from a range of quarters, however many of these complaints were centred on an essential theme: institutional inequity. Many contemporaries believed that policymakers were driven by the interests of the wealthy, and that this was reflected across the constitutional, fiscal, economic and social functions of government.

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107 The population almost doubled between 1801 and 1841: from 8.9 million to 15.9 million people in England and Wales alone: Mitchell (n 12) 6.
108 See, for example, Smith’s point that ‘During the last two-thirds of the nineteenth century the burden of managing the human capacities of a rapidly expanding society shifted decisively onto urban structures’: (n 105) 8. For a general account of the process of urbanisation in Britain at the time, and its effects, see Hudson (n 103) 150–156.
109 Thompson has described that ‘as the new industrial towns grew old, so the problems of water supply, sanitation, over-crowding, and of the use of homes for industrial occupations, multiplied, until we arrive at the appalling conditions revealed by the housing and sanitary inquiries of the 1840s’: (n 100) 352.
110 See, for example, Evans’s assertion that ’In both Sheffield and Manchester more than half the children born alive in the 1830s failed to reach their fifth birthday’: (n 18) 197.
111 Later in the century, the economic philosopher John Ramsay McCulloch observed that ‘there seems, on the whole, little room for doubting that the factory system operates unfavourably on the bulk of those engaged in it’: Treatises and Essays on Money, Exchange, Interests, the Letting of Land, Absenteeism, the History of Commerce, Manufactures, etc. (2nd edn, Edinburgh, Adam and Charles Black 1859) 454-5.
One major complaint levelled at government in the mid-nineteenth century was constitutional inequity. In order to assess this argument, it is first necessary to consider the political backdrop in the years leading up to 1842. It was explored above that the period witnessed a growth in inter-class conflict, which pitted ‘old’ society against ‘new’, and the industrial working classes against the beneficiaries of the Industrial Revolution. This conflict would have been an alarming prospect for the political élite, whose position rested on a lack of challenge from the population. The example of the revolutions in France cast a shadow over British politics, and it was this concern that many commentators have argued ultimately motivated the 1832 Reform Act. After 1815, pressure for reform became a constant feature of the political landscape, and this reached boiling point in the years leading up to 1832. Demand for constitutional reform was particularly strong from the middle classes, and the period saw them seeking to force extension of the franchise. As Hamer has explored, although unable to effect direct political pressure, radical groups lobbying for political reform made use of ‘traditional forms of agitation – petitioning, mass demonstrations, propaganda and publicity’, and support for constitutional reform also began to grow in the press. Growing middle class support for constitutional reform was undoubtedly of concern to government, however the greater threat was posed by the growing alliance between the middle and working classes. United by their lack of franchise, and increasingly aware of the inequitable distribution of political power between classes, the middle and lower classes began to discover that they shared a common aim: gaining political voice, and disrupting

112 See, for example, Halévy’s argument that: ‘The memory of the Paris revolution was still fresh and the events of 1830 and 1832 had thrown the ruling classes into a state of panic which we can hardly conceive today, terrified as they were lest at any moment England might take the revolutionary infection from the continent’: (n 75) 94. See also George Macauley Trevelyan, British History in the Nineteenth Century (1782–1901) (13th impression, Longmans, Green and Co 1936) 228-230.


115 Evans has described that pressure for reform emerged in influential provincial journals such as the Manchester Guardian, and later even in more traditional Tory newspapers such as the Nottingham Journal: Evans (n 18) 260.
116 This has been explored in detail by Evans, who argues that, although in principle the middle class had little desire to see the enfranchisement of the working class, there was a general recognition that greater political strength could be derived from a joint effort.

The danger that this union posed to the political status quo cannot be overstated. For the country to be united against its political leaders bore all the hallmarks of revolution, and it was essential that some action be taken to nullify the threat, and to secure the position of those in authority. In response, the government chose to sever the union between the middle and working classes, using the medium of the 1832 Reform Act. This afforded the vote to much of the middle classes, by reducing the property qualification necessary to vote, and redistributing seats to afford greater representation to the new urban districts that had come into being as a result of the Industrial Revolution. Thompson has argued that this drove a wedge between the middle and the working classes, buying off the one with votes and representation and leaving the other, isolated and weak, outside the pale. In conceding to middle class demands for enfranchisement, then, the political hegemony was preserved broadly intact: ‘an inescapable minimum of concessions to the aspirations of the towns was a small price to pay for securing the power base of the landed classes in the counties’.

Nevertheless, the character of the franchise was altered irrevocably. This, it will be considered, impacted on the reintroduction of the income tax in several key ways, each of which will be considered over the remainder of this thesis.

However, despite the efforts made in the Reform Act to broaden the franchise, it failed to dispel entirely complaints of constitutional inequity. The Act fell short of the expectations of
proponents of political reform in three key ways. First, it failed to alter the composition of Parliament, meaning that policymaking continued to be dominated by the élite. Halévy has pointed out that: ‘the first Reformed Parliament, returned by a middle-class electorate, was like its predecessors a Parliament the overwhelming majority of whose members were country gentlemen and members of the aristocracy’. To those frustrated with the uneven and inequitable political process, then, the Act offered little relief, as the nature of policymaking appeared to continue much as before. Second, the Act also failed to address working class discontent, which was only fuelled by the grievances bred by the ‘betrayal’ of the middle class, and their continued exclusion from the political process. Finally, in enacting the Reform Act and thus being seen to accede to middle class demand, the government had shown itself to be malleable on constitutional matters. This likely fuelled working class ambitions for political representation, and although perhaps diminishing the social threat in the short term, the Reform Act did little to address the heart of the problem.

**Fiscal and economic inequity**

Another source of inequity commonly cited by contemporaries was inherent in the fiscal and economic systems. It was explored above that the living and working conditions of the lower classes were extremely poor over the period, however this was compounded by the reliance of the fiscal system on heavy indirect taxation. These taxes were often regressive in nature: taxing foodstuffs and basic manufactures meant that the wealthier in society, with a great deal more purchasing power, contributed little more in the way of tax than their poorer counterparts. Daunton has argued that: ‘the tax system was still heavily dependent on

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124 Hilton has noted that, although the voting population increased by forty-five per cent, this still only amounted to 4.7 per cent of the population: Boyd Hilton, *A Mad, Bad and Dangerous People? England 1783–1846* (Oxford University Press 2006) 124–126.
125 Halévy (n 75) 63. See also Evans (n 18) 271. However, it is worth noting that there is some debate around the impact of the Reform Act on the nature of political engagement: see, for example, P Fraser, ‘The Growth of Ministerial Control in the Nineteenth-Century House of Commons’ (1960) 75 English Historical Review 444.
126 See Evans (n 18) 219.
127 See ibid 274.
128 See Mathias’s point that ‘for the greater part of the yield of indirect taxes came from commodities in mass demand… In consequence, the impact of taxation fell upon the level of internal demand in the industries facing the mass markets, rather than upon the sources of savings’: (n 10) 37-38. See also Harling’s point that ‘an indirect-tax regime that obliged the common people to pay a disproportionate share of the state's fiscal burden’ added to the rhetoric of Old Corruption, considered below: Philip Harling, 'Parliament, the State, and “Old Corruption”: Conceptualizing Reform, c 1790–1832' in Arthur Burns and Joanna Innes (eds) *Rethinking the Age*
indirect taxes which fell on working-class consumers and middle-class producers’. This bred complaints of government bias, as well as resulting in ‘a lack of trust that fellow taxpayers were making a reasonable contribution to the expenses of the state’. Discontent over the regressive nature of these taxes was further aggravated by the negative effect of such taxes on living conditions. Taxes on necessaries inflated prices, diminishing disposable income and leaving the poor unable to support themselves.

This was furthered by a sense of inequity in the sectoral incidence of taxation at the time, with opponents arguing that the reliance on customs and excise duties fell disproportionately upon industry and trade, leaving wealth-holding comparatively untouched. This complaint had been growing in force since the early 1830s: William Huskisson had levelled particular condemnation on the failure of the tax system to target financial wealth, arguing that those pursuits ‘[even] were they multiplied…an hundred-fold, could never add the value of one peppercorn to our national resources’. This disparity in incidence was also notable between urban and rural areas. Halévy has discussed the operation of the tax on house property in the early 1830s, the method of assessment being ‘such that country estates and even the mansions of the nobility practically escaped payment’, whereas ‘[t]he towns…were assessed very heavily’. Thus, it was argued, the working and middle classes were burdened with tax in order to protect upper class wealth.

This sense of fiscal imbalance also chimed with economic policy more generally. It will be explored in Chapter 5 that the first half of the nineteenth century witnessed increasing dissatisfaction with the economic policies of the eighteenth century, which had led to the development of a tariff that placed high ‘protective’ duties on foreign imports, in order to afford preference to British and sometimes colonial trade.

129 Daunton (n 4) 61.
130 Ibid, 55. See also Daunton’s argument that the landed aristocracy appeared to the general public to be ‘failing to pay its “fair” share of taxation’: Daunton (n 92) 485.
131 See Mathias’s argument that ‘Taxation sapped working class purchasing power’: (n 10) 33.
132 See Huskisson, HC Deb 18 March 1830 vol 23 col 601. See also Hilton (n 40) 259.
133 Halévy (n 75) 93.
134 For a detailed examination of the attitudes of the working classes to the tax system, see Utz (n 4).
135 See, for example, the Navigation Laws, which imposed high taxes on foreign ships carrying British goods, indirectly benefiting British shipowners.
system had evolved under the influence of powerful trading interests, who had lobbied government to secure monopolies and/or preferential treatment in the tariff, in exchange for their political support.\textsuperscript{136} By the nineteenth century, the use of the tariff system to afford preference to special interests and exclude imported goods from abroad was becoming increasingly unpopular, particularly in light of the industrial boom.\textsuperscript{137} The narrowing of the manufacturing and trading markets only to domestic goods increased demand, maintaining prices at an artificially high level and in turn resulting in a drop in domestic purchasing power. Perhaps the most unpopular example of this can be seen in the impact of the notorious Corn Laws. The Corn Laws had been introduced in 1815, and had the effect of preventing the importation of foreign corn into Britain unless domestic prices fell below eighty shillings per quarter. This therefore limited corn stocks and kept prices artificially high, rendering bread very expensive. This had significant social implications, especially for the working classes: Noble has described the Corn Laws ‘reducing the entire population to beggary, destitution and want’.\textsuperscript{138} This in turn created issues for government: a hungry population was a discontented one. This was considered to be further evidence of political bias: wealthy landowners were both a significant presence in Parliament, and the chief beneficiaries of the Corn Laws. It will be seen below that dissatisfaction over protection in the economic system, and in particular the Corn Laws, formed a central crux of much of the social and political opposition facing Peel’s government in the early 1840s.

\textit{Social inequity and ‘Old Corruption’}

Complaints of imbalance and inequity pervaded many areas of government policy. This fuelled the rhetoric of what historians have termed ‘Old Corruption’, which became particularly prevalent during the eighteenth and early nineteenth centuries. Rubinstein has defined the term in its narrow sense as ‘the widespread use of pensions, sinecures and

\footnotesize{\textsuperscript{136} Daunton has argued that: ‘The tariff structure [in the eighteenth century] was shaped by an interplay between the government and the interest groups seeking special treatment. The government was anxious to make duties acceptable to these interests, which would ease the task of enforcement and collection, and also attach them to the state’: Daunton (n 92) 538. For a good account of the mercantilist system, see W Cunningham, The Rise and Decline of the Free Trade Movement (2nd ed, Cambridge University Press 1905) 27-34.

\textsuperscript{137} See, for example, Parnell’s argument that ‘monopolies and protections press on the resources of the country, exactly in the same way as a similar amount of taxation, and thus make the taxes appear to be much more burdensome than they really are’: (n 67) 5.

\textsuperscript{138} Noble (n 58) 12.}
gratuitous emoluments granted to persons whom the British government, between the earlier eighteenth century and the Age of Reform, wished to bribe, reward or buy. However, he asserts that it was used more widely during the period to refer to a ‘wide variety of practices which [Radicals] held to be at the heart of what was wrong with Britain's unreformed government’. The essential argument made by contemporaries was that policy reflected excessive and corrupt government, with those in government placing their own interests and the interests of their fellow élites over the social and financial wellbeing of Britain and her population. This complaint was particularly evident in the tax discourse during the period. It was explored above that the tax burden lay particularly heavily on the poorest in society. This was rendered even more objectionable by the perceived misuse of revenue: Daunton has argued that that tensions were ignited by ‘the costs of servicing the debt and the rentiers it sustained; the menace of militarism and a luxurious court; the subversion of the social order by a class of rich financiers and mighty landowners benefiting from pensions and sinecures’. In the public mind, the government and the aristocratic upper class to which they invariably belonged were profiting from the poverty of the lower classes, imposing heavy taxes on the poor in order to feed the excesses of the élite. This complaint led to the portrayal in popular culture at the time of the state as a ‘tax-eater’; a bloated and economically irresponsible fiscal machine intent on extracting as much in the way of tax as possible from the impoverished citizen, in order to fund improvident government administration and economic policy preferential to powerful interests and lobbies.

140 See Rubinstein’s description of the ‘elite structure’ of the eighteenth and early nineteenth centuries as ‘balloon[ing] in grotesque ways, feasting and bloating itself upon the economic enormities which Old Corruption made possible; under little or no necessity to tailor public office or official reward to public need or public opinion, it simply grew fatter and fatter’: Rubenstein, *Elites and the Wealthy*, ibid 281.
141 A particularly well-known example is John Wade, *The Black Book; or Corruption Unmasked!* vol I (London 1820).
143 See Sir Francis Burdett MP’s argument in Parliament that ministers had ‘added to the evil and the insult upon the nation by augmenting the civil list and the salaries of persons composing or connected with the government… and, while the incomes of every body else was reduced to a great amount, ministers said not a syllable about reducing their own’: HC Deb 05 February 1822 vol 6 col 28.
144 See, for example, Daunton (n 4) in particular 47-48. This idea was popularised by contemporaries such as the anonymous artist of the cover of *State of the Nation* (London 1829) (held at the British Museum, reproduced in Daunton (n 4) 48), referring to the ‘great tax eater Church and State’, with workers shown clinging to the broken beam of manufacturing and commerce.
In the immediate post-war years, after the distraction of war had abated and during which economic distress served to magnify social and economic inequity, the rhetoric of Old Corruption began to gain new heat. Mr Hume MP remarked in 1822 that ‘the existing abuses in the management of the revenue and expenditure of the country’ had resulted in the “confidence” of the people towards those in government’ becoming extinguished. This in part stemmed from frustrations over the excessive expenditure of the fiscal-military state. Thus, ‘the fiscal-military state was the ultimate casualty of the French Wars because the public was no longer willing to pay the price of maintaining it.’ This underlines the conflict, as argued above, between ‘old’ society and ‘new’: the early nineteenth century witnessed an ongoing conflict between those who benefited from the status quo, and therefore wished to preserve it, and those who believed that the state should be an impartial arbiter, promoting the interests of the entire population.

It therefore seems that, after 1815, Britain began to shift from a country at war with France to one at war with itself, with its working and middle classes pitted against a ruling élite perceived to be extravagant and amoral. The ascendency of the political élite was under threat by a new narrative of excess, corruption and inequity. The fiscal system lay at the heart of this, in providing a signal demonstration of the unequal and privileged nature of post-1815 fiscal and economic policy. Post-war governments were therefore acutely aware of the need for a change in policy. As Rubinstein has argued, ‘the "spirit of the times" simply could not rationally justify, in the light of day, the abuses of the old system’. The task faced

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145 It is worth noting that subsequent commentators have suggested that the extent of actual corruption was likely exaggerated, particularly in the nineteenth century: see Harling’s argument that the ‘accuracy [of Old Corruption] had long since been open to question’, and that ‘the perceptual gap [between radical perception and administrative reality] widened even further in the fifteen years after Waterloo’: Philip Harling, *The Waning of ‘Old Corruption’: The Politics of Economical Reform in Britain, 1779–1846* (Clarendon Press 1996) 138-9.
146 HC Deb 05 February 1822 vol 6 cols 61-62.
147 See also the argument that: ‘An assortment of political interests from popular radicals to country gentlemen felt that the high tax necessitated by decades of practically continuous warfare had not only bled them dry but wasted a good deal of their tax money by channeling it into what they deemed the wasteful and inefficient - and thus, in contemporary parlance, ‘corrupt’ - mechanisms of the central government’: Philip Harling and Peter Mandler, ‘From "Fiscal-Military” State to Laissez-Faire State, 1760-1850’ (1993) 32 Journal of British Studies 44, at 52.
148 See Daunton’s assertion that ‘The threat to English liberties was now perceived as coming from within’: Daunton (n 142) 62.
149 Rubinstein, *Elites and the Wealthy* (n 139) 287.
by the government, then, was to restore faith in the state. The chosen solution? ‘Strict, undeviating economy’, alongside a policy of tax reduction.

The policies of retrenchment and reform that were introduced during the 1820s were considered above, and it was seen that these policies were adopted in order to address the financial and economic difficulties the state was grappling with in the wake of the French Wars. However, historians have argued that they were also inspired by the need to defuse social tension and improve governability, as it was hoped that limiting state revenue, alongside a dramatic cut in civil expenditure, would dispel accusations of excessive and wasteful government, thus achieving political security. However, the success of ‘cheap government’ as a political pacifier was limited. The government was forced to concede an expansion of the franchise through the 1832 Reform Act, and retrenchment only served to exacerbate some social grievances. Therefore, policies of retrenchment and reform failed to restore trust in the state, as much of the inequity that had sparked its imposition continued to prevail. As explored above, inequity in the economic and fiscal systems continued in 1842, and much of the population remained disenfranchised. The efforts of the state over the 1820s and 1830s therefore were insufficient to dispel the rhetoric of Old Corruption.

Despite the efforts of previous governments, the social scene facing Peel in 1842 was one embittered and fragmented by social inequality and preferential fiscal and economic policy. This, it will now be considered, created a fertile environment for organised opposition to government to emerge, and resulted in the development of an acute social threat.

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150 This forms the basis of Daunton’s seminal work, Trusting Leviathan, which has informed much of the rest of this section: (n 4).
151 HC Deb 08 June 1819 vol 40 col 986.
152 See, for example, Harling’s argument that ‘[the government’s] main goal was to protect the authority of a narrow political élite at a time when that authority was being vigorously challenged’: (n 145) 151.
153 For example, the drop in civil expenditure decreased civil employment, adding to the pool of the unemployed: see Lilian Charlotte Anne Knowles, The Industrial and Commercial Revolutions in Great Britain During the Nineteenth Century (Routledge 1921) 122. Moreover, the enactment of the 1834 Poor Law Amendment Act, introduced in part to limit public spending on Poor Relief, worsened the conditions of the poor and often forced them into workhouses: see, for example, Bernard Harris, The Origins of the British Welfare State: Society, State and Social Welfare in England and Wales, 1800-1945 (Palgrave Macmillan 2004) 47-55.
154 For an analysis of the ultimate failings of the policy of retrenchment, see Daunton (n 4) 60-63.
155 For example, the Corn Law remained untouched, and the fiscal system continued to rely on indirect taxes, with very few taxes targeting wealth.
3.3 The emerging social threat

In understanding why public discontent was of particular concern to Peel, it is necessary to consider the particular severity of the threat in 1842. The changes that had taken place in the social fabric had resulted in novel opportunities for social organisation, which posed an unprecedented threat to government. This threat pushed social cohesion to the top of Peel’s priority list, bringing ‘social and financial rather than constitutional problems into the foreground of politics’.\textsuperscript{156} This will now be considered, and the following discussion will lay the necessary foundation for the argument, developed over the remainder of this thesis, that the socio-political threat to the status quo played a significant role in the reintroduction of the income tax. Importantly, as well as influencing the actions of government, it will be demonstrated in Chapter 5 that this threat induced commercial players to accept the reinstatement of the tax in exchange for greater market security and reduced tensions within the workforce.

\textit{Opportunities for organisation}

As well as breeding poor living conditions and discontent, the rural to urban shift witnessed during the nineteenth century also opened up opportunities for unprecedented coordinated organisation.\textsuperscript{157} In the past, the labouring classes had been disparately distributed, owing to the nature of agriculture. However, by 1842, this had begun to change. The high concentration of the working classes in the new urban areas had contributed to the growing awareness and narrative of class, and with this developed the possibility of channelling discontent into action.\textsuperscript{158} Contempt for government spilled over into the formation of political associations championing the anti-establishment message. A particularly well-known

\textsuperscript{156} Norman Gash, \textit{The Age of Peel} (Edward Arnold 1968) 9.
\textsuperscript{157} Hudson describes working-class establishment of ‘strongly based and self-conscious working-class institutions and movements: friendly societies, trade unions, educational and religious movements, co-operatives, working-class periodicals and Chartism’: Hudson (n 103) 204.
\textsuperscript{158} Thompson has argued that first half of the nineteenth century saw the ‘making’ of the working class: by the 1830s it had transformed into a more cohesive, unified class, and became ‘the most significant factor in British political life’ – (n 100) 11.
example of this was the Chartist movement.\textsuperscript{159} Chartists called for the extension of the franchise to the working classes, seeing in that the opportunity to effect wide-ranging political, social, economic and fiscal change.\textsuperscript{160} Evans has dubbed Chartism ‘the most important political movement of working men organized during the nineteenth century’: its 1839 and 1842 petitions for working class representation attracted 1.3 million and 3.3 million signatures respectively, revealing the Chartist movement as ‘a peak of working-class organization’.\textsuperscript{161} The mobilisation of the working classes into a cohesive unit with the shared aim of effecting near-revolutionary change posed a significant political threat to government, as admission of the working classes to the political process would likely put an end to the predominance of the political élite. Although still excluded from franchise and thus direct political influence, the working class of 1842 therefore posed a unique political threat to government.

This concern was exacerbated by a more traditional threat: rebellion. The period 1816-1842 witnessed significant civil unrest, especially in industrial districts,\textsuperscript{162} with several large scale riots taking place, perhaps most notably in Bristol in 1831, a number of anti-Poor Law protests in the North throughout the late 1830s, and the Chartist Newport Rising in 1839.\textsuperscript{163} It had been argued in the \textit{Quarterly Review} in 1829 that if ‘the social plague of poverty and degradation among the peasantry is not stayed…it will afflict the whole land; and, whenever this happens, it will inevitably draw after it a strong and dreadful explosion’.\textsuperscript{164} This threat

\textsuperscript{159} For a good account of the factors behind the rise of Chartism, see for example, Dorothy Thompson, \textit{The Chartists: Popular Politics in the Industrial Revolution} (Pantheon Books 1984); and Gareth Stedman Jones, \textit{Languages of Class: Studies in English Working Class History 1832–1982} (Cambridge University Press 1983) ch 3.

\textsuperscript{160} Historians have argued that working class complaints of fiscal imbalance were an important driver behind the Chartist movement: see Utz (n 4). See also Daunton’s argument that: ‘The radical critique on taxation and the state fed into Chartism, which stressed that the problem of poverty and hardship was political rather than economic in origins, arising from the bias in the tax system against the poor’: Daunton (n 4) 56.

\textsuperscript{161} Evans (n 18) 320. See also Thompson’s account that Chartism was especially strong because it contained ‘elements of old and new forms, and was able to combine a national leadership with the participation of working men and women at all levels in the communities in which they lived’: (n 159) 7.

\textsuperscript{162} Although it is important to note that after 1832, historians have considered the threat of unrest to have been waning: see John E Archer, \textit{Social Unrest and Popular Protest in England} (Cambridge University Press, 2000) 55. Instead, greater emphasis was placed on the increasing industrial organisation and growing trade unionism through the period, especially after the repeal of the Combination Acts in 1824. However, ‘Direct action and violence…were never completely eradicated’ (\textit{Social Unrest,} 55), and violent protests continued throughout the 1830s and into the 1840s: see, for example, George Rudé, \textit{The Crowd in History: A Study of Popular Disturbances in France and England, 1730–1848} (Serif 2005) 182-191.

\textsuperscript{163} See Archer, ibid 71-4 and 83.

was particularly acute given that it was accompanied by a significant increase in population, swelling working class numbers and rendering any insurgence increasingly difficult to quell. Hudson has argued that ‘Demographic increase, proletarianisation and urbanisation resulted in the poor coming to be regarded, even more than in the past, as a threat to order and stability’.

Increasing working class organisation added another dimension to this fear, as small and disparate unrest was easier to neutralise than coordinated action. Therefore, it was probably clear to Peel’s government that some concession needed to be made to working class feeling. Given that fiscal inequity was a significant ground for working class discontent, it was logical that change should begin with the tax system. Accordingly, historians have pointed to the income tax as a promising solution to the socio-political difficulty, as will be considered below.

Although discontent was especially pronounced amongst the working classes, the government of 1842 also had to worry about the danger presented by more ‘respectable’, middle class critics.

Although the intention behind the 1832 Reform Act had been to mitigate this threat, this had not been entirely successful. As Evans has argued: ‘Though the 1832 Act was profoundly anti-democratic in sentiment, its very passage showed how future pressure might bring further concession’. In conceding to middle class demands for constitutional reform, the government had demonstrated itself to be open to persuasion in future. Thus, middle class pressure continued after 1832. The signal example of this was the Anti-Corn Law League, which lobbied for the repeal of the Corn Laws. It was established above that the grievous impact of the Corn Laws on the working classes was profound, however it also held negative implications for the middle classes: the Corn Laws inspired ‘middle-class anger’, as it maintained high labour costs and suppressed foreign trade.

Furthermore, despite the sense of betrayal at middle class abandonment after the Reform Act, the League also appealed to the working classes, in promoting the case for affordable

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165 Hudson (n 103) 207.
166 See Harling’s point that it was not principally the demands of radicals that concerned government, rather the fact that ‘respectable’ critics had begun to espouse some of the same criticisms of corruption: (n 145) 151.
167 Evans (n 18) 274.
168 For a general history of the Anti-Corn Law League, see Norman McCord, The Anti-Corn Law League, 1838–1846 (2nd edn, George Allen and Unwin Ltd 1968). For a good account of the political tactics of the League, see Hamer (n 114) especially at 62-68; and for its influence over politics, see Evans (n 18) 331-339.
169 Trevelyan (n 112) 188.
170 See, for example, Evans (n 18) at 332.
The League’s pressure tactics involved traditional forms of agitation in the form of petitions and propaganda, however also spread to the employment of what Hamer has dubbed ‘electoral pressure’, in pressuring particular parliamentary candidates to support their agenda. The Anti-Corn Law League ultimately proved to be a far more credible threat to government than Chartism, in part because the middle classes possessed some direct political power, and also because the League was consequently able to attract plentiful financing from the wealthy middle classes.

It therefore seems that the threat facing Peel in 1842 was multifaceted and potentially hazardous for government. Increasing discontent amongst the middle and lower classes on the grounds of inequity and political partiality had resulted in a serious challenge to the security of the standing of political élites. Chartism, rioting, and the establishment of more ‘respectable’, and thus more politically damaging, pressure groups such as the Anti-Corn Law League focused state attention on the fiscal and wider economic scene, and incentivised the government to take further steps to secure its position. The success of previous efforts to achieve this objective, in particular through policies of retrenchment and tax reform, had been limited, and by 1842 it was more important than ever that strong action was taken to neutralise the social threat. It will be argued throughout the following chapters that this backdrop influenced the tax’s reintroduction in several important ways, in altering the political and social environment for the tax’s reception and simultaneously changing the nature of the relationship between the commercial interest and tax policy. However, the strained social scene has also been emphasised in existing histories of the tax’s reinstatement. In particular, Daunton has argued that the income tax was introduced in an attempt to restore trust in government, through the adoption of fiscal policy designed to diminish inequity and demonstrate the legitimacy of the state. This idea of a socio-political imperative for the tax’s reintroduction will now be explored.

171 See Halévy’s assertion that ‘the poor [were promised] an immediate and tangible boon, cheap bread’: (n 75) 306.
172 See Hamer (n 114) especially at vii, 9-10 and 62.
173 Evans (n 18) 331.
3.4 The socio-political utility of the income tax

By the time that Peel took office after four consecutive years of economic depression, the working class condition was one of abject poverty, floundering under an imbalanced fiscal policy that loaded further financial burdens on those least able to afford it. The continued reliance on eighteenth century fiscal policies despite the changed economic and social landscape had revealed its inequities, and the poor economic situation brought complaints to the fore. This has led some historians to suggest that the troubled social situation, combined with the economic difficulties seen in the early 1840s, left further indirect taxes politically undesirable. Levi has argued that ‘With a disaffected people, and frequent riots in the manufacturing districts, with a paralysed trade, and wages reduced to a very low scale, any idea of imposing new taxes, or making those heavier, was out of the question’. Increases in many indirect taxes would therefore risk fuelling radical complaints of the regressive nature of the tax burden. Thus, the income tax was probably the most effective solution to the political quandary. On this view, then, Peel’s quandary was whether to continue nonetheless to maintain existing fiscal policy, and risk compounding the social threat, or to rethink of the basis of taxation. This added weight to the case for an income tax, which would avoid recourse to politically objectionable increases in existing taxes.

This interpretation has been built upon by Daunton, who argues that during the nineteenth century the state used tax to formulate ‘a social contract between classes and interests’, distributing the tax burden in such a way that appeared equitable and fair. It was this ‘reshaping’ of the fiscal constitution, that, in Daunton’s view, prompted Peel to reintroduce the income tax. He has identified two interlinked motivations behind the tax’s reintroduction. First, he argues that Peel sought to achieve the ‘purchase of future security’: by taking a more equitable approach to fiscal policy, it was hoped that social

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174 Levi (n 40) 263.
175 Daunton (n 4) 21-22. See also Harling’s argument that ‘Peel’s strongest argument for adopting an unprecedented peacetime income tax was that it would signal to the masses that the propertied not only abstained from exploiting their political power for the maintenance of burdensome economic privileges, not only that the state was not a broker of “corrupt” benefits, but that the élite was willing to shift a good deal of the tax burden from the masses to itself, and to lower the price of food in the process’: (n 145) 241.
176 Trusting Leviathan, 24.
177 This phrase was used by Peel in a private letter to John Wilson Croker, quoted in L J Jennings (ed), The Croker Papers: The Correspondence and Diaries of the late Rt Hon John Wilson Croker (2nd edn, John Murray 1885) vol II 379.
tension could be defused. Second, he suggests that Peel also sought to establish the
perception of legitimacy in policymaking, and thereby restore the trust of the population in its
leaders. This would counteract accusations of bias and Old Corruption, and in doing so secure
the position of existing political élite.\textsuperscript{178} These arguments will be explored in turn.

The first element of Daunton’s argument is that, in taxing according to ability to pay to a
greater extent than any other tax at the time, the income tax would inject greater equity into
the fiscal system. Furthermore, the tax would provide the revenue necessary to make reforms
to existing taxes, diminishing the longstanding regressive effect of the tax system as a whole.
This would serve to ‘reduce taxation on the poor who were the source of both wealth and
revolution’.\textsuperscript{179} Peel, aware of the difficult economic and social conditions of the poor, had
long understood the importance of dispelling social tension through fiscal reform.\textsuperscript{180} Working
class complaints over the regressive nature of indirect taxation had been growing in the years
since 1816,\textsuperscript{181} and by 1842 there had emerged a significant body of public opinion in favour
of amending the fiscal system in order to alleviate the burdens of the poor.\textsuperscript{182} In making the
fiscal system more equitable, the income tax would diminish those burdens, as well as
removing some of the heat from pervading arguments of unfairness and inequality.
Furthermore, it would also reduce social conflict, by demonstrating the willingness of the
wealthy élite to contribute to the needs of the state.\textsuperscript{183} Peel looked to the income tax not only
to alleviate Britain’s financial difficulties, but also her social troubles.\textsuperscript{184}

\begin{footnotesize}
\begin{enumerate}
\item Daunton (n 142) 68.
\item Daunton (n 92) 520.
\item Daunton details Peel’s attempts in 1830 to reduce taxes on some luxuries in a bid to make them more
accessible to the working classes: Daunton (n 4) 78. For more on Peel’s awareness of the conditions of the poor,
see Norman Gash, \textit{Mr Secretary Peel: The Life of Sir Robert Peel to 1830} (Longmans 1961) 621-622. See also
Hilton’s reference to Peel’s ‘sensitive social conscience’: Hilton (n 40) 268.
\item See Brown’s point that ‘working-class Radicalism, both in the early thirties and in the Chartist
movement…place[d] emphasis’ on the objection that the tax system operated regessively: Lucy Brown, \textit{The
Board of Trade and the Free-Trade Movement 1830–42} (Oxford University Press 1958) 146.
\item See Utz (n 4) especially at 199-203.
\item This argument had been made by representatives of the working classes for a long time: see Attwood’s
argument in his 1829 speech that ‘[the aristocracy should] indulge their fancy - by a property tax - by a tax on
themselves - by a tax on the public wealth, and not by imposts on the public poverty’: Thomas Attwood, \textit{Causes of
the Present Distress. Speech of Thomas Attwood, Esq. at the Public Meeting, Held in Birmingham, on the 8th
of May, For the Purpose of Considering the Distressed State of the Country} (Birmingham 1829), 15-16.
\item See Daunton’s argument that ‘Peel intended to use the revenue from income tax as a means of tackling
poverty, social unrest, and trade depression’: Daunton (n 92) 553.
\end{enumerate}
\end{footnotesize}
The reintroduction of the income tax would also have the benefit of promoting the perceived legitimacy of government. In distributing the tax burden more evenly amongst the poor and the wealthy, the government would be able to demonstrate its objectivity. This would tap into the broader goal of re-establishing public trust in government, which had in part motivated the policies of retrenchment during the previous decades. According to Daunton, Peel aimed to ‘convinces[e] electors and taxpayers that the allocation of taxation could be fair, marking the voluntary acceptance by property owners and the upper classes of a burden in order to relieve the poor’. Thus, he hoped to convince ‘respectable’ critics that the state was ‘disinterested’, by demonstrating that the tax system was equitable and did not afford preference to any particular interest over another. This would restore a sense of trust in Britain’s leaders, and afford greater stability to the political structure, left vulnerable by the growing rhetoric of corruption. In this way, the income tax would continue the task begun by policies of retrenchment. Furthermore, Daunton has argued that the tax would also serve to support continued retrenchment, by establishing a link between paying tax and the right to vote. In deciding how to vote, taxpayers would recognise that increased state expenditure would have implications for their own tax contributions, as the source of revenue to meet this expenditure. As a result, the argument ran, they would be incentivised to vote for a retrenched state and against unnecessary expenditure, in order to keep their own tax contributions low. The reshaping of the fiscal constitution via the reintroduction of the income tax offered government a way to instil in the population a sense of faith in fiscal policy and the government more generally. This, it was hoped, would defuse the social threat, and secure the position of the political elite.

3.5 The socio-political imperative for the income tax: issues with this interpretation

The preceding discussion indicates that there was a strong socio-political imperative for the tax’s reintroduction. The emergence of a social threat had made the mitigation of social tension a key priority to Peel’s government, and the income tax offered two important ways of doing that: first, by avoiding increases in existing, and often regressive, taxes; and second,  

185 Daunton (n 4) 77.
186 Ibid, in particular 61-63.
187 Ibid 86. However, he argues that this link is not absolute, and did not bear close scrutiny in 1842: 149-150.
as Daunton has argued, by promoting equity and trust in the fiscal system. Thus, the income tax was well-placed to act as a political pacifier to the emergent social threat. It is this motivation of government that historians have focused on in explaining why the income tax was reintroduced in 1842.

The existence of a socio-political imperative laying behind the income tax indeed adds an important dimension to the government’s decision to reintroduce the tax. Nevertheless, there are issues with relying on this interpretation alone, meaning that we are as yet without a fully convincing answer to the question of why the income tax was reintroduced in 1842. Recognising that the government had good political as well as financial motives for reintroducing the tax tells us little about how and why Peel was able to overcome the traditional enmity that the tax provoked, especially given that other options were being mooted in Parliament. Why was it that Peel was able to secure political support for the tax 1842, when it had been roundly rejected in 1816, and avoided ever since? One answer, of course, could be that Parliament, like the government, were convinced of the need to make concessions to the discontented public. In that case, however, why did the same argument not extend to repeal of the Corn Laws, which were acknowledged both to operate contrary to the financial interests of the country, and to be central to the grievances of the working classes? It appears that other factors must have been at play than simply the need to neutralise the social threat. One such factor is that the political backdrop had changed in the years since 1816. This made Peel’s task in reintroducing the tax significantly easier than that of previous governments hoping to instate the tax. This argument will be discussed in Chapter 4, and it will be argued that, in particular, the influence of the commercial interest over political decision-making had receded. This proved pivotal to the reintroduction of the income tax.

A second issue with the notion of a socio-political imperative, and also common to the arguments of financial necessity, is that, despite providing a persuasive account of Peel’s motives, it fails to explain why the British public accepted the tax. As Hope-Jones has argued: ‘It is a commonplace that no form of fiscal levy can be successful without the cooperation of the great mass of the people affected by it’. The repeal of the tax in 1816 had

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provided a signal demonstration of the extent of the public antipathy towards income tax, and it was argued in Chapter 2 that this was a salient factor in the tax’s abolition. The socio-political and financial benefits of the tax to government, although key to Peel’s decision to propose it, fail to explain why the tax was not also defeated by public hostility in 1842. Although it could be suggested that the public were swayed by the financial and socio-political arguments in favour of the tax, it is unlikely that these arguments alone would have been sufficient for the public to tolerate the reimposition of a much-loathed tax in peacetime. It therefore seems that existing explanations provide little insight into why the tax was not defeated by public opinion against it in 1842. Instead, a new interpretation will be proposed in Chapter 5: that, owing to important administrative, economic and societal changes that took place over the quarter-century prior to 1842, the opinion of the taxpaying public had shifted to become more receptive to the tax’s reintroduction than ever before. In particular, it will be argued that longstanding opposition to the tax from the country’s commercial interest had abated, which proved decisive in allowing the tax to pass back into the fiscal fabric.

IV. CONCLUSION

In answering the question as to why the income tax was reintroduced in 1842, the prevailing narrative to date has been that the tax was necessitated by the country’s difficult financial position. This interpretation has been developed upon by other historians, who have argued that there also existed a strong socio-political imperative for its reintroduction, chiefly because the tax promised to redress some of the inequities in the fiscal system, thereby ameliorating social disaffection and offering much-needed political security to government. Although these arguments present a compelling portrait of the motives behind the government’s decision to reintroduce the income tax, this chapter has shown that neither can fully answer the question as to why the government was able to reinstate the tax. It was argued in Part I of this thesis that, in the past, opposition to the tax both in and out of Parliament had been sufficient to force its abandonment. As such, in focusing on the rationale behind the proposed reinstatement of the tax, the existing histories provide only one half of the story. The following chapters will seek to remedy this, and it will be argued that, owing to important changes across all areas of the political and social spheres, the climate for the tax’s reintroduction was markedly more receptive than it had been in the past. In particular, these
changes had served to break down two longstanding barriers to the tax’s development: commercial influence over tax policymaking, and commercial opposition to the tax. Thus, it will be argued that the changed commercial climate is critical in explaining why the income tax was reintroduced. This interpretation builds upon the histories explored in this chapter, in order to offer a fuller explanation of the factors at play in the successful reinstatement of the income tax.
CHAPTER 4: A CHANGED POLITICAL ENVIRONMENT

I. INTRODUCTION

The factors that lay behind the reinstatement of the income tax in 1842 have been the subject of significant attention by historians. It was explored in the previous chapter that, up to now, historians have focused on the government’s financial and political motives to explain the successful reimposition of the tax. However, it was shown that these explanations alone do not provide a comprehensive picture of the situation in 1842. Although they explain why the government was inclined to reintroduce the tax, they fail to account for why it was able to do so. The accepted explanation for the reintroduction of the tax, that the economic and political situation necessitated its reinstatement, is flawed. Thus, there is a gap in our understanding of the reinstroduction of the tax.

The following two chapters will propose a new, complementary argument to remedy this incomplete picture of the tax’s reintroduction. It will be argued that, owing to a complex interplay of political, intellectual, economic and societal developments in the decades between 1816 and 1842, the climate for the tax’s instatement was more receptive than it had been in the past. Each of these changes had an important commercial dimension, which resulted in the breaking down of the two longstanding barriers to the tax’s development that were identified in Part I: commercial influence over tax policymaking, and commercial hostility to the tax. Two central arguments will be put forward: first, that commercial influence over the political process had significantly reduced by 1842, making the tax easier to reintroduce to the fiscal fabric. Second, changes in commercial attitudes and priorities also meant that commercial opposition to the tax, which had once proven so fatal to the tax’s fortunes, was significantly reduced. These changes played a pivotal role in the evolution of a climate more receptive to the income tax.

This chapter will consider the first of these arguments. It will examine the political and intellectual changes seen through the period, in order to argue that, by 1842, the political
climate had become more receptive to the tax. This made the task of getting the tax through Parliament and into legislation easier than ever before. The chapter will begin by considering one explanation that has been put forward by historians to explain this ‘softer’ climate: that the nature of Peel’s rise to power afforded him the ability to reintroduce the tax with greater ease than politicians in the past.¹ This will be developed, and it will be posited that consideration of Peel’s political position and skill as a statesman does indeed shed some light on why Peel was able to succeed where others had failed. However, it will be submitted that, in and of itself, this interpretation fails to explain why politicians were willing to accept a tax which had once stoked near-unanimous resentment across the population. Instead, the chapter will propose two complementary explanations for the change in political climate. First, it will argue that, owing to developments in the sphere of tax theory, the intellectual backdrop to the tax had become more favourable. This resulted in increased positivity towards the tax by political commentators both in and out of Parliament, as well as amongst the country’s commercial community. The chapter will then consider the relationship between the commercial interest and tax policymaking. It will demonstrate that the period witnessed important changes in the nature of the commercial sector, which resulted in a decline in its influence over tax policy. This decline, together with changes to the political process in the wake of the 1832 Reform Act and a move away from interest-led policymaking, may have made getting the tax through Parliament significantly easier. Thus, the first longstanding barrier to the tax’s development identified at the end of Part I, commercial influence over tax policymaking, had begun to break down. The chapter will conclude that once again, the relationship of the commercial interest to the income tax is central to a proper understanding of how it developed.

II. PEEL AS A NECESSARY PRECONDITION

In explaining why Peel was able to reintroduce the income tax in 1842, some historians have focused on the strong political position that he occupied.² It has been well-established that the

² See, for example, Sabine’s statement that ‘Peel and his Chancellor, Goulburn, fortified by their commanding majority, successfully resisted every criticism…’: *A History of Income Tax*, ibid 62.
unsustainable fiscal and economic policies implemented during the two decades prior to 1842 were driven by weak Whig government.³ Mathias has argued that: ‘the government throughout the 1830s did not feel strong enough to introduce more direct taxation and hence did not have the financial resources to dismantle the protective duties’.⁴ Without the courage to put forward a drastic reconsideration of the basis of taxation, fiscal policy-makers during the 1830s instead attempted to maintain political support through piecemeal reduction of taxes, leaving little in the way of budgetary surplus.⁵ This stripping back of valuable revenue contributed significantly to the decline of the country’s financial situation once economic conditions deteriorated, which in turn prevented further reductions from being made.⁶ According to Brown, the turning point came with the introduction of the Penny Post in 1840, upon which significant reductions were made to the very profitable postage duties, with no alternative produced to offset the shortfall in revenue.⁷ Public concern over the financial and economic impact of policies such as this resulted in what Gash has dubbed a ‘landmark victory’ for Peel’s Tory opposition: it became ‘the first time that a government with a previous majority in the Commons was replaced by a new ministry as the result of the victory of an opposition party at the polls’.⁸ The weak Whig government of the 1830s was over: instead, Peel had been selected as the man to restore the country to economic prosperity.

With a landslide victory under his belt, Peel’s mandate was strong.⁹ To his political supporters after the election the choice was thus: to support Peel, even if sceptical of his ideas, or to risk a return to poor Whig government and continued economic and financial difficulty. Peel was therefore in an advantageous position: as Brown has argued, most Tories

³ See Hilton’s reference to the ‘spineless finance’ of the 1830s: Boyd Hilton, Corn, Cash, Commerce (Oxford University Press 1977) 267. For a developed discussion of the poor financial position, see Chapter 3.
⁶ This was developed at length in Chapter 3. Some commentators have defended the Whig government’s policies: Halévy has pointed out that the political predicament was complex, and any reform with the effect of alienating powerful interests would have resulted in ‘driving [them] into the Tory camp’: ibid 89. Furthermore, Brown has argued that the Whigs, having been elected in the early 1830s due to an ‘almost revolutionary agitation’ for constitutional reform, were afterwards ‘particularly sensitive to the demands of the electorate’, and thus in order to preserve their political popularity found themselves at the whim of public opinion: Brown (n 1) 35.
⁷ Ibid 62.
⁸ Norman Gash, The Age of Peel (Edward Arnold 1968) 9.
⁹ See Sabine’s point that ‘Politically he was in an impregnable position’: ‘Great Budgets III’ (n 1) 50.
at the time were liable to approve ‘any economic measures he might introduce’. This afforded Peel with a solid structure of support upon which he was able to draw to get his controversial Budget, and with it the income tax, through Parliament. In a letter to his constituents, Sir Richard Vyvyan complained that ‘The dread of seeing the Whigs restored to place banished all other considerations; not only did [the Tories] submit to the Minister’s dictatorial manner, but they scarcely ventured to offer a few words in debate against it’. Thus, he noted, only two Tory MPs voted against the income tax. It therefore seems that the particular political backdrop offered Peel a strong platform from which to propose radical fiscal and economic change, and as such made reintroduction of the controversial income tax a stronger possibility than ever before. In taking advantage of his strong political mandate, Peel was able to succeed where other statesmen had failed.

To this argument can be added the interpretation that Peel’s impressive statesmanship rendered him particularly persuasive to his fellow politicians, allowing him to induce them to accept the income tax. Peel has been dubbed ‘the greatest statesman of his time’, and his oratorical skills have been widely acclaimed, both by contemporary commentators and those writing subsequently. His Budget speech, delivered on 11 March 1842 and delivered over three hours and forty minutes, was extremely detailed, with comprehensive discussion of a number of alternatives so as to prove beyond doubt that the income tax was the only plausible option left available. Furthermore, he delivered his proposals in strong terms, with the warning of future criticism and a failure of national duty should they allow economic difficulties to continue:

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10 Brown (n 1) 225. See also the related point that ‘Peel…[was] lucky in that social welfare and economic progress seemed compatible’: he was able to fulfil one without compromising on the other: Hilton (n 3) 261.
11 Richard Rawlinson Vyvyan, A Letter from Sir Richard Vyvyan, Bart MP to his Constituents, upon the Commercial and Financial Policy of Sir Robert Peel’s Administration (London 1842) 35.
12 Tayler refers to the Budget of 1842 as ‘one of the most masterly displays of comprehensive genius on the part of Sir Robert Peel…that ever has been, or probably ever will be, achieved by any statesman’: William Tayler The History of the Taxation of England, With an Account of the Rise and Progress of the National Debt (Hope & Co 1853) 103. See also Buxton’s view that the acceptance of the Budget by politicians reflected ‘the perfect confidence felt in the man, more than any liking for his measures’: Sydney Buxton, Finance and Politics: An Historical Study 1783–1885, vol 1 (John Murray 1888) 45.
13 Norman Gash, Mr Secretary Peel: The Life of Sir Robert Peel to 1830 (Longmans 1961) 1.
14 Sabine refers to him as ‘one of the greatest parliamentary debaters’ (‘Great Budgets III’, (n 1) 51).
If you do permit this evil to continue, you must expect the severe but just judgment of a reflecting and retrospective posterity. Your conduct will be contrasted with the conduct of your fathers, under difficulties infinitely less pressing than theirs. Your conduct will be contrasted with that of your fathers, who, with a mutiny at the Nore, a rebellion in Ireland, and disaster abroad, yet submitted, with buoyant vigour and universal applause (with the funds as low as 52), to a property-tax of 10 per cent…My confident hope and belief is, that now, when I devolve the responsibility upon you, you will prove yourselves worthy of your mission – of your mission as the representatives of a mighty people; and that you will not tarnish the same which it is your duty to cherish as the most glorious inheritance…16

As well as emphasising the necessity of the tax by pointing to the dire state of the economy and the national finances, then, Peel bolstered his position by appealing directly to the sense of patriotism and civic duty of the House of Commons. It is therefore not difficult to see why contemporaries considered it to be ‘a masterpiece of financial statement’,17 with Peel showing ‘complete mastery over both his friends and his foes’.18 Faced with such a challenge, it is also unsurprising that it proved persuasive to politicians.

The nature of Peel’s rise to power, coupled with his abilities as a statesman, sheds light on the willingness of MPs to accept the tax. However, given the contempt for the tax evinced both in and out of Parliament in the past, it seems unlikely that, had those attitudes endured, they could have been overcome by Peel’s powers of persuasion alone.19 Furthermore, even with a strong mandate, it is doubtful that Peel would have been able to reintroduce the tax had the country’s most politically influential interests remained set against it. It was demonstrated in Part I of this thesis that, during the tax’s previous operation, Britain’s influential commercial interest mounted strong opposition to the tax both in and out of Parliament. This resulted in a preferential system of taxing commercial income in order to placate those interests whilst military expenditure necessitated the tax’s revenue, and ultimately led to the tax’s repeal at the end of the war. Peel’s strong mandate and skills as a politician alone fail to explain why the influence of these interests did not cause the tax to be rejected in 1842, as in 1816.

16 HC Deb 11 March 1842 vol 61 col 466.
17 Greville (n 15) 15.
18 Ibid.
19 It is admittedly likely that the poor financial situation was clear to MPs, and that therefore this may have induced them to accept the tax. However, as was explored in Chapter 3, although the income tax was perhaps the best option, it was not the only alternative to the financial difficulty, and so this alone cannot explain why politicians were willing to accept a tax which had previously stirred such resentment in the population.
One possible explanation, it is argued, may be found in the particular appeal that Peel had to the commercial interest. Unlike many of his contemporaries, Peel was from comparatively humble industrial origins: his father was a Staffordshire industrialist who had made his fortune in the textiles trade. Hurd accounts that ‘During his early years in the House of Commons Peel’s nickname was Spinning Jenny, in mockery of his industrial background’. Similarly, Salmon has noted that ‘Peel and his father never completely lost their regional accents or parvenu status’. This could shed some light on Peel’s ability to introduce the tax: commercial actors may have been more willing to trust Peel, as an insider to the business world and from a well-respected industrial family, than other Tory politicians perceived not to have the same understanding of and respect for commercial affairs. It is therefore submitted that Peel’s commercial background may have assisted him in reintroducing the unpopular income tax.

However, although Peel’s commercial credentials may have induced greater tolerance amongst commercial taxpayers, by itself this cannot fully explain why Peel was able to secure political support for the income tax where previous governments had failed. In putting forward an answer to this question, this chapter will argue that Peel’s ability to successfully reinstate the tax to the fiscal scene can be explained by the fact that the political climate for the tax’s reinstatement had altered in the years leading up to 1842. This can be seen in two key respects. First, intellectual attitudes to the income tax had begun to change by 1842. The opinions of fiscal theorists, alongside those political commentators promoting their ideas, likely reconciled politicians to the principle of an income tax. Second, Peel’s task was made easier by important developments in the nature of political influence. This meant that the ability of powerful actors, particularly within the commercial community, to block or influence fiscal policy was reduced. A key barrier that had inhibited the tax’s earlier development had therefore diminished. These two arguments will now be considered in turn.

20 For an account of Peel’s family, see Gash (n 13) 2 and ch 1.
III. AN INTELLECTUAL SHIFT

The eighteenth and nineteenth centuries witnessed an ongoing evolution in the intellectual life of the country. A particular development was in the shaping of the emerging discipline of political economy. This section focuses on evolution in the political economy of public finance, and in particular in tax theory. It provides an original synthesis of three interlinking intellectual currents which together came to point in favour of the reintroduction of income tax in Britain, and which have not been explicitly drawn together to explain why Peel was better able to reintroduce the income tax than politicians before him. First, the section argues that theorists came to place greater emphasis on equity in taxation, which was more compatible with an income tax than most other taxes at the time. It then considers the growing disinclination towards indirect taxation witnessed over the period. Finally, it explores the increasing consideration given by theorists to the income tax. It argues that, together, these trends created an intellectual environment more receptive to an income tax than at any other point in the past. It is demonstrated that this had an important effect on the political climate for the tax’s reinstatement, as the tax came to be viewed by politicians as part of a fairer and more sustainable fiscal strategy. This was reflected in escalating calls for the reintroduction of the tax in Parliament. Moreover, it is submitted that the intellectual shift also had an important commercial dimension, as the commercial interest proved a natural audience for new theories of political economy. The changes in intellectual environment therefore also impacted upon commercial willingness to accept the tax, which, as will be argued in Chapter 5, played a crucial role in its reintroduction.

24 A key work on this is Takuo Dome, *The Political Economy of Public Finance in Britain, 1767–1873* (Routledge 2004), which analyses the contributions of a series of thinkers to the development of public finance theory over the eighteenth and nineteenth centuries. Dome’s conclusions have significantly informed this section.
3.1 Growing emphasis on equity in taxation

The first current that can be identified in the developing intellectual scene over the late eighteenth and early nineteenth centuries is an inclination towards equity in taxation. In giving greater consideration to the concept of tax equality, theorists came to advocate for equity in taxation, although it was not expressed in these terms. This would ultimately provide an important foundation for the move away from indirect taxation, and for greater support for an income tax.

In the seventeenth and eighteenth centuries, it was considered by many that tax was owed in exchange for the benefits that taxpayers received from the state. According to Hobbes, ‘the Impositions that are laid on the People by the Soveraign Power, are nothing else but the Wages, due to them that hold the publique Sword, to defend private men in the Exercise of several Trades, and Callings [sic]’. This view held important implications for accepted practice on how they should be taxed. Hobbes argued: ‘the Benefit that every one receiveth thereby, is the enjoyment of life, which is equally dear to poor, and rich; the debt which a poor man oweth them that defend his life, is the same which a rich man oweth for the defence of his’. This amounted to an early articulation of the notion of equality in taxation. According to Hobbes, equality meant that all citizens should pay equal amounts of tax, although Locke was less definite, instead arguing only that a citizen should pay ‘his proportion’. As such, each taxpayer should pay the same as another, irrespective of means. As a result, Hobbes, Locke and other theorists of the liberal school supported indirect taxation, as such taxes were paid by all purchasers of an item, and so better satisfied the aim of equality. In line with these new theories, and alongside a desire by government to maximise revenue, fiscal practice shifted in emphasis away from land and property taxes, and

25 Thomas Hobbes, Leviathan, or, the Matter, Form, and Power of a Commonwealth Ecclesiastical and Civil (London 1651) 181. This was developed upon by Locke: see, for example, Jane Frecknall-Hughes, ‘Locke, Hume, Johnson and the Continuing Relevance of Tax History’ (2014) 12 eJournal of Tax Research 87, especially at 90-93.
26 Hobbes, ibid 181.
towards indirect and assessed taxes.\textsuperscript{28} It was upon these taxes, coupled with borrowing, that the fiscal-military state came to be built.\textsuperscript{29}

However, a significant change in accepted tax theory came in the publication of Adam Smith’s \textit{Inquiry into the Nature and Causes of the Wealth of Nations} in 1776.\textsuperscript{30} In promoting equality in taxation, Smith argued that ‘The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state’.\textsuperscript{31} Smith, whilst on the one hand supporting the traditional benefit theory analysis, also added a second element to the question of equality: that the contribution should also reflect the amount that a taxpayer \textit{is able} to pay. As Hale has pointed out, instead of merely asking the question of ‘What have I received from the state?’, Smith also asked ‘What is my ability to help the state?’.\textsuperscript{32} This constituted one of the first major articulations of the so-called ability-to-pay approach: the idea that instead of making the same absolute contribution, taxpayers should make the same sacrifice in the way of equal \textit{proportions} of their means.\textsuperscript{33} Although not unequivocal support for ability-to-pay, given that Smith was seemingly conflating two contradictory approaches,\textsuperscript{34} this statement does raise the idea that in order for a tax to be equal, it should also be equitable, in the sense that sacrifice should depend on the ability of the taxpayer to contribute.\textsuperscript{35} This idea also provided a platform for arguments of progressivity: the rich should pay more tax than the poor, as they are more able

\textsuperscript{28} Seligman has explored this change in depth: see Edwin R A Seligman, \textit{Essays in Taxation} (Macmillan & Co 1895) ch 2; Edwin R A Seligman, \textit{The Income Tax: A Study of the History, Theory and Practice of Income Taxation at Home and Abroad} (Macmillan 1911) 6-10.


\textsuperscript{30} Smith’s main contribution to tax theory was in setting out his famous four canons of taxation, often termed as equality of contribution as between taxpayers; certainty of mode and time of payment; convenience of payment; and economy in collection: Smith (n 23) vol III 207-211. These proved to be very influential: see O’Brien’s description that ‘Virtually all the Classical treatments of tax finance start from Adam Smith’s classic four maxims of taxation…Even where…later writers, such as Say and Mill, set out to provide their own maxims, the derivation from Smith was obvious’: D P O’Brien, \textit{The Classical Economists Revisited} (Princeton University Press 2004) 289.

\textsuperscript{31} Smith, ibid vol III 208.


\textsuperscript{33} It should be noted, however, that the ability to pay argument was not new: according to O’Brien, ‘Its roots lie in sixteenth-century writers, such as Bodin, although it can be traced back as far as the Middle Ages’: O’Brien (n 30) 290.

\textsuperscript{34} See Dome (n 24) 48; Frecknall-Hughes (n 27) 271-2. O’Brien has argued that Smith was likely unaware that he was combining two concepts, owing to the minimal discussion of the distinction up to that point: ibid at 290.

\textsuperscript{35} On this, see O’Brien, ibid 289-290.
to afford it.\(^{36}\) Although emphasising the importance of equality, Smith himself considered other maxims to be more important, in particular certainty of taxation.\(^{37}\) However, his articulation of the ability-to-pay approach laid the foundations for increased debate of whether and to what extent taxation should be equitable, which would ultimately inform attitudes towards the income tax.

The social theorist Jeremy Bentham also placed emphasis on equality in taxation.\(^{38}\) Bentham’s tax theories were heavily influenced by his utilitarian approach:\(^{39}\) in order to achieve the overall objective of happiness maximisation, Bentham argued that taxation should be minimal, and further that taxes should only be imposed in order to achieve what Dome has termed ‘four subordinate ends’: subsistence, security, abundance, and equality.\(^{40}\) In terms of equality, Bentham’s view was that ‘The more nearly the actual proportion approaches to equality, the greater will be the total mass of happiness’.\(^{41}\) Equality was therefore viewed by followers of the utilitarian doctrine as a key objective of the tax system. However, like Smith, Bentham emphasised the importance of other features of tax, such as that taxes should be imposed only to protect the country. Thus, although he considered equality to be very important, he believed that it should always ‘give way’ where taxes were imposed for national security reasons.\(^{42}\) Equality in taxation, although important, could not be a priority in wartime.

\(^{36}\) Although it is important to note that Smith did not favour a progressive tax.

\(^{37}\) See Smith’s belief that ‘The certainty of what each individual ought to pay is, in taxation, a matter of so great importance that a very considerable degree of inequality…is not near so great an evil as a very small degree of uncertainty’: Smith (n 23) vol III 209.

\(^{38}\) See Dome, ibid id 66; Frecknall-Hughes (n 27) 281.

\(^{39}\) See ibid.

\(^{40}\) See ibid.

\(^{41}\) See ibid vol I 311 col 2. This likely reflects the fact that Bentham was writing at a time of expensive and prolonged warfare: see Dome (n 24) especially at 10, where, talking of Bentham, Malthus and Ricardo, Dome notes that ‘they had to face the dilemma of the absolute necessity of government expenditure and the harmful effects of taxes and public debt’.
With the end of the French Wars came a palpable shift in the theory of public finance. Peace removed the imperative for high military expenditure, and thereby offered greater financial flexibility. This influenced the state’s approach to public finance, however it also led to increased consideration of tax by theorists. Without the fiscal constraints of war, theorists began to place less emphasis on the capacity of taxation to generate revenue, and instead paid greater attention to how tax should interact with a sustainable scheme of public finance suited to the industrial age. The first half of the nineteenth century saw theorists begin to build upon notions of equality to propose a tax system that operated more fairly. A particular example was J S Mill, who combined Bentham’s utilitarian theories alongside Ricardo’s thoughts on political economy to put forward principles on public finance in keeping with notions of equity and maximisation of happiness. His most influential works were completed after 1842, however for the purposes of this thesis, only the theories put forward in the early years of his career will be considered. In his early works, Mill put forward consistent messages on what he believed equality in taxation should mean. In 1833, he argued that ‘equal taxation consists not in taking equal proportions from the incomes of individuals, but in taking equal proportions from their enjoyments’. This took the idea of equality even further: according to Mill, a truly fair tax should be levied in line with a person’s disposable income, thus only affecting their spending rather than ability to save. In these proposals, he was promoting fairness above all else as a criterion of taxation.

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44 See Dome’s point that peace allowed for the emergence of liberal ideas of low government expenditure and taxation: (n 24) 208.
48 Some even proposed that tax should aim to redistribute property, however Shehab has suggested that these views were only from ‘a small group of Radicals’, and that ‘the majority of the writers of the period had not yet shaken off the shackles of the eighteenth century’: Shehab (n 45) 78.
According to utilitarian theory, would have the effect of promoting public happiness. This reflected growing impetus for the idea that tax should not only be equal, but also equitable.\textsuperscript{49}

Increasing examination of the distribution of the tax system over the late eighteenth and early nineteenth centuries led to greater definition in the concept of equality in taxation. This, influenced by Smith’s idea of taxing in line with ability to pay, and alongside utilitarian notions of the promotion of welfare, resulted in greater attention being paid to how the tax system could operate equitably across society, especially after the end of the French Wars. This marked a significant step forward from traditional theories of tax that had stemmed from the notion of strict equality, as presented by the benefit theory. Crucially, it laid the foundation for greater support of an income tax. If theorists accepted a good tax to be one that requires a taxpayer to contribute in proportion with his means, then it seems that income, in most cases a strong indicator of means, should be a good base upon which to levy a tax.\textsuperscript{50} In this way, the intellectual environment was becoming more receptive to an income tax than it had been in the past.

3.2 The decline of indirect taxation

Another trend that can be identified from the development in the intellectual sphere is a decline in indirect taxation. It was considered in the previous chapter that, over the two decades immediately prior to 1842, politicians and economists had come to disapprove of the traditional forms of public finance that had sustained the country through the seventeenth and eighteenth centuries. Indirect taxation in particular had suffered a significant decline in popularity, in failing to fill the gap in revenue left by the repeal of the income tax in 1816, and as customs and excise duties came to be viewed as barriers to successful post-war economic progress.\textsuperscript{51} This move away from indirect taxes in practice was supported by tax

\textsuperscript{49} It will be considered below that this concept of equality led Mill to offer support for income tax, as long as it was designed to fall only on disposable income.

\textsuperscript{50} Seligman has argued that although 'Income or revenue may not, indeed, be an ideal test; for there is no absolute test which can exactly gauge all the varying personal circumstances of each individual…it is the best workable test that governments can secure…' Seligman, \textit{Essays in Taxation} (n 28) 18.

\textsuperscript{51} This will also be developed further in Chapter 5, when examining the impact that the growing free trade movement had on the income tax.
theorists. The late eighteenth and early nineteenth centuries saw increasing disillusionment with indirect taxation amongst intellectuals. This resulted in nineteenth century economic philosophy pivoting away from indirect taxation, and towards direct taxation, further adding to the case for an income tax.

It was noted above that tax theorists during the seventeenth and eighteenth centuries had on the whole favoured indirect taxation. However, Smith’s promotion of the ability to pay approach in creating a ‘good’ tax was in general more compatible with direct taxes than indirect. Smith was critical of indirect taxes on consumption, believing, as Dome has put it, that they were ‘proportionate to people’s liberality, not their ability to pay’, and thus were unequal.\(^52\) However, the importance that he placed on other principles of taxation, in particular certainty,\(^53\) led him to support indirect taxation over direct in general. This stemmed from the fact that the tax was built into the price of goods, making the amount to be paid both certain and convenient for a taxpayer to pay. Therefore, although Smith believed that direct taxes would operate more equally according to ability to pay, he considered them too problematic in an administrative sense.\(^54\) It was noted above that Bentham also viewed equality to be subordinate to other considerations.\(^55\) Accordingly, like Smith, Bentham favoured indirect taxes to direct in general, as ‘To an indirect tax, each man pays no more than he pleases; and the vexation attendant on the collection of it is confined to the makers and the vendors of the commodity taxed’, unlike a direct tax, where ‘each man pays what the imposer of the tax pleases, and the vexation embraces [every taxpayer]’.\(^56\)

The shift towards direct taxation began to pick up momentum with the popularity of political economist and MP David Ricardo’s ideas in the post-war period. Although Ricardo disapproved of all taxes, believing them to be a ‘choice of evils’,\(^57\) he was especially critical

\(^52\) Dome (n 24) 42.
\(^53\) According to Daunton: ‘In Smith’s opinion, a considerable degree of inequality in the incidence of taxation was less of an evil than a small uncertainty’ – Martin J Daunton, Trusting Leviathan: The Politics of Taxation in Britain, 1799-1914 (Cambridge University Press 2001) 161. See above, at note 37.
\(^54\) For discussion of this, see Shehab (n 45) at 32.
\(^55\) See above at note 42. For further similarity between Bentham and Smith’s views, see Frecknall-Hughes (n 38) 9.
\(^57\) David Ricardo, On the Principles of Political Economy, and Taxation (3rd edn, London 1821) 184. Thus, Dome argues, ‘Ricardo avoided a positive declaration of his opinions about a fair and efficient system of
of indirect taxes. In particular, he opposed customs and excise duties, which he argued constituted ‘those great sources of demoralization [ie corruption] of the people’ by encouraging practices such as smuggling. Moreover, Ricardo disapproved of many indirect taxes on the grounds that they increased prices, and did not operate neutrally across society. Ricardo was much less critical of direct taxes, arguing that they did not affect prices, and that, if direct taxes were to be imposed equally on the profits of all sectors, they would also maintain the existing distribution of wealth. This led Ricardo at one point to offer some support to an income tax, and he argued that indirect taxes on raw materials and manufactured necessities could only operate fairly if supplemented by a direct tax on land and dividends. These views heavily influenced his arguments in Parliament, and he was a major proponent of the scheme of reductions of indirect taxes that took place throughout the 1820s.

Thus, Ricardo, and the theorists adopting his approach, were on the whole critical of indirect taxes. Furthermore, the tendency of indirect taxation to operate regressively added fuel to the arguments of Radicals and proponents of utilitarianism that the existing tax system taxation, confining himself to demonstrating abstract principles of taxation deduced from his system of political economy’: (n 24) 131.


59 See Dome (n 24) 120-6, who terms these Ricardo’s principles of price neutrality and distribution neutrality. He argues that these principles, along with the notion that a tax should reduce consumption and not capital accumulation, formed Ricardo’s three central ‘criteria for an ideal tax system’: Takuo Dome, ‘Ricardo on Income Tax: A Note’ (2000) 24 Cambridge Journal of Economics 237 at 238.

60 However, it is important to note that Ricardo believed that direct taxes violated Smith’s maxim of convenience, and he became increasingly critical of direct taxes over time. See, for example, Dome, ‘Ricardo on Income Tax’, ibid 240-2.

61 This will be considered below.

62 See Edwin Cannan, ‘Ricardo in Parliament’ (1894) 4 The Economic Journal 409. Ricardo was a notable supporter of the laissez-faire government that came to characterise the nineteenth century.

63 O’Brien has suggested that: ‘After the appearance of the Ricardian model…the argument was generally stated in terms of taxes on necessaries raising the level of subsistence wages, lowering profits, and thus hastening the onset of the stationary state’: (n 30) 309. However, this is not to suggest that intellectual opinion was unanimously set against indirect taxes. In particular, John Ramsay McCulloch strongly believed that a system based on indirect taxation was superior to that on direct: see his reference to the ‘insuperable difficulty of fairly assessing taxes on property and income’: J R McCulloch, Treatise on the Principles and Practical Influence of Taxation and the Funding System, (3rd edn, Edinburgh 1863) 155. On this basis, he strongly opposed the income tax: although ‘Theoretically an income-tax is the fairest of all taxes…the practical difficulties in the way of its fair assessment are not of a sort that can be overcome’, at 115. For a helpful discussion of his arguments, see Shehab (n 45) 87-90; Dome (n 24) ch 7.
perpetuated inequality in society and therefore required a radical rethink. Writing in 1833, Mill argued that:

the more direct you make your taxation—that is, the nearer you approach to making the person who is to pay it ultimately, pay it at once and avowedly—the greater is your security both against inequality and against waste. In the case of all indirect taxes, there is an apparent uncertainty hanging over the question, who pays them? an uncertainty at least sufficient to leave room for doubt and cavil; so that there being no sure standard acknowledged by all, to determine the real weight with which the taxes fall on different classes of the payers, an excuse may always be found for overcharging those who ought, on the contrary, to be relieved.

Mill therefore argued that ‘Taxes… ought, if possible, to be direct.’ Although not opposed to all indirect taxation, Mill did believe that a strong tax system would limit indirect taxation only to luxuries. This approach would maintain equity in the system, as anyone spending on luxuries could be taken to be able to spare the money. Dome has argued that Mill’s proposals on taxation were focused on taxing income that would be spent, hence why, as will be explored below, he supported an income tax that would exempt the proportion that would be saved. Thus, taxes on luxuries were compatible with Mill’s views. However, a strong tax system should complement taxes on luxuries with direct taxes, in particular an income tax.

It is therefore argued that, by the early 1840s, intellectual opinion was less receptive to indirect taxation than it had been in the past. In the search for a system of sustainable taxation more suited to the early Victorian age theorists began to turn to direct taxation. One author commented in 1845 that, while ‘Formerly, men’s theory was, that indirect taxation was greatly preferable towards direct taxation…we fancy that this notion is, with many others, getting out of date; and, on the whole, perhaps properly so’.

The purpose of this section is not to demonstrate that intellectual favour had totally shifted from indirect to direct taxation:

64 An especially dim view was taken of taxes on necessaries – see Mill’s opinion that: ‘all taxes on articles of consumption, which either nature or universal habit has placed among the necessaries of life, are unequal in the highest degree: for of such articles the poor consume as much, or nearly as much, as the rich, sometimes far more’: John Stuart Mill, ‘Necessity of Revising the Present System of Taxation’, originally published in Examiner (13 January 1833), reproduced in Ann P Robson and John M Robson (eds), The Collected Works of John Stuart Mill, vol XXIII (Routledge and Kegan Paul 1986) at 547.

65 Dome (n 24) 186.

66 Ibid. See also O’Brien’s account that Mill believed that ‘too great a reliance on indirect taxation would create a strong climate of opinion opposed to necessary government expenditure on education and other services’, which he considered essential to a more equitable society focused on utilitarian ideals; (n 30) 295.

67 Dome (n 24) 186.

68 ‘The Policy of Ministers’, Fraser’s Magazine for Town and Country (vol 31, issue 183, London 1845), 374 col 1. See also Ekelund and Walker’s statement that ‘Direct taxes were (re)gaining favor in Mill’s day’ (n 46) 561.
the position was much more complicated. Support for indirect taxation did not disappear: as O’Brien has pointed out, ‘Taxes on luxuries…were considered an excellent idea by all Classical economists’. However, disinclination towards indirect taxation, and the emergence of a trend of support for direct taxation, was evident in the contemporary literature, and this provided an important basis for support for the income tax. This will now be explored.

3.3 Growing support for an income tax

The trend of increasing emphasis on equity in taxation, coupled with the shift away from indirect taxation, had important implications for the income tax. Depending on how it was administered, such a tax had the potential to effect greater equity in the tax system, given that income is a strong indicator of ability to pay. As a direct tax, it also avoided many of the problems peculiar to indirect taxation. As such, another feature of the intellectual evolution was greater consideration of, and in some cases support for, an income tax. Although support for income tax was far from unanimous, especially amongst the Classical economic theorists, by 1842 the income tax was a greater feature of the intellectual environment than in the past. This familiarity, combined with the support of key advocates, likely tempered some of the longstanding animosity towards it, encouraging political support for the tax.

The traditional attitude towards the income tax adopted by theorists and politicians alike was that put forward by Smith. Smith believed such a tax to be compliant with his principle of equality in tax, however ultimately rejected it as requiring unacceptable government interference:

The state of a man’s fortune varies from day to day, and without an inquisition more intolerable than any tax, and renewed at least once every year, can only be guessed at. His assessment, therefore, must in most cases depend upon the good or bad humour of his assessors, and must therefore, be altogether arbitrary and uncertain.  

69 O’Brien (n 30) 309.
70 Smith (n 23) vol III 278.
Smith believed that equality and distributional fairness were of lesser importance than clear and unobtrusive administration of taxes. This likely reflected the importance placed on liberality and freedom from government intrusion in eighteenth century society. Smith instead favoured taxation of what Shehab has termed ‘outward circumstances’, in particular through a tax on houses.\(^{71}\) Although Smith rejected the concept of an income tax, his concept of equality by way of ability to pay built a foundation upon which future proponents of the tax could build.

Support for an income tax began to grow from the later years of the eighteenth century. In 1785, William Paley developed the ability to pay argument by theorising that, when it came to tax, ‘The point to be regarded is, not what men have, but what they can spare’, and that ‘a tax…ought to rise upon the different classes of the community, in a much higher ratio than the simple proportion of their incomes’.\(^{72}\) Thus, he advocated a graduated income tax. Similarly, Thomas Paine also proposed a radically progressive income tax in \textit{Rights of Man}, which was set at a rate of three pence in the pound on incomes under £500, steadily increasing to twenty shillings in the pound, or one hundred per cent, on incomes over twenty-three thousand pounds.\(^{73}\) The purpose of this proposal was to effect a redistribution of wealth: ‘The object is not so much the produce of the tax, as the justice of the measure’.\(^{74}\) According to Paine, such a high tax on higher incomes would ‘restore part of the lost equilibrium’, by limiting the wealth, and thus the influence, of the landed aristocracy.\(^{75}\)

Tax theory at the end of the eighteenth century was therefore characterised by growing familiarity with the possible benefits and disadvantages of an income tax, but with little support for the tax from classical economists. However, the end of the French Wars brought with it a reconsideration of traditional fiscal theory. An important example of this can be found in Ricardo’s writings, which, as noted above, challenged the longstanding reliance of

\(^{71}\) See Shehab (n 45) 31.
\(^{72}\) William Paley, \textit{The Principles of Moral and Political Philosophy} (2\textsuperscript{nd} edn, London 1786) 626.
\(^{73}\) See Thomas Paine, \textit{Rights of Man, Part the Second; Combining Principle and Practice} (3\textsuperscript{rd} edn, London 1792), 64-67.
\(^{74}\) Ibid 65. Paine specifically refers to this as making taxes more equal.
\(^{75}\) Ibid. Although this proposal, like Paley’s, was not taken seriously at the time, it was later held up as a valuable example by Radicals: see Shehab’s mention of \textit{Rights of Man}, along with the plan for a progressive income tax that it contained, ‘gaining such wide popularity that it was finally adopted by the Constitutional Society as a kind of Magna Carta’: Shehab (n 45) 42.
the fiscal system on indirect taxation. Given this antipathy towards indirect taxes, it would be reasonable to expect Ricardo to have supported an income tax instead, however his direct consideration of an income tax was minimal. Nevertheless, in a letter written in 1816, Ricardo did express some support for an income tax: although indicating his opposition to the tax’s proposed continuation, he noted that ‘I would willingly submit to it if I thought that it would really end in two years’, suggesting that he felt that there was a place in the fiscal system for a temporary income tax. Moreover, Dome has argued that ‘we may guess [that he favoured the income tax over other taxes]…from his system of economics and criteria for taxation’, which were more compatible with an income tax than most other taxes. An income tax had the capacity to target all forms of income equally, thus maintaining the existing distribution of wealth, and, unlike indirect taxes, it would not affect prices. Although Ricardo never expressed clear support for an income tax, and despite his preference that society should operate entirely without taxation, his more pragmatic followers may well have taken the view that, insofar as taxation could not be avoided, an income tax held some benefit as compared to other taxes.

Further support for the principle of an income tax can be seen in Mill’s writings, although, given that most of his works were produced after the tax’s reintroduction, it is unclear how influential these were on the matter. However, it is well-established that, in 1833, Mill supported the reintroduction of an income tax. He contended that, in order to be an equal tax, it should apply only to income over and above that used for necessary spending and savings. Thus, an income tax should operate in essence as a tax on luxury expenditure, meaning that: ‘One-tenth of each man’s superfluities would seem to be no heavier tax on one

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76 This is considered in Dome (n 59). This paper explores the reasons why Ricardo came to no concrete conclusion on income tax.

77 See O’Brien’s point that ‘The income tax…was a subject of hot debate during Ricardo’s lifetime – yet he hardly considered it anywhere’: (n 30) 293.


79 See Dome, ibid, 238-242. However, like Smith, Ricardo did disapprove of a tax on profits on the grounds that it necessitated ‘the inconvenience of having recourse to the obnoxious measure of prying into every man’s concerns’: (n 57) 175. Nevertheless, he was much less averse to direct taxes than indirect, and so it is reasonable to suggest that his attitudes to the income tax were less strong than towards other taxes.

80 See Mill (n 47).

81 See Mill’s argument that ‘equal taxation consists not in taking equal proportions from the incomes of individuals, but in taking equal proportions from their enjoyments’: ibid 552.
man than on another, whatever may be the difference in their fortunes’. Although by the time he published *Principles* in 1842 his views on the income tax had begun to change, Mill continued to support the notion of a properly administered income tax in times of national difficulty.

By 1842, although it cannot be said that there was significant support for the income tax amongst the classical economists, intellectuals were becoming more familiar with, and on the whole less opposed to, the tax than in the past. Tax theorists had begun to place greater emphasis on the equitable distribution of the tax burden. This, combined with increasing disillusionment with indirect taxation and the existence of some support for the tax, meant that the intellectual scene was more favourable to the tax than ever before. It is argued that this influenced the political climate, incentivising politicians to accept it as part of a more equitable fiscal strategy.

### 3.4 A more receptive political climate

The period between 1816 and 1842 witnessed a seismic change in the attitudes of politicians to the tax, who were inspired by the evolving fiscal theory to change the basis of taxation. This was magnified by increasingly persuasive arguments for tariff reform, which promised economic improvement and which could be provided for in a financial sense by the income tax. Furthermore, the growing recognition of the tax as a more equitable fiscal measure inspired radicals both in and out of Parliament, who campaigned for greater equity in the fiscal and economic system. Thus, as Utz has argued, ‘An influential group of fiscal experts and technocrats favoured a tax overhaul in order to curb public spending and promote free trade. They also noted that such a change would provide deserved relief for the working

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83 Ibid 553.
84 Dome (n 24) 178-184.
86 See Chapter 3, text at note 66. This argument played a key role in the debate over free trade, which inspired many politicians to accept the tax: see Chapter 5.
87 See, for example, Stephen Utz, ‘Chartism and the Income Tax’ [2013] British Tax Review 192.
poor’. It therefore appears that the political climate for the tax’s reception had begun to change, as politicians gradually came to offer support to the tax. This support can be evidenced in two central ways: the growth in pro-income tax literature by political players, and the increase in income tax proposals in Parliament over the period. This is evidence that the shift in intellectual opinion of the tax had softened the political climate for its reception.

First, the period witnessed a significant uplift in pro-income tax literature. Perhaps the most significant of these was written by Sir Henry Parnell, Whig politician and strong advocate of tariff reform. Parnell had acted as chairman of the Select Committee on the State of Public Income and Expenditure, which had in 1828 proposed a scheme of tariff reform and abolition of the sinking fund. In his seminal work, *On Financial Reform*, written in 1830, Parnell built upon the recommendations of the Committee, and argued that:

> the revenue might be rendered sufficient for all the public services. 1st. By the increased revenue which would arise from increased expenditure on taxed commodities in consequence of repealing the taxes and taking off protecting duties. 2dly. By the retrenchment of public expenditure. 3rdly. By new taxes.

‘In selecting a new tax’, he argued, ‘there seems to be but one opinion with respect to what tax that ought to be’: an income tax, imposed at between 1.5 and two per cent. This work reflected a growing body of support within Parliament over the period in favour of the reintroduction of the income tax. In substituting for problematic indirect taxes, the tax was increasingly becoming viewed by politicians and political commentators as a foundational component of fiscal theory for the modern age. Another political author was George Poulett Scrope, MP for Stroud, who evinced that: ‘The leading general principle should be to tax wealth, after it has been created, not farther than is unavoidable during any of the stages of its creation’. Thus, although expressing preference for taxes on luxuries, he supported an income tax:

88 Ibid 221.
90 Ibid 267.
91 For further detail on this, see, for example, Seligman, *The Income Tax* (n 28) 116-128; Shehab (n 45) 72-85; Brown (n 1) 8-11.
since such taxes on the expenditure of wealth are not found sufficient to provide the whole of the necessary revenue, it is surely far more advisable to supply the deficiency by a direct tax on income or property, than to continue those obnoxious imposts by which the production of wealth is impeded, and the poorer classes oppressed.93

Like Parnell, he promoted the removal of indirect taxes in order to effect economic improvement, and the imposition of an income tax to tax the wealth that stemmed from that improvement. Other important works in support of the tax included those by James Silk Buckingham, MP for Sheffield,94 and Benjamin Sayer,95 an official connected to the previous income tax, both of whom argued for the tax on grounds of fiscal equity and economic reform, with the latter declaring that: ‘The principle of an Income Tax is founded on Justice’.96

This support was also mirrored within the parliamentary debates.97 The income tax was mooted at several times throughout the early 1830s, beginning with President of the Board of Trade William Huskisson’s proposal in 1830.98 The reintroduction of the tax was discussed in Parliament at various instances over the next two years,99 and was ultimately put to a vote on its reintroduction in 1833, which was defeated by 221 to 155 votes.100 Although demonstrating that Parliament was yet to be totally convinced of the tax, this indicates a significant body of support for the tax. Brown accounts that, as early as 1830:

> there was broad agreement among many political leaders on economic policy: some kind of income or property tax, some reductions of indirect taxation…had influential support among the followers of both Huskisson and Wellington, and among the Whigs.101

93 Ibid 444.
94 Buckingham (n 45) 363-382.
95 Benjamin Sayer, *An Attempt to Shew the Justice and Expediency of Substituting an Income or Property Tax for the Present Taxes, or a Part of Them; As Affording the Most Equitable, the Least Injurious, and (Under the Modified Procedure Suggested Therein,) the Least Obnoxious Mode of Taxation: Also, the Most Fair, Advantageous, and Effectual Plans of Reducing the National Debt* (London 1833). This suggested that the income tax ‘had never undergone that fair, dispassionate, and complete treatment which it needs and deserves, in order to exhibit fully the justice and various advantages of it’: Preface ii.
96 Ibid 107.
97 For discussion of this, see, for example, Shehab (n 45) 79-82; Sabine, *A History of Income Tax*, (n 1) 55-6.
98 HC Deb 18 March 1830 vol 23 cols 580-610.
99 See, for example, HC Deb 14 February 1831 vol 2 col 487.
100 See Robinson’s proposition for ‘Repeal of those burthens which press most heavily on productive industry, and the substitution of a tax on property in lieu thereof’: HC Deb 26 March 1833 vol 16 cols 1072-118. For discussion of this proposal, see Shehab (n 45) 81-2.
101 Brown (n 1) 34.
Amongst its political supporters, the tax could even count Peel, who had in the past vehemently opposed it. Thus, as Utz has described: ‘By 1833…a wide variety of parliamentary radicals had taken up the cause of the income tax’. The income tax had become an important part of the political narrative, and, although not immediately successful, it would remain in the political sphere until its reintroduction in 1842.

3.5 Intellectual shift: a summary

This section has argued that, by 1842, the intellectual environment was markedly different to that within which the tax had been proposed in the past. Three broad and interlinking intellectual currents had combined to create an intellectual scene more conducive to the tax. The greater weight placed upon equity in taxation gave a distinct advantage to the case for the reintroduction of the tax as, in operating according to a taxpayer’s ability to pay, it promised to be a more equitable tax than most other taxes at the time. At the same time, intellectual opinion had begun to shift away from indirect taxation and towards direct taxes, again adding weight to the case for an income tax in substitution for existing levies. Furthermore, and as a result, the period witnessed greater consideration of an income tax by theorists, from which emerged some support for the tax. These currents, it has been argued, laid the foundations for a political climate more receptive to the tax’s reinstatement. This played an important part in the return to income tax.

However, developments in the intellectual environment had another key effect, in moderating commercial attitudes to the tax. The natural audience for the message of the new political economy was the country’s commercial community, which would be the chief beneficiary of the removal of burdens on trade and a laissez-faire approach to public finance. Thus, as Evans has argued: ‘Wealth of Nations spoke directly to the self-interest of commercially minded men; its beautiful reasoning is only a minor factor in its success’. In particular, the new industrial classes perceived of theories of political economy as an

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102 See Buxton (n 12) 53-7.
103 Utz (n 87) 199.
opportunity to alter the status quo: from economic protection and heavy taxes on trade, towards a coherent set of fiscal and economic policies suited to the modern age.\textsuperscript{105} As Semmel has suggested, ‘It was the industrial classes who made political economy…into a kind of secular scripture, possessing both moral and scientific authority, and who called upon the legislature…to adopt an abstract, rational system’.\textsuperscript{106} As political economy developed to incorporate the income tax to an ever-greater extent, there emerged a corresponding incentive for the commercial interest to accept the tax. As well as rendering the political climate more receptive to the income tax, then, the intellectual shift altered the nature of the relationship between the commercial interest and the tax.

IV. CHANGES IN INFLUENCE OVER POLICYMAKING

Another change witnessed over the first half of the nineteenth century was in the nature of influence over political decision-making. It will be argued in this section that the changes brought about by the 1832 Reform Act, coupled with the state’s desire to move away from interest-led policymaking, made it harder for the tax’s opponents to pressure policymakers to adopt, amend or abandon particular fiscal policies. This was crucial to the development of a political climate in which income tax could be more easily introduced. However, it will be shown that the changing nature of political influence also had an important commercial dimension, which proved vital to the tax’s successful reintroduction. The first half of the nineteenth century witnessed an ongoing transformation in the commercial sector, which served to fragment the influence that the commercial interest was able to exercise over policymaking. This meant that, unlike in 1816, the capacity for the commercial interest to use its political sway to influence the tax’s development was limited. This subtly altered the relationship between commercial players and the income tax: where in the past commercial influence had stifled the development of the tax, by 1842 a change in the nature of that influence allowed for its reintroduction. This adds an important dimension to the overall argument of Part II: that in order to fully historicise the reintroduction of the income tax, the relationship between tax policy and the commercial interest must be acknowledged.

\textsuperscript{105} This will be explored further in Chapter 5 in the context of free trade.
4.1 The Reform Act

It was explored in the previous chapter that the 1832 Reform Act was perhaps the most important political development that occurred during the period. The Act, which extended suffrage to the previously disenfranchised middle classes, was not only a crucial milestone in the political development of the country, but also held important implications for the fiscal sphere. One such implication was considered in the previous chapter: that, in fuelling social tension, the Act indirectly added to the socio-political imperative for the tax’s reintroduction. However, it is argued in this section that the Act also made the task of introducing the tax easier in a political sense. There are two central strands to this argument. The first is that the Act focused public attention on the need for fiscal and economic reform. Thus, the Reform Act proved to be a catalyst for a reconsideration of the country’s fiscal position. The second, and perhaps more important strand, is that the Reform Act fundamentally changed the nature of political accountability. This served to diminish the influence of traditional interests over policymaking, and meant that policy after 1832 was made with a wider range of interests in mind than ever before. This limited the capacity of influential interests to stifle the development of the tax. Together, these arguments suggest that the Reform Act was an important indirect stimulus for the reinstatement of the income tax.

Growing support for fiscal reform

First, the Reform Act served to focus the national attention on the country’s fiscal affairs. In the years leading up to 1832, the attention of many contemporaries had been firmly fixed on political reform. However, as Seligman has argued, once the Act had come into force and political crisis had been fended off (at least for the time being), this allowed focus to shift towards the fiscal question and the inequities in the existing tax system. This led to renewed discussions of the possibility of an income tax, and, as noted above, the proposal

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107 See the point that: ‘The political revolution of 1832 could not fail to turn public attention to the fiscal question’ – Seligman, The Income Tax (n 28) 122. The idea that the 1832 Act was brought in to avert political crisis by offering the Act as a concession to the middle classes was considered at length in the previous chapter.
was mooted in Parliament in 1833. This placed the tax in the forefront of the public mind, and resulted in what Seligman has dubbed a ‘veritable flood of pamphlets’ on the matter.\textsuperscript{108} Although the debate ultimately failed to prompt the tax’s reintroduction, the tax did not disappear from the fiscal conversation, and was mooted several further times in the years throughout the 1830s.

Furthermore, it was noted in the previous chapter that, in effecting political reform and thereby capitulating to popular demand, the government had unwittingly supplied an example of what could be achieved by lobbying for change. This fuelled movements such as the Anti-Corn Law League and Chartism, which campaigned for a range of reforms, including for a radical reassessment of the fiscal system. As well as compounding the social threat facing government at the time, this also inspired significant debate on fiscal matters. Seligman has argued that the ‘formidable’ movements lobbying for the repeal of the Corn Laws ‘led to a reconsideration of the whole fiscal problem’.\textsuperscript{109} It was this reconsideration that ultimately prompted Peel to propose the reintroduction of the income tax, in making concessions to the discontented middle and lower classes. The Reform Act, in focusing national attention towards the fiscal sphere and inspiring support for organisations calling for fiscal reform, was an important stimulus behind the broad reconsideration of Britain’s fiscal strategy. Against this backdrop, it is unsurprising that MPs were more willing to accept the income tax than in the past.

\textit{Implications of the Act for political accountability}

In extending the franchise to the middle classes, and thereby altering the nature of political accountability, the Reform Act also disrupted the influence that powerful interests could exert over policymaking. Despite the fact that the composition of Parliament itself did not change fundamentally in the immediate aftermath of its enactment,\textsuperscript{110} the Reform Act did result in a

\textsuperscript{108} For a detailed discussion of the major proposals, see ibid 122-128; Shehab (n 45) 72-85.
\textsuperscript{109} See Seligman, \textit{The Income Tax} (n 28) 127. See also Utz (n 87) for a good account of the role played by Chartists in the reintroduction of the tax.
\textsuperscript{110} See Chapter 3, text at note 124.
subtle shift in how political decisions were made, owing to an important shift in the nature of the electorate. Colley has described that:

the Reform Act created a radically different electoral landscape…Up to a point, then, a representative system which had been weighted in favour of England, in favour of the south, and in favour of the centrifugal forces of local interests and individual electoral patrons, had been replaced by one more uniformly British, more closely supervised by the state, and considerably more democratic.

For the first time, politicians were forced to consider the attitudes and opinions of the middle classes, which up to that point had been excluded from the political process. In order to stand a chance of re-election, a representative therefore could no longer act only in the interests of the landed aristocracy, or of wealthy supporters from the business world. Instead, MPs were influenced by the opinions of a wider cross section of population in their constituencies than ever before. As Gash has put it, ‘to a greater extent than ever before public opinion…exercised ultimate control over the extent and direction of [political] rule’.

This likely had important ramifications for the income tax. It was considered in earlier chapters that the tax operated at a flat rate, in stark contrast to the regressive indirect taxes that the country had previously relied upon. This placed the tax burden more squarely on the shoulders of the wealthy than ever before, which in turn made the tax unpopular with wealthy taxpayers, and thus also with their representatives in Parliament. However, after the Reform Act, MPs were no longer accountable only to the wealthy: therefore, fiscal decisions could no longer be made only to suit the interests of the most powerful.

Another effect of the Reform Act was to redistribute parliamentary seats, such that a greater range of interests were represented in the House of Commons than in the past. In particular, the Act saw the greater enfranchisement of urban areas, which traditionally had been largely excluded from the political process. Prior to 1832, most seats had been attached

\[\text{111 For a detailed discussion of the new electoral qualifications under the Act, see Norman Gash, Politics in the Age of Peel: A Study in the Technique of Parliamentary Representation 1830–1850 (W W Norton & Company 1971) ch 4. It is, however, important to note that in absolute terms, the electorate did not grow by very much: Gash has noted that the unreformed franchise had been around 500,000, and that the electorate in 1832 was 813,000: 88. See also Linda Colley, Britons: Forging the Nation 1707-1837 (Yale University Press, 2014) 355-356.}\]

\[\text{112 Colley, ibid, 354-355.}\]

\[\text{113 Some historians have argued that the Reform Act was a key landmark in the evolution of the middle class: see, for example, Dror Wahrman, Imagining the Middle Class: The Political Representation of Class in Britain, c 1780–1840 (Cambridge University Press 1995) especially at 298-327.}\]

\[\text{114 Gash (n 111) 28.}\]
to rural county constituencies, some of which possessed a very small electorate, whilst populous urban areas remained largely or even entirely unrepresented. However, the Act took steps towards redressing this imbalance: for example, Gash has noted that, of the twenty-two new boroughs that would return two members, fourteen were located in industrial areas in the North of England and the Midlands. The Act therefore prompted not only greater consideration of the interests of the less wealthy, but also of those who had been traditionally excluded from the process owing to their geographic location. Thus, political process was amended so as to better reflect the modern social and economic distribution of the population. Gash has argued that ‘It was a fundamental point of the bill not to produce uniformity but to ensure that a mass of interests great and small, industrial and social, were adequately represented in the House of Commons’. This meant that, as well as the greater representation of social classes, the interests of voters from a wider range of backgrounds also had to be taken into account by Parliament when making political, and crucially fiscal, decisions.

Although it cannot be verified that the Reform Act made a difference to how MPs voted with respect to the tax, it is fair to suggest that greater accountability to a wider cross section of the population than in the past would have prompted politicians to take a broader range of considerations into account, when voting on the proposed income tax. The impact of this on other areas of political policy supports this idea: for example, Gash has drawn a link between the Reform Act and growing support for the repeal of the Corn Laws. He argues that, in light of the enfranchisement of urban areas and industrial towns, it ‘needed no special perspicacity to foresee the coming onslaught on the Corn Laws’. Interests brought into the political process by the Reform Act had nothing to gain from the Corn Laws and in many respects much to lose. It is therefore telling that, a little over a decade from the Reform Act, the Corn Laws were repealed. The change to the political landscape resulting from the Reform Act likely also contributed to the reintroduction of the income tax, as the inclusion of

115 Ibid 66.
117 Given both the fact that most MPs did not give reasons for their voting intentions, and also that, as this thesis shows, the decision to reintroduce the income tax was multi-faceted and therefore likely reflected a range of financial, political and economic motives. Accordingly, the role that the Reform Act played in the income tax can only be speculated upon.
118 Gash (n 111) 6.
119 See discussion in Chapter 3, note 170.
a wider range of participants to the franchise meant that wealthy interests, who had in the past opposed the tax as an encroachment on profits, were less able to influence political decision-making.\textsuperscript{120} Thus, the success of the income tax in Parliament in 1842 was driven by more pluralistic considerations than ever before.

It is therefore contended that the reintroduction of the income tax was made easier by the enactment of the Reform Act. In promoting greater consideration of fiscal and economic issues, the Act placed fiscal reform firmly in the political arena. This made Peel’s task in reintroducing the tax much easier, given that politicians were becoming increasingly cognisant of the need for a change to fiscal strategy. Furthermore, in compelling MPs to consider the perspectives of a wider range of participants in the political process, the Act diminished the ability of powerful interests to influence the direction of tax policy. This made the tax a greater political possibility than ever before: its development was less likely to be inhibited by its traditional influential opponents. This, it will be considered through the remainder of this section, was an important factor in the evolution of a political climate more amenable to an income tax.

4.2 The decline of interest-led policymaking

The impact of the Reform Act in reducing influence of interest groups over political decisions also chimed with a wider declining trend in the practice of interest-led policymaking. It was explored in the Chapter 3 that, in the second quarter of the nineteenth century, the state went to significant efforts to demonstrate the legitimacy of the fiscal system. This was in response to allegations of corruption and excess which undermined the legitimacy of the political élite, leaving them vulnerable to social unrest. This, it was shown, resulted in dramatic cuts in government expenditure, and in a turn to the income tax as a more equitable source of revenue. A natural consequence of this shift was a decline in what may be termed as interest-led policymaking. Fiscal and economic policymaking in the eighteenth and early nineteenth centuries was characterised by the practice of affording preference to interest groups, in

\textsuperscript{120} This was magnified by the fact that attitudes to the tax had significantly softened by 1842, in large part as a result of the association of the tax with popular issues such as free trade. This will be explored in Chapter 5.
exchange for political support. Thus, the Navigation Acts were introduced to offer protection to the shipping interest, the Corn Laws operated to protect the agricultural interest, and duties on sugar and timber were kept low to curry favour with trading interests. Kammen has noted that:

[the late eighteenth century] may properly be called an age of interests, for they so dominated politics that men observed that mercantilism had changed from the control of trade in the interest of national policy, to the control of national policy in the interest of trade.\textsuperscript{121}

However, in a quest to re-establish public trust in government, the state had begun to move away from this form of policymaking by 1842. This was reflected in the tariff reforms and retrenchment of government expenditure of the 1820s and 1830s.\textsuperscript{122} The days of powerful interest groups exercising their (often contradictory) influence to drive political decision-making, necessitating a piecemeal, concessional approach to policy, appeared to be over. Instead, it was important for policymakers to appear impartial. Daunton has argued that:

By constraining state expenditure and, as far as possible, excluding the state from involvement with economic interests, it was hoped to protect the political elite from challenge and to define the state as a neutral arbitrator between interests. Politicians should rise above personal greed and self-interest; they should also rise above any temptation to use the state to favour one interest against another, whether a trade group in search of protection or a social group seeking tax breaks.\textsuperscript{123}

Daunton’s argument that the income tax helped to achieve this aim by proving the state’s willingness to distribute the tax burden more equitably was considered in the previous chapter, and it was argued that this provides an important account of the motivations behind Peel’s proposal to reintroduce the tax. However, his interpretation can be built upon to reveal a further consideration relevant to the reinstatement of the income tax: that the tax not only played a crucial part of this scheme of legitimisation, but it was also made possible by it.

In limiting the role of outside influence in the fiscal decision-making process, a system was created in which politicians could better assess fiscal decisions on their merits. This

\textsuperscript{121} Michael Kammen, \textit{Empire and Interest: The American Colonies and the Politics of Mercantilism} (J B Lippincott 1970) 95.
\textsuperscript{122} See Harling’s point that the reforms of the 1820s reflected a ‘desire of post-war Tory ministers to foster policies that would return society to its “natural” pre-war condition and disentangle the elite stewards of the state from the clash of sectional interests’: Philip Harling, ‘Parliament, the State, and “Old Corruption”: Conceptualizing Reform, c 1790-1832’, in Arthur Burns and Joanna Innes, \textit{Rethinking the Age of Reform} (Cambridge University Press 2003) 105.
\textsuperscript{123} Daunton (n 53) 61-63.
likely made the income tax easier to reintroduce, as should it encounter significant opposition from powerful interest groups, as during its previous operation, this would hold less sway over the political decision to reinstate the tax. Politicians had to present an image of responsible government, and therefore could not be perceived to afford preference to certain groups over others. Key to this image was the notion that policy should appear equitable as between interests: as a result, politicians were more likely to judge the income tax on its merits and demerits, than to allow themselves to be influenced by the reluctance of powerful interests to shoulder the tax burden. Therefore, unlike in the past, the tax’s unpopularity amongst powerful interests could not by itself be shown to be responsible for its rejection. The decline in the practice of interest-led policymaking may therefore account not only for Peel’s choice of the income tax, but also for why his task in reintroducing the tax was easier than in the past.

4.3 Changes in the nature of commercial influence

The foregoing discussion paints a picture of a political scene far less at the mercy of the influence of powerful interest groups than at any other point in the past. The ramifications of the 1832 Reform Act, combined with the state’s desire to move away from the practice of interest-led policymaking, resulted in a fundamental change to the way that fiscal policy was made. This goes a long way towards explaining why the income tax was able to be reintroduced. However, this picture can be developed with another argument: that changes in the nature of the country’s business sector reduced the ability of the commercial community to dominate tax policymaking. This interpretation will now be given full consideration.

The section will first explore the changes in the nature of the commercial sector over the period, in particular the decline of traditional mercantile community, and the corresponding rise of a new class of industrialist, with strikingly divergent priorities and occupying an entirely different social position.124 The contention that power-holding over the period

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124 Once again, it is worth emphasising that 1816 and 1842 were far from the start and end points of this process: the shift in commercial structures and values likely began with the Industrial Revolution in the eighteenth century and continued until much later into the nineteenth century. However, it can certainly be argued that in
remained largely in the hands of the traditional business élite is rejected, and it is considered that industrialists came to exercise greater sway over policymaking than ever before. It is then argued that this held important implications for the income tax, as the greater diversity in the commercial community served to fragment the influence that the commercial interest held over tax policy. Thus, the first longstanding barrier to the tax’s development seen in Part I, that of commercial influence over the political process, had by 1842 begun to break down. This proved key to the tax’s successful reintroduction.

*The changing commercial sector: the declining trading community*

It was argued in Part I that the commercial sector at the turn of the nineteenth century was broadly similar to that of the previous two centuries. Large trading companies such as the East India Company and the South Sea Company had risen to prominence during the seventeenth and eighteenth centuries, and it was demonstrated that these mercantile players possessed significant influence over fiscal and economic policy. Although it cannot be said that such interests had a cohesive voice on all matters, their priorities were broadly aligned in the direction of the export trade, and therefore their influence ordinarily manifested in lobbying for economic protection and monopoly. After the end of the French Wars in 1815, however, the economic climate deteriorated. Markets abroad had been sapped by war, and the domestic economy also took a significant downturn, both of which left reduced demand for British goods. For a fuller consideration of the causes of the decline of mercantile interests, see S D Chapman, ‘British Marketing Enterprise: The Changing Role of Merchants, Manufacturers and Financiers, 1700-1860’ (1979) 53 Business History Review 205 at 218. For a history of trading companies at this time, see Geoffrey Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford University Press 2002) especially at ch 2.

125 Daunton has argued that this difficult economic situation allowed for industrial players to flourish at the expense of mercantile interests. Merchants were wary of the risks posed by the difficult economic environment, however industrialists were forced to continue producing in order to survive, and so ‘had an incentive to push trade and capture the profits of the merchants’, by taking control of the sale of their own produce. This, he argues, was not generally replicated in reverse as merchants were unwilling to take on the production, such as dyeing material, before selling it on.
financial and organisational demands of manufacturing. Thus, a significant proportion of merchants’ already dwindling trade was lost to industrialists, further contributing to the decline of traditional forms of business. This has led Buck to argue that, where in the past the merchant had been dominant, after 1815 the manufacturer achieved superiority.

Furthermore, the period also witnessed another important change: the decline of monopoly. It was explored in Chapter 3 that, after the French Wars, Britain began to move away from the so-called fiscal-military state model of public finance, that saw the focus of fiscal policy fixed on the funding of wars. Contemporaries began to view high taxes and expensive government necessitated by war as wasteful, and the rhetoric of ‘Old Corruption’ began to emerge, which highlighted state partiality in fiscal and economic policy. This resulted in the policies of tax reform and retrenchment that characterised the 1820s and 1830s, as the state attempted to present a fiscal approach that was both fiscally responsible and equitable, in the hope of restoring faith in government. This commitment to neutrality was partially responsible for the state moving away from eighteenth century practices of using economic and fiscal policy to benefit politically powerful interest groups in exchange for political support. A corollary of this was a move away from the traditional practice of encouraging commercial success through granting monopolies, as policymakers sought to portray themselves as neutral. As such, the period between 1816 and 1842 saw several significant milestones in the shift away from monopoly. Perhaps the most symbolic change was the effective decline of the East India Company. This had begun in 1813 with the East India Company Act, which had revoked its trading monopoly with India, however was taken further by the Government of India Act 1833, which deprived the Company of its remaining monopolies, and put an end to centuries of near-monopoly over the Chinese and Indian trade.

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127 See also Chapman’s argument that ‘many established merchants preferred to retire to their country estates than change their way of life’: (n 125) 218-9.
129 See, for example, Harling and Mandler (n 43).
130 This was also prompted by increasing support for market liberalism and free trade, which will be explored at length in Chapter 5.
131 For an exploration of the decline of the East India Company over this period, see, for example, Anthony Webster, The Twilight of the East India Company: The Evolution of Anglo-Asian Commerce and Politics, 1790–1860 (Boydell & Brewer 2009) 84-103. See also Leone Levi, The History of British Commerce and of the Economic Progress of the British Nation, 1763–1878 (2nd edn, John Murray 1880) 252; Buxton (n 12) 35.
As a result of these evolutions, the powerful trading companies that had dominated the commercial community over the previous centuries began to decline and disappear. In consequence, the businessmen previously involved with these companies came to diversify into other areas of the economy, such as financial services. This drastically altered the makeup of the commercial community, and accordingly the extent and nature of the influence that it exerted over politicians. A paradigm example can be seen in the growth of merchant banking: in particular, the period saw a significant rise in the number of acceptance houses. Thus, as Daunton has argued: ‘The world of the East India Co. gave way to new concerns such as Jardine Matheson which flourished in a new environment’.

The period was also characterised by increasing alignment between mercantile and landed interests. The eighteenth and nineteenth centuries witnessed the growth of what has been termed the ‘gentlemanly capitalist’: wealthy businessmen who sought to achieve the status and political influence of the landed aristocracy by emulating their lifestyle. This resulted in an increasing alignment between the interests of the landed and trading sectors. Harling and Mandler have noted that ‘by the 1840s…of those 81% of M.P.s related to the peerage, baronetage, or gentry, almost half were businessmen or barristers, and surely most of the rest had business interests’. This was a mutually beneficial arrangement: not only did land offer commercial players the opportunity to gain greater social prestige, but business

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132 See Daunton’s point that ‘specialists in the finance of foreign trade developed from the ranks of merchants who had previously bought and sold goods on their own account’. This led to the rise of merchant banks who were concerned with two tasks: providing finance for manufacturers to send their goods to commission agents; and floating loans on the London money market for foreign governments, railway companies, and other investments in an expanding world economy’: Daunton (n 126) 337. This made the City more important than ever before. See also Geoffrey Ingham, *Capitalism Divided?: The City and Industry in British Social Development* (Contemporary Social Theory, Macmillan 1984), who makes the point that we should not view the transition that Britain was undergoing at the time ‘simply as a radical discontinuity between merchant capitalism under state protection and laissez-faire industrial capitalism’, as the period saw an increasingly powerful alignment between the commercial and banking sectors: 98.

133 Chapman (n 125) 232. Ingham has argued that these practices are better categorised as commercial, rather than financial, in nature, as they concern the ‘intermediation’ of financial relationships: Ingham, ibid 5.

134 Daunton (n 126) 556.

135 See, for example, P J Cain and A G Hopkins, ‘Gentlemanly Capitalism and British Expansion Overseas I. The Old Colonial System, 1688–1850’ (1986) 39 Economic History Review 501. See also Daunton’s definition of gentlemanly capitalism as ‘an alliance between a prosperous agrarian capitalism and the power of commerce and finance in pursuit of empire’ – ibid 477.

136 Harling and Mandler (n 43) 65-6. See Evans’s point that ‘For nineteenth century businessmen…the acquisition of substantial landed property was as natural and necessary a route to social leadership as ever’: (n 104) 166.
in turn offered important advantages to traditional landed interests. Evans has argued that many landed interests acknowledged the economic power of business capital, as evidenced by their investment in commercial enterprise through the period. Thus, ‘Landowners’ involvement with the reformed banking system in the 1840s and as directors of the joint-stock companies in the 1850s and 1860s…emphasizes the intimate links between land and capital’. 137

It therefore seems that the wider period witnessed the diversification of the traditional trading community, with descendants of the mercantilists of the seventeenth and eighteenth centuries moving away from strictly trading endeavours, into other sectors of the economy. 138 The first half of the nineteenth century sat at the heart of this evolution: thus, it is fair to conclude that the commercial sector by 1842 was more affiliated with different economic pursuits than it had been at the beginning of the century. The mercantile interests of old were waning, and in their place rose new enterprises straddling the boundaries between trade, finance, and land. 139 This rendered the commercial community more heterogeneous, and with a more diverse set of priorities. This had important repercussions for the reinstatement of the income tax, in disrupting traditional patterns of commercial influence over policymaking.

*The changing commercial sector: increasing industrial influence*

As well as a shift in the nature of the mercantile community, the makeup of the commercial sector was particularly impacted by industrialisation. The manufacturing sector, and in particular the cotton industry, exploded in size and wealth in the early part of the nineteenth century. The speed at which this happened was pronounced. Harley has argued that:

A visitor approaching Manchester in the 1840s might be excused for disagreeing with the view that change had been slow and localized. Before him, beneath the pall of

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137 Evans, ibid 213. See also Harling and Mandler’s argument that the rise of commercial interests in Parliament evidence a ‘remaking of the English landed élite’: ibid 65.

138 In particular finance and land: Evans has referred to the ‘reciprocal relationship between land, trade and finance’: ibid 166.

139 It is also important to note that this also had effects on the social structure, as the mercantile interests of old that had taken responsibility for the organisation and infrastructure of Britain’s towns disappeared. Taking their place were newly empowered industrial interests, and thus ‘the mercantile oligarchy was remade’: Daunton (n 126) 336.
factory smoke, lay a phenomenon – threatening or promising depending on his beliefs – that had not existed when he was a boy: the great industrial city, much smaller, to be sure, than London, but quite different.\textsuperscript{140}

In the twenty-six years that had elapsed since the repeal of the income tax, therefore, the commercial composition of the country had noticeably changed. Commercial taxpayers in 1842 were beginning to make their profits in a different manner to their counterparts at the turn of the century. Although national income arising from trade and transport doubled between 1801 and 1841,\textsuperscript{141} that from mining, manufacturing and building increased almost threefold.\textsuperscript{142} It therefore seems that industry played a larger role in the commercial sector of 1842 than it had at any point previously. This, combined with greater enfranchisement of the middle classes (to which many industrialists belonged), resulted in manufacturing interests becoming a more powerful faction of the commercial sector than ever before. In turn, this meant that the influence of the ‘commercial interest’, which in the past had been synonymous with the influence of trading interests, had become more diverse, and so more fragmented, than ever before. The impact that this had on fiscal policymaking will be explored below.

However, it is first necessary to address the argument made by some historians that industrialisation did little to disrupt the traditional distribution of power. This would have meant that commercial influence over policymaking continued to be exerted predominantly by traditional business interests. Rubinstein has argued that the mid-nineteenth century witnessed the emergence of two different strands of the middle class: ‘by far the larger and wealthier based on commerce and London, the other on manufacturing and the north of England’.\textsuperscript{143} Along with the landed interest, these came to form what Rubinstein has dubbed the ‘three élites’.\textsuperscript{144} He further contends that commercial and financial wealth, particularly that held in the City of London, overshadowed industrial wealth at all stages.\textsuperscript{145} He attributes

\begin{itemize}
\item \textsuperscript{141} From £40.5 million to £83.3 million: B R Mitchell, \textit{Abstract of British Historical Statistics} (Cambridge University Press 1962) 366.
\item \textsuperscript{142} From £54.3 million to £155.5 million: ibid.
\item \textsuperscript{144} For this argument, see ibid; W D Rubinstein, \textit{Capitalism, Culture and Decline in Britain 1750–1990} (Routledge 1993) 140.
\item \textsuperscript{145} Thus, he argues: ‘England’s role as “Clearing-house of the World” preceded its emergence as Workshop of the World’: it has outlived it and, even during the midday of Victorian prosperity, it predominated over it’: (n 143) at 59.
\end{itemize}
this in part to the close involvement between businessmen and the landed élite that was explored above.\textsuperscript{146} With this wealth came political power and influence far above that which could hope to be achieved by industrial interests.\textsuperscript{147} Rubinstein’s interpretation is supported by commentators such as Ingham, who has argued that traditional interpretations based on Marxist theories of the domination of the industrial bourgeoisie are fundamentally flawed, as they ignore the continued strength of commercial players, especially in London.\textsuperscript{148} He argues that ‘laissez-faire industrial capitalism…gave rise to an even more powerful commercial/banking sector than had hitherto been the case’, and that therefore the driving force behind important economic developments such as the move towards economic liberalism and free trade was likely more influenced by traditional commercial rather than industrial interests.\textsuperscript{149} On this view, to characterise the broader industrial period as dichotomous between commercial and industrial eras, witnessing a shift in dominance from commerce to industry, is too simplistic. Instead, the post-war period saw merely the diversification, and not the decline, of traditional commercial power. The industrial interest simply did not possess the power to disrupt existing power structures, and as such its influence remained limited.

This interpretation undoubtedly provides a valuable insight as to where power lay at the time. It is true that the association of the traditional commercial community with landed and financial élites meant that it continued to hold considerable wealth, and therefore significant power. In contrast, industrial interests broadly failed to establish these links, and therefore their influence was more limited.\textsuperscript{150} However, this is not to say that newer industrial interests failed to gain power over the period. There are several criticisms that can be made of

\textsuperscript{146} See Rubinstein’s point that the commercial and financial élite of the City ‘were, socially and sociologically, much closer to the traditional landed aristocracy than were northern manufacturers, attending a public school and university earlier and far more frequently, and often marrying among the aristocracy’: (n 144) 147.
\textsuperscript{147} See Cain and Hopkins’s point that: ‘The more an occupation or a source of income allowed for a life-style which was similar to that of the landed classes, the higher the prestige it carried and the greater the power it conferred’. Thus, the gentlemanly capitalists of the City, ‘exercised a disproportionate influence on British economic life and economic policy-making’: Cain and Hopkins (n 135) 506-7.
\textsuperscript{148} See Ingham (n 132) especially 96-101.
\textsuperscript{149} See particularly his point that ‘the crude historical identification with protection and industrial capitalism with economic liberalism serves to obscure the real nature of British development’: ibid 98.
\textsuperscript{150} See Cain and Hopkins’s argument that ‘manufacturers neither owned enough “top wealth” not made it in a sufficiently acceptable way to be able to impose their will on the political system’: (n 135) at 510. Ingham provides a detailed explanation as to why industrial interests failed to achieve political influence: (n 132), 233-235.
Rubinstein’s approach, leading to the conclusion that newer industrial interests did possess significant power during the mid-nineteenth century.

First, Rubinstein’s attempt to draw a sharp distinction between commercial and industrial sectors has been considered by some historians to be simplistic. Hudson has noted ‘in the capitalist class of the nineteenth century the interests as well as the fortunes of landed, commercial, financial, and industrial groups appear to have been inextricably mixed’.\(^\text{151}\) Rather than being polarised by separate strands of traditional commercial and new industrial influences, then, the commercial community was characterised by close association between different sub-sectors. Daunton gives the example of William Thompson: ‘alderman of the City and at one time its MP, the head of Lloyd’s, director of the Bank of England, was also the proprietor of one of the largest South Wales ironworks’.\(^\text{152}\) It therefore seems that, although general trends can be identified, the position cannot be conclusively stated as power continuing to be vested in City élites, with manufacturing interests left impotent. It is likely more accurate to suggest that diversification and greater alignment between interests from different economic sub-strata resulted in power-holding being more evenly distributed across the sector, albeit that, on the whole, the distribution of power remained weighted in favour of traditional commercial interests. Therefore, the position is more nuanced than a simple dichotomy between dominant City interests and a comparatively powerless manufacturing sector.

Furthermore, industrial interests did possess direct political power. As explored previously, the 1832 Reform Act had enfranchised many industrialists by lowering the property qualification and affording greater representation to industrial areas. Although suggesting that industrial interests had equal representation to that of more traditional commercial actors would be an overstatement, given the limited change in the composition of Parliament and also that those from landed and monied backgrounds continued to prevail at

\(^{151}\) Pat Hudson, The Industrial Revolution (Edward Arnold 1992) 223.

the highest levels of politics, a subtle shift had occurred. Policymakers could no longer ignore the opinions of industrialists, as this could have repercussions at the polls. Therefore, although the political voices of those that had made up the ‘old’ commercial sector remained influential, policymakers in the 1840s were also under pressure to balance their interests with those of the country’s emerging industrialists. It seems that industrial interests were far from politically powerless: politicians were more accountable to the manufacturing sector than ever before. This, it is argued, afforded industrial players appreciable direct influence over policymaking.

However, perhaps the greater source of industrial power came from more indirect sources, in particular from the growing numbers of those engaged in the sphere of production, as well as their increasing share of national wealth. The rapidly growing numbers of businessmen involved in industry across a large number of industrial centres likely also afforded them increased influence over political policymaking. Furthermore, despite Rubinstein’s assertion that individual wealth remained predominantly in the hands of traditional commercial and financial interests, collectively the industrial sector was becoming an important source of national income by the 1840s. To adopt economic and fiscal policies that alienated this considerable, and importantly ever-growing, source of wealth would have been politically ill-advised. It was crucial that regard should be given to the priorities of the industrial community in policymaking. Thus, the industrialist began to exert significant influence in the political arena.

Industrial interests also derived indirect political power from their involvement in local organisation. Over the nineteenth century, the rapid growth of urban areas stemming from rapid industrialisation tested the limits of existing structures of state administration. It was explored in the previous chapter that, traditionally, the military expense necessitated by ongoing conflict had led to minimal centralised investment in provincial areas. After the close

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153 See Rubinstein’s argument that ‘the middle classes, especially the industrial middle classes, were virtually unrepresented at the highest levels of British politics’: (n 144) 145.
154 See Schonhardt-Bailey’s point that ‘increasing numbers of export-oriented interests were present in a larger number of towns and were likely to have demonstrated a commensurate increase in political influence’: Cheryl Schonhardt-Bailey, ‘Lessons in Lobbying for Free Trade in 19th-Century Britain: To Concentrate or Not’ (1991) 85 The American Political Science Review 37, at 46-7.
of the French Wars, Britain’s adoption of a laissez-faire approach to government, whilst also maintaining its commitment to low levels of civil expenditure, meant that state involvement in the domestic scene remained limited.\textsuperscript{155} Into the breach stepped local figures of authority, frequently sourced from the industrial sector. Accordingly, the period saw considerable involvement of industrial players in local government. In joining local political structures and forming independent associations, these figures took on the task of funding and implementing improvements in local life and infrastructure.\textsuperscript{156} For example, Rubinstein points out that in Sheffield, ‘about 15-25 per cent of the Town Council in the mid-Victorian period were steel manufacturers, with over 50 per cent being other manufacturers and merchants’\textsuperscript{157} Although their direct power over the central political scene may have been limited, industrial interests held substantial authority in local settings. This augmented the indirect power that industrialists possessed at a national level: in order for the state to retain oversight over distant localities, it was vital that these interests were kept on side. It therefore seems that industrialists may have been perceived by politicians as key to maintaining control over local communities: this allowed industrial interests indirectly to influence the direction of policymaking.\textsuperscript{158}

\textit{Summary and implications for the income tax}

It has been established that the period 1816-1842 witnessed important and ongoing changes in the commercial sector, which in turn had important implications for the nature of commercial power-holding.\textsuperscript{159} It was explored in Chapter 1 that, at the beginning of the century, the ‘commercial interest’ had been synonymous with the interests of wealthy

\textsuperscript{155} Although it is important to note that in some areas the period also witnessed increasing centralisation. This will be explored in Chapter 5.

\textsuperscript{156} See Daunton’s suggestion that middle class business interests ‘were faced with the task…of running the factory towns of the industrial revolution…This entailed a widening of the boundaries of civil society by creating a plethora of voluntary organizations such as hospitals and schools, and pressure groups such as trade associations and societies for moral reform’: Daunton (n 126) 200. See also Hudson’s argument that ‘In local government, especially in towns under the influence of the 1835 Municipal Corporations Act, aristocratic influence was largely displaced’: Hudson (n 151) 220.

\textsuperscript{157} Rubinstein (n 144) 145.

\textsuperscript{158} See Daunton’s argument that ‘The apparent oligarchic stability of national politics should not obscure the vigour of political life at the local level, and the susceptibility of landed representatives [in Parliament] to influence’: (n 126) 200.

\textsuperscript{159} This also coincided with a shift in the nature of the banking sector: Ingham talks of ‘the emergence of a “new” City’, which began to emerge after 1815: (n 132) 107.
merchants and large trading companies, and that the power possessed by these businessmen had proved influential to the policymakers imposing the income tax. However, this section has argued that, by 1842, this picture had changed. Instead, the sector had diversified, and a ‘new’ commercial community had emerged. The involvement of powerful mercantile actors with other sectors of the economy, alongside the emergence of an increasingly powerful industrial sector, meant that the community encompassed a wider range of economic sub-sectors than ever before, each with different objectives and priorities. This had the effect of reducing commercial influence over tax policymaking, which can be seen in two key respects.

First, the diversification in the sector served to fragment the power of the commercial interest over political decision-making. The fact that significant political influence lay in the hands of a wider range of commercial groups than in the past meant that the ability of the commercial community to speak as one was greatly diminished. Whereas in the past the commercial interest had comprised predominantly mercantile interests, by 1842 this had come to better reflect businessmen with industrial, financial and landed as well as trading affiliations. Therefore, although the commercial interest could never have been described as strictly homogeneous, the nature of the influence exerted by varying commercial interest groups in 1842 meant that it was harder to identify a cohesive commercial force. The fragmentation of the commercial interest therefore may have contributed to the trend of declining interest-led policymaking seen over the period.

Similarly, the evolution of a more varied commercial community resulted in particular in a less cohesive voice on the income tax. In the past, wealthy businessmen had united against the tax, in large part because it posed a significant threat to their profits. However, the fact that by 1842 the commercial community had evolved to reflect a broader range of interests necessarily meant that broad commercial consensus on the tax was more difficult to achieve. The following chapter will set out how the tax inspired greater diversity of opinion amongst the commercial community than in the past: in part, this was reflective of the fact that the community itself had become more diverse. The lack of commercial consensus on the income tax was further compounded by the fact that the tax had become tied up in debates over other issues of economic policy. In many cases a businessman’s attitude towards the income tax
became contingent on his perspective on the issues with which the tax had become associated. Above all, it will be demonstrated that commercial actors who were set to benefit from free trade were more inclined to accept the tax. Thus, where in the early years of the century coherent commercial opposition to the tax drove the direction of policy, by 1842 the capacity of commercial opinion on the tax to influence its implementation was much reduced.

It is therefore contended that the diversification in the commercial sector that took place through the first half of the nineteenth century resulted in the fragmentation of the commercial interest. This meant that the ability of the commercial community to influence tax policymaking, and in particular the reintroduction of the income tax, was significantly reduced, allowing the decision to reinstate the income tax to be taken freer of commercial influence. This was witnessed in other areas during the period: for instance, Schonhardt Bailey has argued that the free trade policies of the 1840s were made possible by greater diversity and geographic deconcentration of interests involved in the export sector, meaning that longstanding opposition to free trade no longer proved persuasive. Therefore, it appears that the diversification of the commercial sector may have played in integral role in the development of a political climate more conducive to the tax’s reinstatement. It was argued in the first part of this thesis that the commercial interest was largely unified in its opposition to the tax, and that this proved to be a key barrier to the tax’s development. The fragmentation of the commercial interest meant that, by 1842, its influence over tax policymaking was significantly reduced. Therefore, in order to fully understand the reintroduction of the income tax, the relationship between tax policy and the commercial interest must be incorporated.

V. CONCLUSION

The period between the repeal of the income tax in 1816 and its reinstatement in 1842 witnessed a series of important changes spanning all areas of British life. In considering the catalysts for the reintroduction of the tax, then, it is necessary to look to these changes. This

160 Schonhardt-Bailey (n 154) at 38.
chapter has argued that, owing to crucial developments in the intellectual, political and commercial spheres, the political climate had altered. The nature of Peel’s rise to power, alongside a shift in tax theory which altered political perceptions of the tax, left politicians much more inclined to support the tax’s reintroduction. Furthermore, changes to processes of political decision-making resulted in a reduction in the ability of powerful interests to influence policymaking. This rendered the political climate more amenable to the tax’s reintroduction. However, the chapter built upon these explanations for the tax’s reintroduction by proposing an important commercial dimension: that wide-ranging changes in the nature of the commercial sector had reduced the capacity of this sector to influence tax policymaking. Thus, the longstanding barrier to the development of the income tax, commercial influence over political decision-making, had to some extent broken down. This meant that, from a political standpoint, the tax was easier to reintroduce, as politicians could make fiscal and economic decisions more independently of commercial lobbying.

Clearly, caution must be exercised when drawing conclusions as to the motivations of contemporary policymakers. The extent to which political decisions were influenced at any particular point in time is difficult to ascertain, as has been alluded to earlier in the thesis. Much of the influence exerted by commercial players in the past probably took place through the medium of undocumented ‘back room conversations’ or informal discussions, owing to their close links with the political classes. Although further testing of such conclusions could, in principle, take place by looking for evidence of meetings and personal opinions in the private diaries and records of particular politicians at the time, this would still fail to provide a comprehensive picture of the factors that actually influenced policy decisions. Nevertheless, it is logical to suggest that greater diversity in the identity and views of the commercial sector, combined with increased accountability of politicians to a wider range of those within that sector, probably disrupted the longstanding influence that traditional commercial players held over political decision-makers, and which had swayed decision-making in the past. Reduced commercial interference in the political process in 1842 therefore made it easier for the tax to pass back into the fiscal fabric. Accordingly, it seems that, once again, the commercial interest played an important, and hitherto unnoticed, role in the history of income tax policy, albeit more obliquely than in the earlier part of the century.
CHAPTER 5: A MORE RECEPTIVE SOCIAL CLIMATE

I. INTRODUCTION

The changes in the life of the country that occurred between 1816 and 1842 were pronounced and touched all aspects of contemporary society. It has been argued in previous chapters that the fiscal scene was no exception to this, and that these changes shed light on why the income tax was reinstated. It was explored in Chapter 3 that the reintroduction of the income tax in 1842 can be accounted for in part by the existence of strong incentives for the government to reinstate it. This picture was built upon in Chapter 4, which argued that it can also be accounted for by the fact that the political climate had evolved to become more receptive to the tax’s reinstatement. The task of getting the tax through Parliament was easier than it had been at any point previously.

Although this explains greater political willingness to support the tax, it was argued in Part I of this thesis that the early development of the tax was significantly impeded by public opposition to it. Nothing in the foregoing discussion has offered an explanation for why public opposition did not also prove fatal to the tax’s fortunes in 1842. The explanation implicit in most of the existing histories, although this is rarely expressly addressed, is that any opposition to the tax from the taxpaying public was superseded by the overwhelming economic necessity of the tax’s reinstatement. However, this chapter will reject this argument. Instead, it will show that the reintroduction of the tax in 1842 was met with relative acquiescence on the part of the public, especially when compared to the heated opposition that had faced earlier iterations of the tax. In explaining this change in popular opinion, the chapter will argue that important changes in the administrative, economic and societal landscapes rendered the tax more palatable to the population. Thus, it was not only evolution in the political climate that was responsible for the tax’s reintroduction: the social climate was also more receptive to the tax’s reinstatement.
The chapter will argue that crucial to the development of this more amenable climate was a change in the attitudes and priorities of the country’s commercial community, which had in the past spearheaded organised opposition to the tax. It will be proposed that at the heart of the changes in the administrative, economic and societal environments lay important commercial dimensions, which, together with a number of concessions to commercial opinion in the substance of the tax, served to reduce the powerful commercial opposition that once had obstructed the tax’s development so successfully. The second longstanding barrier to the tax’s development – commercial opposition to the tax – had begun to break down. The chapter therefore provides an important and previously overlooked explanation for the reintroduction of the income tax in 1842: that the heated opposition to the tax witnessed at the beginning of the century, stemming principally from the country’s commercial community, had begun to subside.

II. CHANGING ATTITUDES TO THE INCOME TAX

The response of the British public to the income tax in 1842 has attracted little detailed consideration in existing histories, which instead have tended to focus on the motives of the government in proposing the tax. However, it was explored in Part I that public opposition, in many cases instigated by the commercial community, played a vital role in the repeal of the tax in both 1802 and 1816. The lack of explicit consideration by historians of the state of public opinion in 1842 is therefore surprising. Insofar as the public reception to the tax has been considered in existing studies, it has been characterised as a simple tale of traditional opposition, which the government was only able to overcome as a result of the overwhelming financial necessity of the situation. However, it will be argued that this interpretation belies

1 See, for example, Monroe’s suggestion that ‘Income tax returned in 1842 to no warm welcome’: Hubert Holmes Monroe, Intolerable Inquisition?: Reflections on the Law of Tax (Stevens 1981) 20. See also Rees’s point that, of the reforms in Peel’s Budget, it was the income tax ‘that aroused the strongest opposition. All the old arguments against the income tax were restated…[but] Peel met all the criticisms by asserting that…the income tax was essential to the financial stability of the country’: J F Rees, A Short Fiscal and Financial History of England, 1815–1918 (Methuen & Co 1921) 92. See also William Tayler, The History of the Taxation of England, With an Account of the Rise and Progress of the National Debt (Hope & Co 1853) 106; Halévy E, A History of the English People in the Nineteenth Century: Vol IV, Victorian Years 1841–1895 (2nd edn, Ernest Benn Ltd 1962) 24-26; B E V Sabine, A History of Income Tax (George Allen & Unwin Ltd 1966) 61-62. However, cf Philip Harling, The Waning of ‘Old Corruption’: The Politics of Economical Reform in Britain, 1779–1846 (Clarendon Press 1996) 242-3, who refers to ‘an important shift in public attitudes towards direct taxation…[which] has never been thoroughly researched’.

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the complex reality of the situation. Instead of unified opposition, public reaction to the tax better reflected a theme of reluctant acquiescence. Thus, although traditional complaints surrounding the tax continued to prevail in the contemporary literature, public opposition fell short of that witnessed in 1816. Moreover, the most dramatic shift in opinion came from the commercial interest. Where, in 1816, commercial antipathy to the tax had formed an impenetrable barrier to the tax’s development, by 1842 commercial resistance had diminished. This, it is argued, provides an important explanation for the tax’s successful reintroduction.

2.1 The enduring unpopularity of the tax

The proposed reintroduction of the income tax in 1842, as in the past, met with significant criticism by contemporary politicians and commentators alike. Central to this public denunciation were the traditional charges of inquisition and breach of liberties that had been levelled at the tax since its inception.² The requirement that a taxpayer should be forced to reveal his financial affairs to a servant of the government continued to spark significant rancour, and was taken to amount to unacceptable interference on the part of an inquisitorial government. This argument once again formed a crux of the opposition both in and out of Parliament,³ and proved fertile ground for accusations of a breach of constitutional rights aimed at government. For example, an anonymous contemporary pamphleteer argued:

An Income Tax is an inquisitorial infringement of the liberty of the subject – invades the sacred reserve, and offends the modesty of private life – humbles, by exposure, the dignity of honourable poverty – and excites bad passions from disgust and mortification of individuals by exposure of their private affairs to the scrutiny, often the vexatious or malicious scrutiny, of equals or inferiors.⁴

Such was the perceived outrage of this forced revelation that some contemporaries argued that Prime Minister Robert Peel, like Pitt before him, would be forced to suspend the Habeas

³ For example, see Lord Dalmeny’s description of the tax as ‘the most grievous impost, accompanied by the most odious processes of inquisitorial investigation that can be inflicted on a free nation’: HC Deb 21 March 1842 vol 61 col 980.
Corpus Act to prevent the population rising up against the burdens placed on them, of which the income tax was chief.5

As in the past, this complaint was made especially strongly by commercial interests, who argued that they were particularly compromised by the tax. This, the argument ran, stemmed from the notion that revelation of their financial circumstances to competitors held potentially devastating consequences for their businesses, in exposing private business matters to competitors. This, it was argued, would undermine credit confidence.6 William Aldam MP argued, ‘the real burden of the Income-tax, a Government inquiry into men’s private affairs, falls exclusively upon the trading classes’.7 The Morning Chronicle remarked that ‘Never upon any occasion, has the struggle been so direct as the last election between the landed and the commercial interests; and never has the triumph of the former been so complete’.8 With the election of Peel’s Tory government, the middle classes felt that the hegemony of the political élite had been secured. Many viewed the income tax as an ultimate symbol of imbalance, preserving the interests of the landed élite over the (predominantly commercial) middle classes. One pamphleteer commented that:

if we had had a representation of even the middle classes, they would not have framed a tax that would send the tax gatherer, the informer, the spy, into every man's house to see how he lives, or which would have the effect of dragging him before a number of gentlemen commissioners.9

One of the most common grievances, however, was that the tax operated inequitably. It was explored in Chapter 3 that the language of Old Corruption had by 1842 become prevalent, despite the efforts made by government to dispel this perception.10 The political élite were considered by many to be as biased and objectionable in 1842 as they had been in

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6 See Bury and Norwich Post (Bury Saint Edmunds, 30 March 1816) 3 col 3: ‘[the income tax] would inflict the deepest injury on the industry of those engaged in trade and commerce, and from the inquisitorial process adopted in levying it, would cause a most injurious exposure of the affairs of individuals, destroy that confidence which is so essential to the prosperity of trade, and surround our commercial transactions with an intricate web of espionage, disgraceful to a Government based on constitutional principles’.
7 HC Deb 13 April 1842 vol 62 col 378.
8 The Morning Chronicle (London, 7 April 1842) 4 col 5.
9 Prentice (n 5) 7.
10 Principally through policies of tax reform and retrenchment.
1816, and as such new fiscal or economic measures were often suspected to be an instrument by which the aristocracy could achieve their own ends. The argument that the system was weighted in favour of the traditional landed élite was common to many areas of economic and social policy at the time, and the income tax was no exception. In particular, the tax was seen to protect the much-hated Corn Laws, which artificially inflated the price of bread and was perceived as the principal cause of working class suffering. The revenue generated by the income tax was thought to allow the Corn Laws to be preserved, by mitigating the financial exigency for their repeal. Thus, by extension, the tax was criticised as preserving the interests of the landed interest at the expense of the rest of society.

Once again, members of the commercial community were particular proponents of this argument, positing that the tax’s equal treatment of income from property-holding and so-called ‘earned’ income afforded preference to the landed and financial élite. Businessmen argued that the inherent precarity of trading income meant that the tax operated especially acutely on commercial activity, as commercial income was more precarious. Where income from trade or industry may be adversely affected as a result of illness, retirement, or market fluctuations, income held passively in property or stocks was largely immune to these dangers. According to the Member of Parliament for Leeds William Aldam, ‘It is felt in commercial towns that it is unjust to tax the hard-earned produce of industry on the same footing as the income of realised property, annually received without toil and without risk’. In taxing income in the same way and to the same extent as that generated by property-holding, traders and manufacturers therefore argued that the tax operated unfairly. This was

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11 See Evans’s point that policy-making at the time was greatly aligned with the interests of the landed sector only: ‘The first response to falling prices by a Parliament of landowners in 1815-16 had been the abolition of income tax and the war malt duty as well as the passing of the most famous of the Corn Laws, designed to keep out foreign grain and keep up prices to the consumer. Nor is it coincidental that two further substantial measures of relief for the landed interest - a new Poor Law bringing lower poor rates (1834) and rationalized tithe payments through commutation (1836) - came in two of the five lowest years for wheat prices in the first half of the century’: Eric J Evans, The Forging of the Modern State: Early Industrial Britain, 1783–1870 (Foundations of Modern Britain, 3rd edn, Longman 2001) 172.

12 This perception, and its impact on the willingness of the landed élite to accept the tax, will be developed further below.

13 See the argument of Lord Dalmeny in Parliament at the time: ‘It is to protect the existence of monopoly, to throw a shield round particular and favoured classes, to sacrifice the prosperity of the many to the interests of the few, that the right hon. Gentlemen calls on us to seize the profits of trade, and to submit to the legalized persecution of the tax-gatherer’: HC Deb 21 March 1842 vol 61 col 980.

14 For a good example of these arguments, as well as other arguments of inequity made in 1842, see Illustrated London News (London, 14 May 1842) 10 cols 1-2.

15 HC Deb 13 April 1842 vol 62 cols 377-378.
furthered by the argument that the tax did not ‘reward’ hard work: where landed interests tended to hold wealth passively, more strictly commercial interests went to great effort to generate and maintain their wealth through enterprise. Thus, the tax was branded a disincentive to industry: the *York Herald* declared the tax to be ‘a Tax on industry and talent – a Tax on enterprise and merit – and a blasting pest to everything that is valuable in the privacy of commercial and domestic life’.\(^{16}\)

The tax was also suspected by radical commentators of providing the state with the resources with which to revive the fiscal-military state. The push for retrenchment in national expenditure had curtailed the government’s ability to engage in military conflict, however it was feared that the revenue generated by the income tax would pave the way for a return to the expensive taxpayer-funded wars that had characterised the eighteenth and early nineteenth centuries.\(^{17}\) Other critics put forward the related argument that reviving a much-disliked income tax that had hitherto only been resorted to in wartime would demonstrate to other countries that Britain was in a desperate economic situation. This, it was argued, would leave the country vulnerable to invasion from foreign powers, and encourage foreign traders to poach British markets abroad, in the belief that no recourse would be forthcoming. Lord John Russell MP argued in Parliament that:

> The imposition of such a tax would produce a conviction that they had no other resources, that they were obliged to resort to a tax as if the nation was making a struggle for existence, and therefore that the country would be found unprepared for war.\(^{18}\)

From the grievances described in the press and in Parliament, therefore, it would appear that the tax was as unpopular as ever.

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\(^{16}\) *York Herald* (York, 19 March 1842) 2 col 7.


\(^{18}\) HC Deb 18 March 1842 vol 61 col 900.
2.2 Evidence of a mitigation in public opinion

Given the resurfacing of the old complaints that had hampered the development of the earlier income taxes, it would be fair to assume that the proposed reintroduction of the tax met with similar public opposition to that mounted in 1816. Perhaps anticipating such an outcome, contemporaries had predicted large-scale organised opposition to the tax. Benjamin Hawes MP prophesied in March 1842 that:

[should] the system but once come into operation – let the secret inquisition be sitting, and bankers and others called on to disclose their private affairs, and he was firmly of opinion that so loud an expression of the public dissatisfaction would reach that House, that it would become a question whether any Government, how ever stron

Opposition was forecasted in particular from the City of London, which, as developed in Chapter 2, had proved instrumental in forcing the repeal of the tax in 1816. The Caledonian Mercury suggested that ‘The leading commercial interests in the city are invincible in their determination strenuously to resist the infliction of such an impost on their industry’. Political opponents sought to extend the debates in Parliament, with the aim of generating the necessary time and opportunity for opponents to initiate organised opposition to the tax. Accusations were also made that opposition MPs had orchestrated a number of public meetings against the tax, in order to incite resistance to the tax’s imposition.

However, such efforts were to no avail: the promised resistance to the tax never materialised. This is evident from a number of contemporary publications on both sides of the income tax debate. For instance, the Morning Post asked ‘where is the terrible opposition of the country? Where is the sympathetic enthusiasm of the towns? Where is the gratitude of the country to these doughty obstructors of the policy of Government?’ Furthermore, the

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19 HC Deb 21 March 1842 vol 61 cols 944-945. See also the argument that should Lord John Russell, leader of the opposition, ‘go forthwith to the Guildhall of London, and lead a crusade against this tax, and he will be responded to from one end of Great Britain to the other, and let him give forth, that…it shall not last’: quoted in the newspaper Scotsman, reproduced in Examiner (London, 3 December 1842) 776 col 2.
20 Caledonian Mercury (Edinburgh, 19 March 1842) 3 col 7.
21 See Mr Aldam’s denial that he ‘employ[ed] the Easter recess in agitation, as has been insinuated of hon. Members on this side’: HC Deb 13 April 1842 vol 62 col 377.
22 Morning Post (London, 1 April 1842) 2 col 2. See also the account in The Standard that ‘we…look in vain, for those demonstrations of public opinion so boldly augured by the opposers of the minister, which would be heard from one end of the country to the other denouncing this most unjust and iniquitous tax’: The Standard (London, 12 March 1842) 4 col 5.
Northern Star suggested that ‘The threatened out-of-doors opposition to the Income Tax has been a signal failure!’\textsuperscript{23} Even the Morning Chronicle, although steadfast in its hostility towards the tax, remarked that attendance at public meetings had been poor.\textsuperscript{24} Despite clear continuing dislike for the tax amongst the population, it seems that its proposed reintroduction failed to incite any significant level of outright opposition. It therefore appears that the broad public standpoint may be characterised as reluctant acquiescence. This appears to have been recognised at the time: The Sheffield Independent describes that ‘It would be incorrect to describe the state of feeling that exists as apathy, but there seems to be a general disinclination to take any active steps in opposition.$^{25}$ Thus, as The Standard noted in April 1842, ‘[t]he country, by its silence, has shown…its acquiescence in the measure’.$^{26}$ This absence of resistance is particularly surprising when it is considered that, hitherto, the tax had only operated during wartime, and was widely considered to be a wartime tax that could only be justified in times of national emergency.$^{27}$ As such, although lack of opposition to an unpopular tax was in itself surprising, the apathy surrounding the tax’s reintroduction was even more remarkable given that it would mark a change in the character of the tax: from a fiscal measure justified only by war, to one more widely available for utilisation in peacetime.

Accordingly, it appears that there was a general unwillingness of the populace to engage in active opposition to the tax. However, given both that in 1816 the tax had met with significant commercial opposition, and that businessmen in 1842 continued to regard the tax as operating prejudicial to their interests, it is natural to expect that organised opposition to the tax would have been orchestrated by the commercial community at least. However, in stark contrast to the experience of 1816, the country’s commercial community also failed to launch any notable resistance to the tax. In 1816, a number of well-attended meetings were

\textsuperscript{23} Northern Star (Leeds, 23 April 1842) 4 col 2.  
\textsuperscript{24} Morning Chronicle (London, 31 March 1842) 3 col 5.  
\textsuperscript{25} Sheffield Independent (Sheffield, 2 April 1842) 8 col 1. See also the view in The Standard that ‘The exertions made to resist the principle of the income tax…[met] with nothing approaching to sympathy or acquiescence from the bulk of the community’: The Standard (London, 19 March 1842) 4 col 3.  
\textsuperscript{26} The Standard (London, 12 April 1842) 4 col 5. See also the statement made in The Times, that ‘The English people have distinctly acquiesced in the tax – we will hope that they know their own minds better than we should have divined them’: The Times (London, 19 April 1842) 6 col 3.  
\textsuperscript{27} This argument was evident in much of the debate at the point of the tax’s repeal in 1816, and was revived in 1842: see the statement of Charles Buller MP that the tax ‘had always been considered in this country as the last resource in the most arduous war’: HC Deb 23 March 1842 vol 61 col 1131.
held to protest the tax, and the Mayor, Aldermen and Liverymen of the City of London had put their names to a petition which ultimately attracted 22,000 signatures. However, there were few such meetings in 1842, and only a handful of petitions are recorded as being presented before Parliament, none of which appear to have emanated from the City of London. Despite evident aversion to the tax, it seems that the City failed to actively oppose it, and, unlike in 1816, initial complaints quickly turned to acquiescence. Just ten days after Prime Minister Robert Peel’s announcement of the tax’s proposed reinstatement, *The Times* observed: ‘The strong feeling of opposition to the income-tax, which was so manifest a few days ago, seems to have somewhat abated in the city.’ William Thompson – iron merchant, past chairman of Lloyd’s of London, and a former Mayor of the City of London – even went as far as to suggest in Parliament that ‘he thought the country might cheerfully accept the measure’.

There was also evidence of support for the tax from commercial communities outside of London: in May, the *Royal Cornwall Gazette* suggested that ‘the three greatest commercial towns in Great Britain have given their open and unqualified support’. One of those towns was Manchester, which had presented a petition to Parliament that had ostensibly been laid in the Exchange Rooms in the town, and attracted 24,000 signatures in favour of the income tax. Similarly, the representative for the town of Liverpool accounted in Parliament that, when a petition protesting the income tax was laid in the Exchange Rooms there, ‘not a single signature was affixed to it’. There are undoubtedly significant issues presented by attempting to gain an indication of general public, or indeed commercial, feeling from newspaper articles and parliamentary debates, given that commentators are prone to exaggeration and selective presentation of facts. However, accounts of actual opposition to the tax are few and far between, even in the literature most strongly set against the tax. Where

28 *The Times* (London, 21 March 1842) 5 col 3. See also the statement made in the *Morning Post* that ‘[amongst our capitalists and commercial men] The proposed income tax has, upon the whole, met with such very general approval, that there can be little question as to the speedy and satisfactory disposal of that part of the subject’: *Morning Post* (London, 15 March 1842) 6 col 2.
30 *Royal Cornwall Gazette* (Truro, 6 May 1842) 1 col 7.
31 HC Deb 12 April 1842 vol 62 col 324.
32 HC Deb 13 April 1842 vol 62 col 392.
such accounts are given, they predominantly represent small-scale resistance: small meetings protesting the income tax. There is little of the unified opposition that so characterised the 1816 example. The situation can be further contrasted with the experience of 1831, when the City rose up to protest bitterly a proposed tax on money transfers. 33 Then, according to Le Marchant, ‘The uproar in the City was not to be described’, and the tax was quickly abandoned. 34 That the income tax in 1842 did not meet with the same dissent as the transfer tax, or indeed the income tax in 1816, is telling. The absence of opposition, in such stark contrast to past examples, implies unprecedented acquiescence to the tax from the country’s commercial interest.

It therefore seems that the British taxpaying public in 1842 were less strong on the issue of the income tax than in the past. Where in 1816 the tax had met with strong opposition, and as a result it had been rejected, in 1842 organised opposition was broadly absent. An important explanation for the successful reintroduction of the income tax is a mitigation in popular opposition which allowed the tax to pass back into the fiscal scene comparatively uncontested. It has been shown that this mitigation is particularly notable when considering the attitudes of the country’s commercial community. This leads to the conclusion that the successful reintroduction of the income tax was closely tied up with a change in the attitudes of the country’s commercial interest.

III. ADMINISTRATIVE DEVELOPMENTS

The remainder of this chapter will propose a myriad of explanations for the shift in attitudes towards the tax. These explanations will be collated into four central threads, which together shed new light on why taxpayers were willing to accept the tax in 1842. It will be argued that each of these threads has an important commercial dimension, which accounts for why the shift in opinion of the tax was particularly marked amongst the commercial community. First, the chapter will explore the changes in the administrative landscape that took place over the

33 See Lucy Brown, The Board of Trade and the Free-Trade Movement 1830–42 (Oxford University Press 1958) 47-49.
34 Diary of Denis Le Marchant, February 1831, reproduced in Arthur Aspinall, Three Early Nineteenth Century Diaries (Williams and Norgate Ltd 1952) 9.
period. The increasing involvement of centralised government in the day-to-day life of the population, coupled with important developments in the sphere of commercial accounting, to some extent alleviated key sources of longstanding hostility to the tax. It will then turn to consider the economic backdrop to the tax’s proposed reintroduction, with particular focus on the relationship between the income tax and free trade. This, it will be argued, offered a key incentive for the taxpaying public to accept the income tax, and proved particularly persuasive to the country’s commercial community, who had the most to gain from free trade. The chapter will then draw on the societal changes witnessed over the period, discussed in Chapter 3, to examine the impact of these changes on the willingness of taxpayers to tolerate the income tax. It will argue that commercial players were particularly inclined to accept the tax in exchange for the protection of both their position in society, and of their economic interests. Finally, it will consider the concessions offered, particularly to commercial taxpayers, in the substance of the tax. As in the past, this served to mitigate commercial animosity towards the tax, further inducing its acceptance. Together, it will be argued that these four factors resulted in the emergence of a social climate more amenable to the income tax. It is submitted that this changed climate was responsible for the comparatively docile reception that the tax received, in particular from the commercial community.

This section will consider the first of those four factors in the evolution of a social climate more receptive to the income tax: the changed administrative landscape. There are two main strands to this argument, which will be considered in turn. First, it will be contended that the increasing involvement of centralised government in domestic matters served to soften the force of the longstanding complaint of government intrusion which had accompanied the tax since its inception. Whereas taxpayers at the turn of the century were unused to state involvement in their private affairs, there was greater precedent for such involvement in 1842. This rendered the income tax less objectionable than it had been in the past. Second, it will be shown that developments in commercial accounting over the period made the process of calculating income easier. This allayed hostility towards the tax by simplifying the process of making a tax declaration for commercial taxpayers.
3.1 The growth of centralised administration

The administrative scene through the eighteenth and early nineteenth centuries has been characterised by a lack of significant intervention from the central state.\textsuperscript{35} In his famous consideration of the relationship between law and public opinion during the nineteenth century, Dicey refers to the period prior to 1830 as that of ‘legislative quiescence’, where any desire for political or legal change was checked by ‘intense satisfaction with things as they were’,\textsuperscript{36} and ‘a feeling of contentment with, and patriotic pride in, the greatness of England’.\textsuperscript{37} He attributes this to zeal for tradition and a resistance to change characteristic of ‘Old Toryism’. However, it resulted equally from the fact that government attention through much of this period was focused on the waging of wars abroad. In times of conflict, domestic matters were relegated in importance, leading to a distinct lack of government intervention at home. It was noted in Chapter 1 that this resulted in the development of localised administrative structures.\textsuperscript{38} This, it was considered, contributed to the antipathy towards the early income taxes, as the population was unused to, and thus wary of, government interference with local and individual affairs. However, the end of the French wars finally drew attention back to domestic matters, and changes in society and politics alongside the growing intellectual influence of Bentham’s theories of utilitarianism began to shift focus onto the domestic scene.\textsuperscript{39} These factors catalysed a change that would transform the administrative life of Britain over the remainder of the nineteenth century.

\textsuperscript{35} See, for example, Innes’s argument that ‘A persuasive case can be made for British central government having in some respects disengaged from various parts of the work of domestic government / during the eighteenth century, as interstate rivalry, war and empire, and the mobilization of resources necessary to maintain Britain's international position increasingly absorbed the imagination and energies of leading statesmen’: Joanna Innes, Inferior Politics: Social Problems and Social Policies in Eighteenth-Century Britain (Oxford University Press 2009) 54-55.
\textsuperscript{36} A V Dicey, Lectures on the Relation Between Law and Public Opinion During the Nineteenth Century (first published 1914, Liberty Fund Inc 2008) 45.
\textsuperscript{37} Ibid 51.
\textsuperscript{38} In particular, it was noted that the commercial interest assumed significant responsibility for local administration: see Chapter 1, text at note 97.
\textsuperscript{39} See, for example, Innes’s point that ‘The waging of wars stretched the resources of eighteenth-century British government to the limits; but, in years of peace, machinery that had come into being largely to serve the needs of war could be turned to other ends’: (n 35) 74. Dicey also gives consideration to how and why the position changed, and identifies four main explanations: changes in the ‘social condition’; growing awareness of the intransigent nature of the legal and political process, rendered increasingly problematic by the rapid social changes; the fading memories of the French Revolution, leaving the population less in fear of radical political change; and the existence of a body of thought in favour of ‘Utilitarian individualism’, a form of Benthamism. See Dicey (n 36) Lecture V, especially at 81-90.
The nineteenth century has therefore been characterised by many historians as *laissez-faire*, where the state took a ‘hands off’ approach to government. However, other historians have argued that the reality was more complex, and that the nineteenth century witnessed the co-existence of *laissez-faire* in some respects, and increasing state intervention in others.\(^{40}\) Brebner describes the relationship thus: ‘The mid-nineteenth century dance, therefore, was like a minuet: Parliamentary reform in 1832, the first effective Factory Act in 1833; Peel’s Budget in 1842, the Mines Act in 1842; repeal of the Corn Laws in 1846, the Ten Hours Act in 1847’.\(^{41}\) Therefore, although the period saw a shift in the direction of *laissez-faire* economic liberalism, it also witnessed a significant growth in centralised administrative and legislative control.\(^{42}\) Dicey suggests that the period 1825-1870 can be labelled ‘The Period of Benthamism or Individualism’, characterised by minimal interference with individual enjoyment.\(^{43}\) This can be seen in the significant use of reports, committees and inquiries to inform and drive legislative change.\(^{44}\) Stebbings has noted that:

> the full evils of the emerging and unregulated factory system were exposed by a royal commission in 1833, the abuses of the administration of the poor law became public in 1834 following a comprehensive survey, and the appalling living conditions of the poor were exposed in 1842 as a result of Edwin Chadwick's wide-ranging investigations.\(^{45}\)

It therefore seems that the nineteenth century was witness to a growing trend of state involvement in domestic matters that had previously been untouched, or reserved for the intervention of local administrative structures.

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\(^{41}\) J Bartlett Brebner, ‘Laissez Faire and State Intervention’ (1948) 8 Journal of Economic History 59 at 64.


\(^{43}\) For a detailed discussion of the influence of utilitarianism on legislation during the period, see Dicey (n 36) Lecture VI. See also Stebbings, who argues that: ‘The Victorians had an obsession for the closest examination of established institutions, largely due to the influence of Jeremy Bentham and the school of thought that derived from his work. His system of detailed empirical investigation, analysis and official report prior to any legislative reform pervaded the nineteenth century’: ‘Benefits and Barriers: The Making of Victorian Legal History’ in Anthony Musson and Chantal Stebbings (eds), *Making Legal History: Approaches and Methodologies* (Cambridge University Press 2012) 74.

\(^{44}\) See Stebbings’s opinion that ‘Much of the legislation of the nineteenth century arose from the considerable, detailed and diligent work of various select committees, royal commissions and other investigations establishing the factual evidence underlying the fields of inquiry’: ibid. See also, for example, Fraser (n 40) chs 1-4. See also Daunton’s point that ‘The central state embarked on the creation of systems of information gathering and inspection, with more than twenty central inspectorates established between 1832 and 1875 to monitor and enforce local administration of laws and standards’: *Trusting Leviathan* (n 17) 194.

\(^{45}\) Ibid.
This pattern of movement in the direction of centralisation was catalysed further by industrialisation, and the urbanisation that accompanied it. Where before, a society based on what Smith has referred to as ‘agrarian capitalism, small-scale craft production and local market trading’ had developed its own institutions and capacity for local decision-making, the shift to an industrialised and urbanised society had placed heavy strain on those mechanisms. The scale and complexity of the task of governing a concentrated and aggrieved populace could no longer be catered for through traditional structures based around the local landowner. Instead, Smith identifies a shift towards national control, arguing that:

localised networks of kinship and patronage focused on the country house and vestry gradually yielded up the tasks of government. They were taken over increasingly by more impersonal and universalistic institutions regulated by bureaucrats, businessmen and members of the old and new professions. Coordination and control tended to shift from the local level towards the national level.

Thus, although the new urban centres quickly began to develop new administrative structures to deal with the particular issues facing towns, many broader functions previously devolved to local figures of authority were now taken up by or in connection with national government. The issues created by industrialised society, such as poor living conditions, the spread of diseases and the poor standards of workplace safety that existed in the new factories were simply too complex for local administrative structures to handle alone. Centralised control therefore became an ever-increasing feature of national life through the century.

Although many of these changes were yet to be seen in 1842, it is fair to say that the period covering 1816 to 1842 witnessed a shift in the nature of state involvement in the life of its citizens: centralised government was much more of a feature of society in 1842 than it had been in 1816.

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47 Ibid.
48 Smith has argued that ‘Prominent in the new order were large joint-stock companies, central government agencies such as the Local Government Board and the Science and Art Department whose tentacles stretched deep into the provinces, and national professional associations such as the British Medical Association and the Institutional of Mechanical Engineers’: ibid 16.
49 This can be seen, for instance, in the enactment of the Factory Act 1833: An Act to Regulate the Labour of Children and Young Persons in the Mills and Factories of the United Kingdom 1833 (3&4 Will IV c 103). This limited the number of hours that children were able to work. This increasing involvement of the state in domestic life was an ongoing process, and and would continue after the end of the period covered in this thesis with other legislation such as the Public Health Act 1848: An Act for Promoting the Public Health 1848 (11&12 Vict c 63), which set up the General Board of Health.
This pattern of increasing centralised administration likely held implications for the reintroduction of the income tax. It was established in Chapter 1 that, when the first income tax was introduced, it was significantly unpopular on the grounds that it amounted for the first time to centralised involvement with an individual’s financial affairs. As a result, Pitt introduced elements of localism to the tax, in providing for the appointment of local commissioners charged with making assessments to the tax.\(^{50}\) This defused some of the tension around the tax, but the rhetoric of ‘inquisition’ remained. However, by 1842, taxpayers were more familiar with the involvement of centralised government in local and domestic affairs. The enactment of regulations governing new industrial enterprises,\(^ {51}\) establishment of a police force in some areas,\(^ {52}\) and the creation of workhouses rather than the provision of Poor Relief at home were all visible evidence of the influence of the government over everyday life.\(^ {53}\) Where before the tax had been a relative anomaly against a backdrop of local governance and administration, at the point of its reintroduction centralised bureaucracy was more commonplace. This likely took some of the heat away from the opposition to the tax. Although it cannot be suggested that the taxpaying public viewed state involvement in a positive light,\(^ {54}\) the fact that the income tax was no longer a lone example of government interference rendered the position of the tax in the broader administrative sphere less incongruous. It is proposed that this accounts for some of the cessation in public ill-feeling towards the tax, contributing to the development of the more receptive social climate.

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\(^{50}\) See Chapter 1, text at note 133.

\(^{51}\) See, for example, the Factory Act 1833.

\(^{52}\) An Act for Improving the Police in and Near the Metropolis 1829 (10 Geo IV c 44), which set up a police force for London. Furthermore, s 76 of the Municipal Corporations Act 1835 required the councils it regulated to appoint constables: An Act to provide for the Regulation of Municipal Corporations in England and Wales 1835 (5&6 Will IV c 76) (The Municipal Corporations Act 1835). For a discussion of this, see Cornish and others (n 42) 565-573.

\(^{53}\) See An Act for the Amendment and Better Administration of the Laws relating to the Poor in England and Wales 1834 (4&5 Will IV c 76) (The Poor Law Amendment Act 1834).

3.2 Developments in accounting

The nineteenth century also witnessed key developments in the sphere of accounting practice. Littleton has referred to the nineteenth century as ‘the formative period of accountancy’, which ‘saw bookkeeping expanded into accounting’ In explaining this evolution, the accounting histories reveal two central arguments relevant to this thesis. The first is that the particular pressures placed on businesses by industrialisation, coupled with greater use of the corporate form, resulted in increasing sophistication in business accounting, and in particular in the calculation of commercial profit. This section will expand upon this argument by adding another dimension: that, although many important developments in accounting were not seen until the later part of the century, progress in commercial accounting in the years leading up to 1842 may have facilitated the development of the income tax.

A second theme evident from the existing histories is the mutual relationship between tax and accounting practice. This relationship has been explored by a number of historians, and it has been noted that each played an influential role in the development of the other. In particular, historians have emphasised the function of the income tax as a catalyst for development in the accounting sphere. However, although over time accounting progress inspired developments in tax administration, many historians have argued that that influence was not evident until much later in the nineteenth, and into the twentieth, century. This has been attributed to the primitive nature of accounting practice in the first half of the nineteenth century, which historians note explains the fact that designers of the various

56 Ibid 165.
57 See Littleton’s argument that ‘a merely local trade would never have created enough pressure (volume of business) to stimulate men to coordinate diverse ideas into a system [of accounting]’: ibid 12.
58 Parker has argued that taxation was one of four major influencing factors over the development of accountancy: R H Parker, The Development of the Accountancy Profession in Britain to the Early Twentieth Century (The Academy of Accounting Historians 1986) 5. See also Macve’s argument that the existence of the income tax ‘provided the spur’ to develop the concepts of capital and income in accounting: Richard H Macve, ‘Some Glosses on “Greek and Roman Accounting”’ (1985) 6 History of Political Thought 233, at 236. See also Margaret Lamb, ‘“Horrid Appealing”: Accounting for Taxable Profits in Mid-Nineteenth Century England’ (2001) 26 Accounting, Organizations and Society 271, especially at 293-4. However, the process of refining these concepts was slow. On this point, see Margaret Lamb, ‘Defining “Profits” for British Income Tax Purposes: A Contextual Study of the Depreciation Cases, 1875-1897’ (2002) 29 The Accounting Historians Journal 105, which considers the difficulties faced in the interpretation of the terms ‘depreciation’, ‘profits’ and ‘capital’ over the last quarter of the nineteenth century.
59 Lamb has argued that: ‘[t]axation…relies on accounting practice to provide regulative techniques’: ‘“Horrid Appealing”’, ibid 273.
income taxes were compelled to create new principles for calculating profit, rather than being able to rely on pre-existing accounting conventions. As a result, the existing histories have not considered the income tax of 1842 to have been influenced by accounting practice in any significant way. However, this section demonstrates that developments in accounting over the first half of the nineteenth century did have an indirect influence over the tax’s development, by making easier the process of calculating profit for income tax purposes. This would have diminished some of the longstanding administrative burden of the income tax, and thus contributed to the more favourable social climate for the tax’s reception.

Advances in commercial accounting

In the centuries prior to the reintroduction of the income tax, commerce and production were mainly conducted on a small-scale and informal basis. This meant that the need for businessmen to keep precise accounts was limited. Littleton has argued that, for many producers, business was conducted on the basis of ‘lots’: one set of goods was created, and then sold before production began again. Thus, there was no continuous process of manufacture. Similarly, traders ‘bought and sold whatever was at hand; they did not “merchandise a stock”, as we would say now’. As such, income was non-continuous and was generated by a number of independent micro transactions: a stark contrast to the enduring nature of modern business. As a result, common accounting practice tended to focus on single-entry bookkeeping: a mere list of income and outgoings focused on individual transactions or ‘lots’, with no need to account for permanent capital or the financial status of a business over the long-term. However, the growing engagement in international trade witnessed over the seventeenth and eighteenth centuries resulted in the increased need for businessmen to keep detailed accounts, as large-scale commerce became more complex and sophisticated. In particular, the large trading companies of the period were

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60 Lamb has suggested that ’authorities [were forced] to develop their own rules’ as to taxable profit when it came to income tax’: Margaret Lamb, ‘Taxation’ in John Richard Edwards and Stephen P Walker (eds), The Routledge Companion to Accounting History (Taylor and Francis eLibrary, Routledge 2009), 584. This explains the divergence in the concepts of profit for income tax and accounting purposes, which endures to this day: see Margaret Lamb, ‘The Relationship Between Accounting and Taxation: The United Kingdom’ (1996) 5(Supplement) European Accounting Review 933.

61 See Littleton (n 55) 207.

62 Ibid.

63 Ibid.
engaged in simultaneous large-scale composite trading activities, which necessitated a more detailed account of multiple income streams and financial activities. Accordingly, these entities increasingly abandoned single-entry bookkeeping, which recorded cash flow only, in favour of double-entry bookkeeping, which allowed for a fuller record of multiple sources of income and expenditure to be kept. However, the need even for these companies to keep detailed accounts was limited: Pollard has argued that the fact that many such companies held monopolies reduced the need to monitor in detail their finances, as profit was largely guaranteed. Thus, they took a ‘cavalier attitude to exact costing and pricing’. Accordingly, accounting practices remained somewhat primitive throughout the seventeenth and eighteenth centuries.

However, the nineteenth century and the rapid expansion of trade and industry tested the limits of these accounting practices. The later part of the century would witness rapid change in the complexity of business activity, in major part as a result of the developing use of the corporate form in the years after the Joint Stock Companies Act of 1844, which presented particular challenges for accounting practice. Accounting historians have therefore tended to focus their attention on the period following the Joint Stock Companies Act. However, in recent years greater attention has been paid to the advances witnessed in the earlier years of the century.

One development was the growth of the accounting profession. By the early part of the nineteenth century, the merchant capitalism of the seventeenth and eighteenth centuries had given way to a more aggressive and transient form of business, as entrepreneurs battled to

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64 See J R Edwards, ‘Merchants’ Accounts, Performance Assessment and Decision Making in Mercantilist Britain’ (2009) 34 Accounting Organizations and Society 551, which argues that some businessmen were using double-entry bookkeeping to make management decisions prior to the nineteenth century.


carve a place for their enterprise in the new industrial order. This backdrop proved to be the catalyst for several important developments in accounting. The first was the growth of the accountancy profession. Littleton notes that in London alone, professionals listed as accountants increased from 11 in 1799 to 160 by 1842. He attributes this in large part to the growing number of bankruptcies taking place, in particular as a result of the numerous periods of economic depression seen over the nineteenth century. In response to this issue, Parliament enacted a series of statutes designed to regulate the process of declaring bankruptcy. One provision, first introduced in 1825 and developed upon in later Acts, was that a person should be appointed to administer the bankrupt’s property, which became an important impetus behind the emergence of the accountancy as a separate profession. This sparked the beginning of the more professionalised approach to bookkeeping that would underpin much of the changes witnessed over the century.

The Industrial Revolution also placed unprecedented pressures on traditional forms of accounting. This led to better accounting of profit, and in particular of costs, especially by larger businesses and joint-stock companies. It was explored in the previous chapter that the Industrial Revolution resulted in an increasing competition in the business environment. This led to greater attention being paid to cost minimisation, as businessmen sought to lower prices and attract investment. Furthermore, the changing nature of manufacture or trade

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68 Littleton (n 55) 268. The increase was particularly noticeable in Scotland, where the profession of accountancy developed to a greater extent and much earlier than in England: see Richard Brown, History of Accounting and Accountants (first published 1905, Frank Cass & Co Ltd 1968), especially chapters II and III. See also, for example, Jane Frecknall-Hughes, ‘The Role of Income Tax in the Genesis of the Tax Profession’ (2020) 6 Journal of Tax Administration 23, who argues that the inception of income tax was an important catalyst for the development of the profession.

69 Littleton, ibid 271-287.

70 Over the period covered by this thesis, Acts relating to bankruptcy were enacted in 1825, 1831 and 1833. See An Act to Amend the Laws Relating to Bankrupts 1825 (6 Geo IV c 16); An Act for the More Speedy Judgment and Execution in Actions Brought in His Majesty’s Courts of Law at Westminster, and in the Court of Common Pleas of the County Palatine of Lancaster; and for Amending the Law as to Judgment on a Cognovit Aktionem in Cases of Bankruptcy 1831 (1 Will IV c 7); An Act for the Abolition of Fines and Recoveries, and for the Substitution of More Simple Modes of Assurance 1833 (3&4 Will IV c 74).

71 See Littleton (n 55) 278-279.

72 However, it should be noted that most business by the mid-nineteenth century remained small-scale. Oldroyd and Dobie have argued that ‘most businesses in existence in the mid-1800s were small…[and] [m]an of the individuals keeping the books probably would have been family members’. Thus, ‘It is unlikely that these accounts would have comprised a full set of double-entry records, but instead might have included a cash book listing receipts and expenditure, lists of credit transactions and their subsequent settlement, and inventories of goods…representing little development in the techniques employed’. David Oldroyd and Alisdair Dobie, ‘Bookkeeping’ in John Richard Edwards and Stephen P Walker (eds), The Routledge Companion to Accounting History (Taylor and Francis eLibrary, Routledge 2009) 110-111.

73 See, for example, Fleischman and Parker (n 67) 368-9.
itself also added to this impetus. It was explored above that, prior to the nineteenth century, production and trade were conducted on an individualised basis, made up of discrete transactions. Furthermore, these forms of business tended to be conducted within families, negating the need for wage payments. Thus, any profit that was made simply became the trader’s income, minimising the need for detailed accounting. However, Littleton has argued that the rise of industry led to:

production [falling] under the direction of enterprisers who paid wages, bought materials and supervised the process of producing goods for the profit they could obtain by selling the goods created at prices above the costs. They had a motive for records, therefore, which the family or the solitary producer had not.\textsuperscript{74}

Moreover, with the rise of factory-based business came increased reliance on capital assets. Where producers in the past, using manual skill and primitive tools, had needed little stock to operate their business, industrial enterprise mandated assets in the way of machinery. This created accounting issues, as these assets generated maintenance and repair costs, and also raised the difficult question of how to account for depreciation in their value. This increased the need for effective accounting for costs, in order to evaluate profit accurately. As a result, bookkeeping began to transform: from ‘a financial record of buying and selling, of owing and being owed, of paying and collecting debts’,\textsuperscript{75} to a more comprehensive picture of the financial gains and responsibilities of a business. This came primarily in the form of growing use of double entry bookkeeping,\textsuperscript{76} and of increased use of cost-accounting practices.\textsuperscript{77}

Accordingly, Edwards and Boyns have suggested that, during the later years of the Industrial Revolution, ‘cost information was generated on a more regular and systematic basis’.\textsuperscript{78}

Another side-effect of escalating complexity in business activity was progress in the nature of business organisation. The increasingly capital-intensive nature of business resulted

\textsuperscript{74} Littleton (n 55) 320.
\textsuperscript{75} Ibid 337.
\textsuperscript{76} See Oldroyd and Dobie: ‘The nineteenth century is, for the UK, the century when double-entry bookkeeping allegedly assumed the hegemony which it continues to claim today’: (n 72) 110. The first half of the nineteenth century also witnessed the adoption by government of the double-entry system for state expenditure: see J R Edwards, H M Coombs and H T Greener, ‘British Central Government and “the Mercantile System of Double Entry” Bookkeeping: A Study of Ideological Conflict’ (2002) 27 Accounting, Organizations and Society 637; and Philip Colquhoun, ‘The State’ in John Richard Edwards and Stephen P Walker (eds), The Routledge Companion to Accounting History (Taylor and Francis eLibrary, Routledge 2009) 543-560.
\textsuperscript{77} For an extended analysis of popular cost-accounting practices over the period, see, for example, Richard Edwards and Trevor Boyns, A History of Management Accounting: The British Experience (Routledge 2013) 138-140.
\textsuperscript{78} Ibid 150.
in heightened pressure on the state to offer new and more formal ways for business to organise their financial affairs.\textsuperscript{79} Thus, where in the past most business activity had been undertaken by sole traders, the period heralded an increase in the number of partnerships, and latterly in companies.\textsuperscript{80} The repeal of the Bubble Act in 1825 paved the way for the dramatic increase in companies and company law of the late nineteenth century. These developments held several significant implications for accounting. First, the increasing use of the corporate form created the need for more sophisticated accounting practice. Littleton has argued:

\begin{quote}
The corporate form of organization was particularly favorable for the development of business enterprises of great size; size brought greater volume of transactions and with it the urgent need for economy in the labor of recording and for an increased assurance of accuracy in the recorded results. These conditions are reflected in the choice and design of bookkeeping records and in the procedures set up for the accurate and expeditious handling of the data. In this way the corporation probably influenced bookkeeping considerably.\textsuperscript{81}
\end{quote}

Furthermore, the need to issue dividends to shareholders also required greater accuracy in the calculation of business profit, as to issue a greater dividend than could be supported by company profit could have serious financial implications. Moreover, it was vitally important that any potential investor should be able to assess the financial health of an enterprise before committing capital to it.\textsuperscript{82} In order to secure investment, then, a company must be able to reassure any potential shareholders that it was financially responsible, and could offer a share of profit in exchange for investment.\textsuperscript{83} This could only be achieved if the company had reference to a detailed account of its financial concerns. Thus, increasing corporation promoted greater sophistication in accounting.

The increased formality of enterprise also offered an important opportunity for state regulation of company accounts, as well as a strong impetus for so doing. In increasing the

\textsuperscript{79} See Ó hÓgartaigh’s point that ‘[t]he demand for capital led to the expansion of new forms of industrial organisation, including partnerships and the joint stock and limited liability company, and a consequent need to measure and record profits to be divided between the partners and/or the investors’: Ciarán Ó hÓgartaigh, ‘Financial Accounting Practice’ in John Richard Edwards and Stephen P Walker (eds), The Routledge Companion to Accounting History (Taylor and Francis eLibrary, Routledge 2009) 163.

\textsuperscript{80} Although it is important to note that the majority of business remained conducted by sole traders: see discussion in Edwards and Boyns (n 77) 136-138. For a comprehensive discussion of the effect that the inception of the corporate form had on accounting, see Littleton (n 55) ch 8.

\textsuperscript{81} Littleton, ibid 205.

\textsuperscript{82} See Oldroyd and Dobie (n 72) 112.

\textsuperscript{83} See Oldroyd and Dobie’s point that improved accounting practices can be attributed to ‘the widening gulf between investors and managers’ (ibid 110), as ‘the desire to protect the interests of shareholders provided an impetus for better record keeping’ (112).
gap between investment and management, through the separation of ownership and control, it was important that additional protection for shareholders be secured.\textsuperscript{84} Although the absence of an easy method by which private businesses could choose to incorporate meant that regulation of the accounts of private companies was not seen until the second half of the nineteenth century,\textsuperscript{85} the first half of the century witnessed increasing regulation of the accounts of state owned companies and new companies within particular industries, normally via terms placed into the Private Act authorising their incorporation.\textsuperscript{86} A particular example of this has been explored by Pollins, in the context of the railway companies.\textsuperscript{87} Although the accounts of railway companies were not uniformly regulated by statute until 1844, and the process of accounting was not made explicit until the enactment of the Regulation of Railways Act 1868,\textsuperscript{88} Pollins argues that the period before 1842 witnessed significant developments in state regulation of accounting practices, as the Private Acts incorporating such companies began to impose increasingly sophisticated accounting processes upon them, in particular relating to the process of calculating and distributing dividends.\textsuperscript{89} According to Pollins, the position by 1842 was that:

a body of regulations had been built up which the general Acts took over. Thus the various sections, relating to accounts, in the Warwick and Leamington Union Railway

\textsuperscript{84} See Ó hÓgartaigh (n 79) 163. See also Jones and Aiken’s account that ‘the disclosure and auditing provisions of the Joint Stock Companies Act (1844) were driven by the frequent revelations of fraud and capital misappropriation…[t]he disclosure recommendations of the Secret Committee on the Joint Stock Banks (1836), which resulted in the Joint Stock Banks Act (1844), were heavily influenced by the failures of several large banks, many of which were due to elaborate frauds, falsification of accounts, capital misappropriation and general mismanagement on the part of directors. Hence, restrictive accounting provisions were specifically linked by regulators to the protection of private property and the maintenance of law’: S Jones and M Aiken, ‘British Companies Legislation and Social and Political Evolution During the Nineteenth Century’ in J R Edwards (ed), The History of Accounting: Critical Perspectives on Business and Management (Routledge 2000) vol II 433.

\textsuperscript{85} The turning point for this was the Joint Stock Companies Act of 1844: for the accounting implications of the Act, see H C Edey and Prot Panitpakdi, ‘British Company Accounting and the Law 1844–1900’ in A C Littleton and B S Yamey (eds), Studies in the History of Accounting (Richard D Irwin Inc. 1956) 356-361. It also seems that there was reluctance on the part of government to step in to regulate private companies’ accounts: Oldroyd and Dobie have suggested that ‘the nature of the accounting systems and information published by companies was regarded as a matter to be negotiated between the shareholders and the directors’: Oldroyd and Dobie (n 72) 111.

\textsuperscript{86} See R H Parker, ‘Regulating British Corporate Financial Reporting in the Late Nineteenth Century’, in J R Edwards (ed), The History of Accounting: Critical Perspectives on Business and Management (Routledge 2000) which discusses some of the legislation aimed at regulating financial accounts over the period. One example given is the Bank Charter Act 1833 (An Act for Giving to the Corporation of the Governor and Company of the Bank of England Certain Privileges for a Limited Period, under Certain Conditions 1833 (3&4 Will IV c 98)), which ‘required the Bank of England (at that date in private ownership) to disclose to the Chancellor of the Exchequer weekly totals of its bullion and securities, notes in circulation and deposits with other banks’: vol II 414.

\textsuperscript{87} Harold Pollins, ‘Aspects of Railway Accounting Before 1868’ in A C Littleton and B S Yamey (eds), Studies in the History of Accounting (Richard D Irwin Inc 1956).

\textsuperscript{88} An Act to Amend the Law Relating to Railways 1868 (31&32 Vict c 119).

\textsuperscript{89} For details of these processes, see Pollins (n 87) 337.
Act of 1842 were similar to those…of the Companies Clauses Consolidation Act of 1845.\(^90\)

Thus, the period also witnessed greater regulation of certain types of business accounts, presaging the increasing involvement of the state in commercial accounting that would come to develop over the second half of the century.

\textit{Implications for the income tax}

From the foregoing discussion, we can see that the first half of the nineteenth century witnessed a notable shift in commercial accounting practices. Although the most significant changes were yet to come, and some historians have argued that accounting processes remained on the whole deficient,\(^91\) by 1842 there appears to have been growing inclination on the part of businessmen to improve their accounting practices in line with the demands of the new commercial scene. The period therefore witnessed key improvements in accounting for profit and costs. This, it will now be contended, held implications for the reinstatement of the income tax. By 1842, many commercial interests were beginning to adopt these more sophisticated accounting practices, in order to gain a better perspective on the financial complexities of their business. In particular, the increasing complexity of business in an industrial age had resulted in greater cognisance of the need for an accurate awareness of profits and costs. This meant that commercial taxpayers in 1842 were more familiar with the process of profit calculation than ever before. The consequences of this for the reinstatement of the income tax were likely two-fold. First, more comprehensive and detailed accounting practice may have contributed to Peel’s motivation to reintroduce the tax, as it would make the administration of the tax somewhat easier than during the tax’s previous operation. Where theorists such as Bentham had once advised against taxing business profits as ‘[t]he difficulty of ascertaining the profit and loss…would be an endless source of evasion’,\(^92\) by the mid-nineteenth century profit was both more ascertainable and more routinely calculated than ever before. Although, without increased powers to examine accounts, the possibility of intentional tax evasion could not be mitigated, improved accounting practices would mitigate

\(^90\) Ibid.

\(^91\) See Fleischman and Parker (n 67) especially at 371.

the chance of inadvertent under-declaration, and allow accounts to be used as evidence to support or refute the accuracy of a declaration.93

The second, and perhaps more important, effect of improvements in accounting practice on the reinstatement of the income tax was that it may also have softened some of the longstanding commercial hostility to the administrative burden of the tax. Greater familiarity with the process of calculating profit for accounting purposes made the process of calculating profit for income tax purposes less onerous, mitigating some of the source of commercial complaint. The fact that a businessman in the 1840s was more familiar with his financial situation than at the beginning of the century likely impacted on his opinion of the tax, as the administrative burden imposed by the tax would be diminished. Thus, the longstanding objection put forward by critics such as Adam Smith, that a tax on commercial profits violated the maxim of convenience, began to lose much of its weight. This was mitigated further by the fact that, owing to the tax’s previous periods of operation, taxpayers were not unused to calculating profit for income tax purposes.94 Furthermore, the increasing regulation of accounting practices also meant that commercial taxpayers in 1842 were becoming increasingly accustomed to greater government intervention in their financial affairs. Although the routine regulation of the bookkeeping practices of private companies would not take place until the later nineteenth century, government regulation of those of some quasi-state companies may have dispelled some of the traditional mistrust of government intervention in financial affairs that had led commercial taxpayers to object so strongly to the income tax in the past. The ongoing evolution in the sphere of accounting thereby diminished the sources of the longstanding commercial hostility to the tax.

93 However, this could only be with the taxpayer’s consent as the 1842 tax, like its predecessors, gave tax officials no power to examine accounts.

94 This reflects a wider point relevant to the tax’s administration: that the income tax was easier to administer in 1842 because Britain already had experience of doing so. On this point, see, for example, Hope-Jones’s contention that the organisation that accompanied the early taxes “made possible the comparatively smooth reintroduction of the Income Tax in 1842”: Arthur Hope-Jones, Income Tax in the Napoleonic Wars (Cambridge Studies in Economic History, Cambridge University Press 1939) 47.
3.3 Summary of administrative developments

The changes in the administrative sphere, in keeping with those in other areas of society, were prolific and wide-ranging. The greater involvement of government in domestic matters, coupled with increasing bureaucratisation, resulted in the population becoming more accustomed to state intervention. This meant that the income tax was less incongruous with the administrative approach of government than it had been at the turn of the century, mitigating the force of complaints of government intrusion that had dogged the tax in the past. This pattern of waning antipathy was further illustrated in the context of the commercial community. It was argued above that commercial taxpayers had less cause to oppose the tax than in the past, as important developments in the sphere of accounting had served to ease the administrative burden placed upon them by the tax. This likely further attenuated animosity towards the tax, resulting in the greater disposition of commercial interests to accept it. Thus, it appears that administrative changes throughout the period were a significant contributing factor in the emergence of an increasingly receptive climate for the tax’s reinstatement.

IV. AN ECONOMIC REVOLUTION: FREE TRADE

Perhaps the most important development during the period, at least for the purposes of the income tax, was in the economic sphere, as British economic philosophy and practice began to align in the direction of free trade. The theory of free trade, promoted by eminent economic philosophers and political economists such as Adam Smith and David Ricardo, rested on the removal of import tariffs in order to foster greater competition in the domestic market. The association between free trade and the income tax has been stressed in existing histories, and writers both at the time and subsequently have considered the tax’s relationship with free trade to have been a crucial trigger for the reintroduction of the tax. However, like most histories of the income tax, these accounts have focused primarily on Peel’s motives in reintroducing the tax. Historians have therefore emphasised the economic and political benefits to government offered by free trade, and have therefore explained the reintroduction of the income tax in those terms. However, as was argued throughout Chapter 3, focusing on

95 George Macauley Trevelyan, *British History in the Nineteenth Century (1782-1901)* (13th impression, Longmans 1936) 267 (‘Peel… saw in the income-tax the key that would unlock the Free Trade cupboard’).
government motivation alone provides only half of the picture. Given past experiences of popular opposition forcing the tax’s repeal, it is necessary also to look to the role that the conversion to free trade philosophy had in mitigating popular opposition to the tax. This section will argue that the growing popular support for free trade that emerged across society in the years leading up to 1842 played an important role in the evolution of a social climate friendlier to an income tax, as income tax came to be perceived as the price of free trade. Above all the turn to free trade was responsible for the appreciable moderation in commercial ill-feeling towards the tax. The commercial community was, on the whole, set to benefit from free trade more than any other social group. Thus, the association of the income tax with free trade rendered the tax more palatable to the commercial interest than ever before.

The section will begin by considering the theoretical and practical case for a move to an economic system more aligned with free trade philosophy. The traditional narrative that the income tax was reintroduced in exchange for the economic benefits of free trade will then be explored, and it will be argued that once again this fails to explain the willingness of taxpayers to accept the tax. Instead, this section will put forward a new interpretation: that free trade was responsible for the mitigation in opposition to the tax from both the taxpaying public, and in particular from the commercial sector. It will consider both the benefits that free trade offered to various social groups, alongside evidence of commercial support for free trade, in order to conclude that there existed a willingness amongst the commercial community to accept the income tax in exchange for the promise of free trade. The tax was viewed as the ‘price’ of free trade, and, as such, it became more palatable to the commercial public than in the past.

4.1 Free trade and the income tax proposals

The case for free trade

Economic policy during the eighteenth century had developed to reflect a ‘mercantile’ philosophy, the primary objective of which was to encourage domestic trade and industry ‘by
protecting it from foreign competition in the home market’. This resulted in a tariff based heavily on so-called ‘protective’ duties, which were designed to impose heavy levies on foreign imports in order to promote British and occasionally colonial produce in the domestic market. However, as time went on, the negative ramifications that these policies held for the economy became increasingly clear. Levi has argued that the most problematic aspect was in the duties placed on raw materials of industry, such as hemp, raw silk and timber. The former resulted in increased production costs, limiting the number of items produced, and also restricting the market for those goods, as both domestic and foreign purchasers preferred cheaper goods made with lower production costs abroad. The impact of this was worsened by the protective nature of many of the duties, designed to encourage domestic goods over imports. According to Levi, protective economic policies:

prevent[ed] the importation of foreign goods, diminished the demand for the exportation of British goods, diminished the employment of shipping and foreign commerce, enhanced the prices of a number of articles, checked invention, gave encouragement to smuggling, and otherwise weakened and paralysed the energies of the nation.

In other words, in discouraging or prohibiting imports outright, protectionism caused a reduction in exports, as it was with the profits made from exporting to Britain that foreign manufacturers would purchase British goods. Moreover, any reluctance from Britain in taking foreign manufacturers’ goods would naturally lead to reluctance in kind. As Clapham has pointed out: ‘if Britain would not take their wares, why should they take hers?’

97 Daunton has argued that this process was often unconscious, taking place by the gradual adoption of a multitude of duties in order to pacify a particular interest, thus ensuring their political support: See Martin J Daunton, Progress and Poverty: An Economic and Social History of Britain 1700–1850 (Oxford University Press 1995) 538.
99 See Brown (n 33) 200-203. This was exacerbated by taxes on the manufactures themselves, such as glass, paper and soap, driving up prices and resulting in fewer, and more expensive, items for sale – for a detailed discussion of this, see Levi, ibid 204-205.
100 Ibid 205.
led to reduced demand abroad, thus increasing prices and reducing employment, and negatively affecting domestic purchasing power.

As the economy became increasingly industrialised, the problems with mercantilism began to outweigh its benefits. The success of Britain’s expanding and increasingly diverse industrial efforts depended on easy and reciprocal access to foreign markets: protection stood in the way of that goal, by limiting access to imported goods and reducing foreign demand for British products. Mathias has shown that the impact of protective tariffs on the economy can be clearly demonstrated by consideration of the position before and after the abolition of the East India Company’s monopoly over cotton exports to India. Before its abolition in 1813, just one million yards of Lancashire cotton were exported from Britain, however by 1832 this had dramatically increased to fifty-six million yards.103 By the nineteenth century, then, economic protection was becoming increasingly difficult to defend. Seligman has argued that ‘Fiscal theory cannot long lag behind the facts of industrial life’,104 and this appears to be especially true of the early nineteenth century: in calling into question policies based on heavy and protective tariffs designed to offer preference to certain industries over others, industrialisation challenged the fiscal hegemony.

In the later eighteenth century, the economic philosopher Adam Smith promoted a different economic approach: that of free trade. Smith argued that mercantilist policies had hindered the country’s economic progress. Instead, he advocated reduced government intervention in the economy,105 through the removal of tariffs, in order to allow the country’s economy to develop towards a more efficient economic balance between interests.106 This

103 Ibid 270.
105 Thus, he argued that: ‘The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it’: Adam Smith, An Inquiry Into the Nature and Causes of the Wealth of Nations (Dublin 1776) vol I 380.
106 See Mathias’s description of free trade as ‘a system of freely-operating market prices, under naturally competitive conditions, [which] would ensure the lowest effective prices to the consumer and, by the effect of comparative costs, produce the most efficient allocation of resources between the different branches of economic activity’: Mathias (n 102) 266. See also O’Brien’s point that, according to Smith, ‘…it was necessary to keep a balance between taxes on home supplies and taxes on imported supplies to avoid distortion of choice
would also hold benefits for the revenue: Smith argued that high tariffs served to stifle the economy and thus reduce the yield of customs duties. Thus:

in the arithmetic of the customs, two and two, instead of making four, make sometimes only one…such heavy duties, which never could have been imposed, had not the mercantile system taught us, in many cases, to employ taxation as an instrument, not of revenue, but of monopoly.107

These ideas were developed upon by David Ricardo, who promulgated the economic theory of comparative advantage to argue that free trade would allow for a more economically efficient outcome.108 The concept of free trade grew in popularity over the period, and the arguments which it precipitated both sparked the interest of the Board of Trade,109 and gave rise to growing support from the public.110 Such a system would have the following implications: first, it would ensure that no interest was given preferential treatment in trade at the expense of another. This would encourage greater competition, and as a result allow the market to adapt efficiently in the direction of the lowest production costs, in turn increasing the volume of trade. Second, and as a result, consumers would be able to acquire goods at more affordable prices. This would increase the capacity of the poor to purchase necessities, thus alleviating their distress, and also allow for their greater engagement in the economy, swelling consumer numbers.

These arguments became increasingly persuasive to government, and, along with the relative financial freedom offered at the end of the wars, were an important inducement for the tariff reforms of the 1820s and 1830s.111 It was noted in Chapter 3 that these decades witnessed a drastic reduction in customs and excise duties.112 The tax reforms of the 1820s

107 Smith (n 105) vol III 300.
108 See, for example, O’Brien (n 106) 49-51, for a discussion of the interrelationship between Smithian and Ricardian concepts of free trade.
109 For a detailed exploration of the relationship between the Board of Trade and the burgeoning free trade movement, see Brown (n 33).
110 The paradigm example of this given in much of the literature is the Anti-Corn Law League, which sought to abolish the Corn Law as the heart of the mercantilist system.
111 For an account of the role of free trade in the tariff reforms of the 1820s and 1830s, see, for example, W Cunningham, The Rise and Decline of the Free Trade Movement (2nd edn, Cambridge University Press 1905) 27-50; Boyd Hilton, Corn, Cash, Commerce (Oxford University Press 1977), especially chapter VI; William D Grampp, 'How Britain Turned to Free Trade' (1987) 61 Business History Review 86.
112 See Chapter 3, text at note 44.
have been credited subsequently as the beginning of the country’s conversion to free trade.\textsuperscript{113} Thus, Gash has suggested that ‘the whole tendency of national economic policy [over the 1820s and 1830s]…had been towards a gradual dismantling of the elaborate tariff barriers bequeathed by the eighteenth century’.\textsuperscript{114} However, without alternative taxation to offset the lost revenue, the process stalled, and the 1830s marked slight increases in taxation and, as explored in Chapter 3, the gradual decline into deficit. Furthermore, many contemporaries were dissatisfied that the ‘free trade’ reforms had not gone far enough. Writing in 1834, Mill complained that:

> Our custom duties cause much unnecessary expense and annoyance to the merchants, for which the latter indemnify themselves at the cost of the consumer; and so far as those duties affect articles which can be produced in the country itself, or in the colonies, they are almost always purposely shaped to protect (as the phrase is) home and colonial industry; a term which always means, to set home or colonial industry upon producing some particular article (which it would not naturally take to) in preference to producing some other article, through the medium of which it could obtain the first in greater quantity and at a less expense. The loss to the mother country, from the discriminating duties on timber alone, is moderately estimated at a million sterling a-year.\textsuperscript{115}

In response to these complaints, and likely swayed by the economic benefits promised by a free trade system, in particular at a time of economic depression, Peel chose to embark upon a scheme of wide-ranging tariff reform of a free trade character, more ambitious than any previously entered into. However, in order to fund the reforms, alternative revenue was required. The chosen device was the income tax, and the move served to irrevocably bind the fortunes of the tax with that of free trade.

\textit{The role of the income tax}

In his Budget Speech, Peel stated the principal aim of the introduction of the income tax to be to enable him ‘with confidence and satisfaction to propose great commercial reforms, which will afford a hope of reviving commerce, and such an improvement in the manufacturing

\textsuperscript{113} See Mathias’s argument that: ‘The economic logic of Britain’s developing industrial economy…in the long run lay at the back of…increasingly powerful commercial arguments for free trade’: Mathias (n 102) 273.

\textsuperscript{114} Norman Gash, \textit{The Age of Peel} (Edward Arnold 1968) 12.

interests as will react on every other interest in the country’. These reforms involved reductions in or removals of 750 out of 1,200 duties across the tariff. Thus, it appears that the income tax was in part reinstated in order to improve the country’s economic situation through a move towards free trade. With reduced engagement in trade having a detrimental effect on the economy, it was apparent to Peel that protective duties formed a barrier to a healthy economy and accordingly to increased revenue, and so it was imperative that they were removed. In providing alternative revenue to offset that lost through tariff reform, the income tax would allow Peel to reduce and remove duties hindering trade, in particular those on foreign imports. Past efforts to reform the tariff had been constrained by the lack of available revenue to offset the reductions in customs duties, and, in leaving the national finances over-reliant on fewer taxes, had left the national finances in a difficult state at times of economic depression. The tax was therefore the necessary precondition for a shift towards free trade to occur, which would both restore good fortune to the economy and hold corresponding benefits in the national accounts, as economic improvement would increase receipts from the remaining taxes. It is therefore unsurprising that the tax was viewed both in and out of Parliament as part of a larger budgetary plan: one contemporary argued that ‘The Income Tax [has] been interwoven by circumstances with Free Trade’.

On this view, then, the income tax was an indispensable link in the free trade chain: a necessary precondition in order to effect sustainable economic reform. This interpretation has been stressed in the existing histories of the reintroduction of the income tax, and the emphasis that Peel placed on tariff reform in his Budget Speech suggests that free trade ambitions did indeed play an important role in the decision to reinstate the income tax. However, it was contended in Chapter 3 that government motivation alone cannot account for why the public were willing to accept an imposition on their income, which had inspired such

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116 HC Deb 11 March 1842 vol 61 col 439.
117 Ibid.
118 It is important to note, however, that Peel’s reforms did not amount to free trade in any meaningful sense. Schuyler has noted that ‘[although Peel’s Budget] has generally been spoken of as a free-trade measure…it not only retained but extended colonial preference’: Schuyler (n 96) 134. Thus, the position can be summed up as that the income tax was the necessary tool to achieve a move towards free trade, but it did not facilitate the achievement of free trade itself.
119 See Rees’s opinion that: ‘Although still nominally a protectionist [Peel] thought that a movement in the free trade direction was imperatively demanded by the circumstances of the time’: Rees (n 1) 90.
120 For a discussion of the benefits that it was anticipated that a move towards free trade could bring, see Hilton (n 111) 261. See also Daunton (n 97) 551.
121 Sheffield Independent (Sheffield, 9 April 1842) 2 col 1.
hostility in the past. It will now be argued that, as well as motivating Peel to propose the tax’s reintroduction, growing support for free trade may also explain the muted public reception to the tax. Thus, it will be argued that the reintroduction of the income tax was facilitated by the fact that the taxpaying public, and in particular the commercial interest, viewed the tax as the price of free trade.

4.2 Free trade and the reception to the income tax

Support for free trade

The decades leading up to 1842 witnessed the emergence of what has been styled the ‘free trade movement’: the lobbying of various interest groups for reform to the tariff. Free trade was a core ambition of both Chartism and the Anti-Corn Law League, in providing a foundation upon which to protest the Corn Laws, and it also inspired the formation of a wealth of other pro-free trade associations across the country.\(^\text{122}\) Given that free trade appears to have been a strong public priority at the time, it is unsurprising that Peel’s presentation of the income tax as consideration for the achievement of these free trade ambitions resulted in some amelioration in the ill-feeling directed towards the tax, as compared to 1816. The idea that income tax was perceived as the ‘price’ of free trade by much of society at the time is evident in the contemporary literature. One newspaper at the time suggested, ‘There has been considerable disinclination among the friends of Free Trade to oppose the Income Tax, for fear lest the effect should be to defeat or impair the Tariff’.\(^\text{123}\) The fate of the income tax was now firmly tied up with that of free trade, and the supporters of free trade were likely unwilling to actively oppose the tax, irrespective of their feelings on it, should it result in the scrapping of the rest of the Budget, and the move towards free trade be abandoned. As the *Morning Post* suggested at the time, in attempting to explain the lack of organised opposition to the tax:

> Either the people are wholly in favour of the Ministerial project; or they find so much advantage in the new tariff, combined with what they think the disadvantage of the

\(^{122}\) See discussion of the growing impetus for free trade in Halévy (n 101) 301-335. See also Mathias (n 102) 266-277; Daunton (n 97) 545-557.

\(^{123}\) *Sheffield Independent* (Sheffield, 2 April 1842) 8 col 1.
income-tax, that, upon the whole, they see no reason for active opposition to a Ministry which will either carry both or neither.\textsuperscript{124}

This suggests that acquiescence reflected a compromise on the part of the public: the income tax must be borne, in order for free trade to be achieved. Where before, the income tax had been considered alone and thus on its own merits and demerits, it was now inextricably tied up with those of free trade, which served to obscure the income tax debate.

It is important to note at the outset, however, that the tax did not attract universal support from proponents of free trade. Some critics felt that Peel’s proposals failed to go far enough towards free trade, as a number of protective duties were retained,\textsuperscript{125} in particular the controversial Corn Laws. It was argued that, if duties on corn were removed, the economy would naturally improve. Thus, the income tax was unnecessary, and served instead to protect the Corn Laws.\textsuperscript{126} Daunton has argued that, in some instances, ‘the income tax was linked in the eyes of radicals and free traders to maintenance of the corn laws’.\textsuperscript{127} The fact that the economic reforms did not go so far as to scrap the Corn Laws may have incited some resentment towards the tax.\textsuperscript{128} However, despite these concerns, it was demonstrated at the beginning of this chapter that little organised opposition to the tax was launched in 1842. This can be explained by the contention that proponents of free trade saw some improvement in the tariff as better than nothing, and accepted the tax as the price of tariff reform in the hope that this would lead to further reform in future. Moreover, the improvements in the economic fortunes of the country that Peel promised would result from the tariff reform were substantial. Thus, even if not convinced as to the introduction of the tax on the grounds of free trade, free traders likely considered the promised economic benefit to be sufficient to justify reluctant acceptance of the tax.

\textsuperscript{124} Morning Post (London, 1 April 1842) 2 cols 2-3.
\textsuperscript{125} See Schuyler (n 96) 134-135.
\textsuperscript{126} The function of the income tax in this sense will be discussed further below.
\textsuperscript{127} Trusting Leviathan, (n 17) 83.
\textsuperscript{128} This is not to say that abolition of the Corn Laws was not on the government agenda in 1842: Peel had effected some reforms earlier in the year through the introduction of a ‘sliding scale’ of duties on corn – see Levi (n 98) 260-262; A A W Ramsay, Sir Robert Peel (Constable and Company Ltd 1928) 226. Moreover, it has been argued in the literature that repeal of the Corn Laws was Peel’s plan throughout: See Evans’s argument that ‘It could be argued that [Peel] allowed the Tories to fight the election of 1841 on the false prospectus of staunch support for agricultural protection. The case that he misled not only the electorate but also his own party is very strong’: Evans (n 11) 313. Thus, it may well have been that the retention of the Corn Laws merely reflected the political reality that Peel needed the support of landed interests to get other reforms through Parliament. Once this objective had been achieved, Peel could then turn his attention to repealing the Corn Law.
Commercial support for free trade

Much of the vocal support for free trade in the years leading up to 1842 emanated from the commercial community. As the principal beneficiaries of a free trade system, commercial players, in particular those engaging in export-focused activities, stood to gain most from the proposed reforms. As Semmel has argued, ‘From the end of the Napoleonic Wars onward, the dream which presented itself to Englishmen of the industrial classes was that of a British Workshop of the World, a dream which might be realized, they believed, through the dissemination of free trade principles’. The association of the income tax with these ambitions was crucial. It has already been noted that no significant commercial opposition was launched to the tax in 1842. This, it is argued, stems from the association of the tax with free trade. The inclination of the commercial interest towards free trade therefore forms an important explanation for commercial acquiescence to the reintroduction of the income tax.

The support offered by the commercial interest to free trade ideas, and therefore to the tax, was due in no small part to important changes in the nature of business activity. It was argued in Chapter 4 that the commercial community in the middle of the nineteenth century was materially different to that at the beginning. The political implications of this shift was explored in depth, however it is also important to note that it also had a profound impact on commercial priorities. The process of industrialisation held important implications for the nature of business: Daunton has termed the new industrialists as ‘a new breed of businessman’, in part as, unlike the merchants and trading companies of old, they supported a freely competitive market. Although expanding industry resulted in increased business opportunities, it also meant that ‘more men were willing to take risks, and more intense competition meant that there was a greater chance of failure’. The chances of this failure were only exacerbated by increased reliance on credit, rendering business vulnerable during periods of declined credit confidence. Thus, the early nineteenth century saw a substantial increase in the number of manufacturers, lured by the promise of a share in

130 Daunton (n 97) 196.
131 Ibid 252-253. However, as Daunton discusses, with increased risk came increased reward: for the lucky speculator the returns could be very high.
industrial success. However, prosperity was often short-lived: the nature of British business therefore became much more aggressive and transient.

Given this fundamental shift, leaving business perhaps more precarious than before, it is unsurprising that businessmen took a dim view of any fetter on their ability to grow their business. As such, growing disinclination emerged towards the eighteenth-century pattern of government involvement in and regulation of business. Instead, ideas of free trade, economic liberalism and free competition began to take hold. The economic benefits of a move towards free trade were explored above, however free trade also offered significant advantages to many within the commercial community. The reduction in prices resulting from removal of tariffs promised lower production costs and increased sales in the domestic market, as reduced prices would improve public purchasing power. More importantly, however, lower prices would allow British goods to be traded more competitively at a lower price abroad, increasing foreign customers. Furthermore, removing barriers to foreign trade was believed to have a secondary benefit: to reduce foreign protective measures in response. As Cain and Hopkins have pointed out, many business interests at the time believed that the enactment of protective measures by foreign countries was a reaction against discrimination in the British tariff. By removing such legislation, then, the hope was that this would encourage a response in kind, thus opening the door to foreign trade and investment.

Dissatisfaction with longstanding mercantilist economic policies was felt especially keenly amongst the ‘new’ commercial community. Middle-class industrialists believed that

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132 See Cunningham’s point that ‘in the new conditions of trade, - when intercourse was more frequent, and the facilities of credit and new developments of industry made it possible to meet any new demand by an increased supply, – the whole atmosphere of commercial life was inconsistent with the maintenance of the highly organised mercantile system which had proved so beneficial in earlier days’ (n 111) 37).

133 See Trevelyan’s argument that ‘in the towns the old theory of a “limited” and “well-regulated” trade, based on the local monopoly of a chartered few, subjecting themselves to a common set of rules about trade and apprenticeship, was being gradually abandoned for the new principle of open world competition wherein all traders who could muster the capital and enterprise were invited to buy in the cheapest market and sell in the dearest, and hire their labour wherever they liked and on what conditions each could secure’: Trevelyan (n 95) 152-153.

134 See Williams’s point that ‘The chief weapon of the commercial interests in the battle for markets was necessarily the price-list of British goods. Therefore much of the pressure for a new policy at this time was directed towards reducing costs of production so that prices might be lowered’: Judith Blow Williams, British Commercial Policy and Trade Expansion 1750-1850 (Oxford University Press 1972) 448.

policy reflected the interests of the ‘old’ commercial élite only, and that as a result they were compelled to suffer financial disadvantage outside their control.136 According to Evans, the ‘avoidable sacrifices’ that the burdensome economic policy forced manufacturers to make in order to maintain profit were perceived as necessary in order ‘to satisfy the greed and self-importance of an aristocracy whose value to the economy lessened by the year’.137 As such, industrialists perceived the government as impeding the vitality of business in order to protect the interests of powerful élites. This tapped into the popular rhetoric of Old Corruption, as well as a wider sense of frustration that has been alluded to throughout this thesis: that commercial actors perceived an imbalance in the treatment of land and income from property, as opposed to business and profits. A shift towards free trade would, it was believed, to some extent reset the balance, encouraging free and unfettered competition and transforming Britain from imperialistic trading power to the ‘workshop of the world’.138

Given these arguments, it is unsurprising that the clearest expression of commercial support for free trade came from industrial interests.139 In abandoning problematic tariffs, it was hoped that prices would fall, thus reducing the cost of raw materials and allowing producers to engage more competitively in markets. Expressions of support for free trade came predominantly from the new industrial towns, and this was particularly true of the cotton district of Lancashire, which Halévy has dubbed ‘the headquarters of the campaign for free trade’.

A particular source of discontent amongst the manufacturing sector was the existence of the Corn Laws. Mathias has identified two central ways in which repealing the Corn Laws would benefit the industrial interest.141 First, if the law were to be repealed, then

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136 See Williams’s argument that: ‘The individual manufacturer by his skilful management might accomplish economies to some extent in his own factory. But he and his fellows found themselves hampered by what they considered artificial and unnecessary costs beyond their control, the result of taxation or of hoary legislation’: Williams, British Commercial Policy and Trade Expansion 1750-1850, 448.
137 Evans (n 11) 332.
138 Semmel (n 129) 146.
139 See Lilian Charlotte Anne Knowles, The Industrial and Commercial Revolutions in Great Britain During the Nineteenth Century (Routledge 1921) 115; Cheryl Schonhardt-Bailey, ‘Lessons in Lobbying for Free Trade in 19th-Century Britain: To Concentrate or Not’ (1991) 85 The American Political Science Review 37. See, for example, Mathias (n 102) 270-274. There was a strong link between pressure for free trade from these interests, and periods of economic difficulty: see Asa Briggs, The Age of Improvement 1783–1867 (2nd edn, Routledge 2014) 256.
140 Halévy (n 101) 303. According to Halévy, ‘Lancashire provided the most favourable soil in which the doctrine of free trade could take root. It was a great exporting district’ [and thus had more to gain from free trade, as the argument ran that if rules on foreign imports were relaxed, there would be greater take-up of British exports abroad].
141 Mathias (n 102) 272.
the cost of bread would decline. This would leave the population with more disposable income, increasing purchasing power. This would lead to increased demand for manufactured goods. Moreover, he argues that, in expressing support for the League, manufacturers hoped that repeal of the Corn Laws would result in lower wages. This would allow for reduced production costs, and therefore lower prices, which it was anticipated would enhance British competitiveness in the export market. Thus, it was on the Corn Laws that the free traders of the industrial North focused their efforts, as it was perceived to be the cornerstone of the protective system. These efforts were partly channelled through the Anti-Corn Law League, which had significant links to the industrial sector. According to Evans, the League ‘represented the interests of an urban middle class’ and ‘[drew] on commercial wealth’. Free trade was a sufficient priority for some industrial interests to invest resources in its promotion. It is therefore conceivable that this contributed to reluctant acceptance of the income tax, despite strong dislike for the tax from industrial districts.

Support for free trade was not limited to the industrial interest. Historians have argued that some other commercial interests, in particular financial and trading interests in the City, had also come to recognise the benefits of free trade. According to Ingham, the state during this period:

set itself against a section of the traditional dominant class, but not at the behest of the emerging industrial bourgeoisie. If the “economical reformers” [in government] had any specific economic interests in mind, it was those of the new generation of merchants who had captured much of the Dutch and French trade and who would profit by a free trade/gold standard regime.

Unlike traditional mercantile interests, who had benefited from economic protection, the trading classes of 1842 were set to benefit from free trade. The changes that had taken place in the City as a result of industrialisation and the gradual move away from merchant

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142 Mathias has argued that this was the League’s ‘strongest argument’: ibid.
143 The Anti-Corn Law League has already been discussed at length in Chapter 3, and it was explored that the organisation used its lobbying power to pressure government to abandon the Corn Laws. See also Halévy (n 101) 329-335.
144 Evans (n 11) 331. Similarly, Ramsay has argued that ‘The Leaguers were prosperous tradesmen: they subscribed generously’ (n 128) 221. See also William D Grampp, ‘Britain and Free Trade: In Whose Interest?’ (1987) 55 Public Choice 245 at 252.
145 See Cain and Hopkins’s point that ‘Free trade was as much a triumph for City interests as it was for the major export industries’ P J Cain and A G Hopkins, ‘Gentlemanly Capitalism and British Expansion Overseas I. The Old Colonial System, 1688–1850’ (1986) 39 Economic History Review 501 at 517.
146 Geoffrey Ingham, Capitalism Divided?: The City and Industry in British Social Development (Contemporary Social Theory, Macmillan 1984) 9.
capitalism had meant that, although support for free trade was not new in the City,\textsuperscript{147} after the French Wars it offered more to be gained than ever before.\textsuperscript{148} This resulted in unprecedented pressure on government from City interests for free trade. The paradigm example of this was the free trade petition set up by Thomas Tooke in 1820. This was signed on behalf of London merchants, in protest against protectionist economic policy, and has been dubbed by Levi as ‘the first practical step in the way of commercial reform, initiated by the mercantile classes’, being ‘well deserving of a conspicuous place in any history of modern commerce’.\textsuperscript{149} Thus, it has been seen by several commentators as a force behind the ‘Free Trade measures’ introduced by President of the Board of Trade William Huskisson in the early 1820s.\textsuperscript{150} Rubinstein has suggested that the turn to free trade resulted not only from the ‘conversion of the Cabinet to laissez-faire ideas’, but also ‘in part because of the influence of businessmen’.\textsuperscript{151} Furthermore, Ingham has argued that a major catalyst for free trade was the increasing recognition by the City élite that ‘an open and stable system of world trade’ could prove profitable.\textsuperscript{152} This goes a long way towards explaining why commercial players in the City, who had played an instrumental role in the rejection of the early income taxes, failed to oppose the tax in 1842. Now that the income tax was tied up with free trade, it had become more palatable. Thus, where industrial interests saw in free trade the potential to make Britain the workshop of the world, wealthy trading interests saw the chance to make it the ‘warehouse’.\textsuperscript{153}

There is therefore a wealth of evidence of significant commercial support for free trade. Commercial men were willing to invest effort and funds in lobbying for free trade, and used their political influence to advocate for a laissez-faire approach to the tariff. This

\textsuperscript{147} See Ingham’s point that ‘the City has never wavered in its support for free trade as a means of attempting to maximise the volume and velocity of global economic transactions’ – ibid 79.

\textsuperscript{148} Cain and Hopkins have argued that City credit lay at the heart of much of the overseas investment that took place after 1815, as well as notable domestic investment, for example with the commercialisation of the railways. Thus, ‘The City, as the centre of a dynamic service economy, was a leading beneficiary of free trade and minimal government’: Cain and Hopkins (n 145) at 517. See also Rubinstein’s point that the wealth-holders in the City ‘profit[ed] from peace and free trade no less than from war, and far more than did the cotton-spinners’: W D Rubinstein, \textit{Elites and the Wealthy in Modern British History} (Essays in Social and Economic History, The Harvester Press 1987) 69.

\textsuperscript{149} Levi (n 98) 153.

\textsuperscript{150} See Trevelyan (n 95) 204. However, the accuracy of this picture has been doubted by historians such as Hilton, who has argued that the petition was likely reflective only of the timber interest who saw gains to be made from the removal of a particular tariff on timber: see Hilton (n 111) 173-176.

\textsuperscript{151} W D Rubinstein, \textit{Capitalism, Culture and Decline in Britain 1750–1990} (Routledge 1993), ch 4 endnote 12.

\textsuperscript{152} Ingham (n 146) 126.

\textsuperscript{153} Terminology used by Cain and Hopkins (n 145) 517.
commitment to free trade goes a long way towards explaining why the income tax was not
dogged by the same powerful commercial opposition in 1842 as it had been in 1816. Peel’s
Budget provided an opportunity for ambitions for free trade to eventually become economic
reality, as the first step on the ladder. Thus, as Mathias has argued:

By 1841-2…the most vocal interests had become convinced that the only remedy for
their problems lay in a stiff dose of free-trade legislation. Indeed, by 1841 they were
ready to face the unpleasant fiscal medicine of a new income tax, the precondition
that made it financially possible for the government to curtail revenue from
customs.¹⁵⁴

Accordingly, we can see that a key factor in the reduced commercial opposition to the income
tax in 1842 was that commercial players had reconciled themselves to the tax. Dislike for the
tax was therefore balanced out by the benefits offered by free trade. In stark contrast with the
past, by 1842 there existed an overriding incentive for the commercial community to accept
the tax.

However, it is important to note that not all commercial supporters of Peel’s Budget
championed free trade economic theory. Cunningham has distinguished two species of free
traders: the ‘doctrinaires’ who supported free trade on the basis that it was a desirable
economic aim; and the ‘opportunists’, who ‘accepted Free Trade as a principle to be adopted
as far as they found it expedient under the circumstances’.¹⁵⁵ Given the nature of business as
a profit-making enterprise, it is perhaps more realistic to conclude that some commercial
parties supporting ‘free trade’ likely fell into the latter category, in pragmatic support of the
benefits brought by the proposed tariff reforms, rather than on the basis of free trade doctrine.
It has been argued by historians such as Brown that commercial support for free trade often
was not as strong as it appeared:

The prominence which the history of the corn laws has given to Manchester, and the
history of the East and West India questions has given to Liverpool, must not disguise
the fact that nothing much was heard from the Black Country, from Leicestershire and
Nottinghamshire, from the West Riding or from Tyneside.¹⁵⁶

¹⁵⁴ Mathias (n 102) 272.
¹⁵⁵ Cunningham (n 111) 166. See also Mathias’s assertion that arguments for free trade ‘were both theoretical,
derived from a general system of analysis in the case of certain writers and thinkers, and practical, ad hoc,
sectional, deriving from the belief that freer trade in certain particulars would bring direct commercial gain to
the interest group advocating the change’: ibid 266.
¹⁵⁶ Brown (n 33) 184.
Thus, support for free trade did not span the entire commercial sector. Furthermore, historians have noted that, alongside support for free trade in British markets, some interests lobbied for the maintenance of protection in colonial markets, sustaining preference for British goods. Harnetty argues that, contrary to longstanding perceptions of the free trade movement in the towns, industrial interests pushed imperialist policies more revealing of a mercantilist agenda abroad, whilst simultaneously supporting free trade reforms at home. Moreover, Brown has argued that even Manchester cotton merchants, occupying the so-called ‘headquarters’ of the free trade movement, were reluctant to express unequivocal support for free trade. When asked in 1840 to ‘[disavow] publicly the need for protection to the cotton industry’, the Manchester Chamber of Commerce refused. Even amongst the staunchest ‘supporters’ of free trade, the message was far from one of universal approval. This has led Daunton to argue that ‘Free trade was another weapon to be used by commercial and industrial interests in a battle to shape policy for their own ends’.

It therefore seems that, even amongst its strongest proponents, commitment to free trade was not unbroken or unwavering, and, in many instances, it was only promoted insofar as it was of commercial benefit. This appears to challenge the argument of this section – that commercial acceptance of the income tax rested on support for free trade – as it cannot be suggested that commercial supporters of Peel’s Budget were motivated by a belief in free trade as an ideological concept. However, this apparent conflict can be resolved by adding further nuance to that argument. Although some commercial actors undoubtedly saw merit in free trade economic theory, and thus supported the income tax on those grounds, there were likely significant numbers who accepted the tax not as part of a move towards free trade per

157 See Musson’s point that: ‘while cotton manufacturers demanded repeal of the corn laws, in the hope of reciprocal foreign concessions for their yarn and cloth, they remained opposed to free export of machinery right down to the 1840s’: A E Musson, *The Growth of British Industry* (B T Batsford Ltd 1978) 75. See also Evans (n 11) 241. Thus, as Hudson has argued, ““free trade” was promoted alongside imperialism in both old and new markets”: Pat Hudson, *The Industrial Revolution* (Edward Arnold 1992) 182.

158 This pressure demonstrates ‘the imperialism inherent in free trade attitudes to empire in the middle of the nineteenth century’, which is particularly telling of the priorities of free traders in the manufacturing sector at a time ‘when laissez-faire attitudes supposedly generated indifference, if not hostility, to empire’: Peter Harnetty, *Imperialism and Free Trade: Lancashire and India in the Mid-Nineteenth Century* (Manchester University Press 1972) 6.

159 Brown (n 33) 182-183.

160 Daunton (n 97) 539. See also Hilton’s point that there was ‘no unified commercial interest’ in free trade: Hilton (n 111) 175.
se, but in order to take advantage of the individual financial benefits offered to them by Peel’s tariff reforms. In announcing the tax, Peel had declared that:

one of the main objects of this measure is to reduce the duties upon the raw materials of production, and that such a reduction will give the best chance for a revival of commerce, I cannot but think that the measure will work for the especial advantage of those who are connected with the trade of the country.\textsuperscript{161}

Commercial parties could anticipate tangible and quantifiable benefits from the proposed tariff reforms, which would appeal not only to self-declared free traders, but also to those commercial actors who were less certain on their economic ideology, but who would nevertheless benefit from Peel’s reforms. With the exception of those interest groups profiting from protection, Peel’s reforms looked set to benefit much of the commercial sector, by promoting trade and thereby promising an increase in profits greater than the contribution required by the income tax. Thus, it is short-sighted to focus only on the appeal of free trade as an economic concept to the commercial community when explaining the reintroduction of the income tax. Many commercial actors, irrespective of their ideological standpoint on the matter, were nevertheless willing to acquiesce to the income tax in exchange for the form of free trade presented by Peel’s amendments to the tariff. Free trade in this sense explains not only the incentive of commercial ‘free traders’ to accept the income tax, but also of the commercial community more widely.

4.3 Free trade: summary

From the foregoing discussion, it appears that free trade played an important role in the reinstatement of the income tax. First, as existing histories have shown, free trade was an important economic and financial impetus behind Peel’s decision to propose the tax. However, this section has taken this interpretation further, in demonstrating that the tax’s association with ideas of free trade made the tax more palatable to its opponents, in particular those from the commercial community. The strong association of the tax with free trade philosophy, as well as the financial benefits that such a move would bring, meant that the tax was more aligned with commercial priorities than at any point in the past. This transformed the tax in the mind of the commercial public: from a highly objectionable measure that only

\textsuperscript{161} HC Deb 18 March 1842 vol 61 col 916.
war could justify, to a necessary evil in order to achieve key economic objectives. Grampp has argued that ‘one of the ways in which the turn to free trade was made...[was] by giving the interests that opposed it something in return for what they lost’.162 This appears to have been replicated in the context of the income tax: in order to engineer its acceptance, the tax was presented by Peel as the means by which the country’s free trade ambitions could be achieved. Thus, free trade played a decisive role in the amelioration of public hostility to the tax. In particular, it has been shown that Peel’s free trade reforms and their associated financial benefits were key to the diminished commercial enmity towards the tax, thus catalysing the erosion of that longstanding barrier to the tax’s success: commercial opposition to the tax.

V. SOCIETAL CHANGES AND SOCIAL UNEASE

In explaining why the public reception given to the proposed income tax was markedly different in 1842 than it had been earlier in the century, this chapter has so far focused on key developments witnessed in the administrative and economic spheres in the decades leading up to 1842. This section will complement those arguments by highlighting another important set of changes that occurred during that period, this time in society more widely. It has been explored over the course of Part II that the first half of the nineteenth century sat at the heart of an ongoing shift in the nature of society, which had important consequences for the government’s decision to propose the tax, as well as the political task of securing its reinstatement. In particular, it has been shown that the period witnessed a significant growth in the power and representation, both political and social, of the middle and working classes, with a corresponding decline in the influence of the traditional élite. Furthermore, it was demonstrated in Chapter 4 that these changes, coupled with the continuing process of industrialisation, resulted in crucial structural changes in the commercial sector of society, with the balance of power tipping towards middle-class industrial interests. The political implications that these changes held were explored in previous chapters, however there were also important consequences for public perceptions of the income tax. The societal changes

162 Grampp (n 111) 95.
witnessed over the period had knock-on effects for the interests and priorities of the taxpaying population, and these were reflected in their attitudes towards fiscal policy.

This section will show that the societal changes described in previous chapters created a growing sense of social unease. The income tax helped to assuage this unease in two central ways: first by allowing for the preservation of existing power structures, and second by allaying to some extent the working class threat to social order. These functions of the tax will now be considered in turn, and it will be argued that cognisance of these advantages by both traditional élites and the emerging middle classes may have contributed to their acceptance of the tax. These benefits of the tax were especially attractive to sections of the commercial interest, in particular to industrialists, who had much to gain from both securing their place in the social hierarchy and in defusing working class tension. This added to the incentive to accept what remained a fundamentally unpopular tax.

5.1 Preservation of power structures

The societal changes witnessed through the eighteenth and early nineteenth centuries placed significant strain on existing power structures. In particular, it was noted in the previous chapters that the wider period witnessed a decline in the political and economic power of the landed sector, as society shifted from predominantly agrarian to industrial influence. By the mid-nineteenth century, Britain was beginning to move away from a focus on landed wealth, in favour of money and investment. Therefore, as well as a decline in political power as a result of the Reform Act and greater involvement of the middle-class in political affairs, the landed élite also began to suffer from reduced economic influence, as the value of land to the British economy declined. Cunningham has argued that, by the middle of the century, ‘commerce and industry, rather than land, had become the chief factors in the economic

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163 For an account of the changes that this wrought in the landed interest, see F M L Thompson, *English Landed Society in the Nineteenth Century* (Routledge & Kegan Paul 1963), especially at chapter X. However, it is important to note that some commentators have doubted that the middle class posed any significant threat to the landed élite. For example, Rubinstein describes the period of 1832-86 as ‘the apogee of the landed aristocracy as a governing class’ ((n 151) 147. Nevertheless, it cannot be argued that the enfranchisement and increasing wealth of the middle classes failed to disrupt established patterns of influence: even if the decision-makers continued to belong overwhelmingly to the aristocracy, they were more beholden to the middle-classes than ever before.
The combination of declining political and economic power led to increased attacks on the interests of the traditional élite, in particular by the increasingly powerful middle classes. The paradigmatic example of this was the offensive against the Corn Laws, which challenged the hegemony of the landed sector and demonstrated its declining ability to hold onto political preference. This generated significant unease amongst the landed classes, and led to greater willingness to compromise in exchange for political security. The motivation of the landed élite to protect its interests was thus stronger than ever before, and it will now be advanced that this spilled over into their attitudes towards fiscal policy, and in particular to the income tax. Thus, it is argued that élite interests of 1842, particularly amongst the landed sector, were more inclined to accept the tax, as it offered important opportunities to preserve their place within the social hierarchy.

_The maintenance of the Corn Laws_

One opportunity that the income tax offered to preserve the interests of the country’s élites can be found in the tax’s relationship with protection, and with the Corn Laws in particular. Although Peel’s Budget has been termed a ‘free trade Budget’, it was noted above that the tariff reforms did not effect free trade in its full sense. Important protective measures such as the Corn Laws and the Navigation Laws remained intact for several years after 1842, and in many instances, preference was retained, particularly for colonial interests. Schuyler has pointed out that ‘The tariff of 1842 embraced some 825 items, and upon no fewer than 375 of them differential duties were levied in favor of the colonies’. In particular, Peel’s reforms failed to repeal the Corn Laws, perhaps the most controversial source of protection at the time. It was explored above that this attracted strong criticism from some quarters, and that this extended to disapprobation of the income tax. Some contemporaries argued that, were duties on corn, sugar and timber removed, this would effect sufficient economic improvement

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164 Cunningham (n 111) 74.
165 See the point that societal changes over the period ‘led the aristocracy either to share power or to accept a lower place for the landed interest in determining the course of government’: Thompson (n 163) 23.
166 Schuyler (n 96) 134-135.
167 See the argument of Charles Wood MP in Parliament that ‘he was not a little surprised when he found that the tariff itself was founded on a principle of legislation, contrary to the whole course of policy advocated by Mr Huskisson [in the 1820s]…they were now called upon to legislate contrary to the system which had been pursued for the last twenty years, and to establish new differential duties and new protections, of which no one had ever heard before’: HC Deb 21 March 1842 vol 61 col 993.
so as to render the income tax unnecessary. Thus, in turning to the income tax rather than removing these key protective duties, the argument ran that the government was using the tax as a way to preserve protection. In this sense, then, some contemporaries perceived the income tax to be the price of the maintenance of the Corn Laws. One author argued:

Why is an income tax imposed? Because the revenue has fallen of [sic]? Because food is dear. Why is food dear? Because of the Corn Laws. The Corn Laws are then clearly the sole cause of the income tax, because they enhance the price of food, which enhancement diminishes, according to Peel’s own assertion, the amount of the public revenue.168

Just as it had been engulfed by the free trade debate, then, the question of the income tax also became dominated by controversy over protection, and in particular the Corn Laws.

As well as revealing a source of continued antipathy towards the tax, the association between the tax and the Corn Laws goes a long way towards explaining why the tax was accepted by politically powerful landed interests. To some contemporaries at the time, especially those interests which had benefited from protection, a move towards free trade was unwelcome.169 Thus, repeal of the Corn Laws was strongly resisted by powerful landed interests, just as traditional mercantile players fought for continued protection of their interests.170 Given the political and economic power that stemmed from the continued existence of the Corn Laws, it is likely that the interests benefiting from it were willing to

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169 This was for some based on the fact that free trade was unprecedented and offered unknown risks: for an account of contemporary scepticism towards free trade, see Semmel (n 129) 186-192; Anna Gambles, Protection and Politics: Conservative Economic Discourse, 1815–1852 (The Royal Historical Society, The Boydell Press 1999) 22. See also, for example, a letter from the Sir Richard Vyvyan MP to his constituents, which extolled the benefits of protection, especially for budding new industries which, he argued, needed some level of protection to mitigate against failure: Richard Rawlinson Vyvyan, A Letter from Sir Richard Vyvyan, Bart MP to his Constituents upon the Commercial and Financial Policy of Sir Robert Peel’s Administration (London 1842). However, for many, objections to free trade were rooted in the benefits offered to them by protection.

170 In particular the continued monopoly on sugar – see Lord Russell’s opinion in Parliament that ‘Every year that you go on refusing to admit foreign sugar into the British market, by imposing upon it a prohibitory duty, you…place greater difficulties in the way of all improvement in your tariff’: HC Deb 11 March 1842 vol 61 col 479. See also Noble’s discussion of the 1841 Budget, which first proposed a shift towards free trade: ‘it excited…the hostility of the interests whose profits it threatened, and was rejected’: John Noble, Fiscal Legislation, 1842–1865. A Review of the Financial Changes of that Period, and their Effects upon Revenue, Trade, Manufactures and Employment (Longmans, Green, Reader & Dyer 1867) 10.
accept the income tax in order to preserve that power. This was certainly a popular opinion at the time: the *Manchester Times and Lancashire and Cheshire Examiner* argued that the landed élite would ‘vote [Peel] the income tax that their monopoly of corn may remain untouched’.\(^{171}\) Furthermore, Mares and Queralt have noted that 97.5 per cent of Tory representatives voting on the income tax proposal in Parliament were in support. Given the prevalence of landed interests within the party, this stands testament to the strength of support of the landed élite.\(^{172}\) Although some interests were suspicious as to whether Peel would continue to support the maintenance of the Corn Laws,\(^{173}\) many were pacified by Peel’s explanation that a move in the direction of free trade would afford greater social security in the short term.\(^{174}\) In any event, the consequences of blocking the tax were likely severe for the landed interest: without the proposed tariff reforms, continued economic depression would be inevitable. This would make maintenance of the Corn Laws increasingly difficult to justify from both an economic and political standpoint, thus rendering its repeal more likely. As such, accepting the income tax and enabling the associated tariff reforms likely offered the best prospect of maintenance of the Laws in the longer term. Peel’s failure to repeal the Corn Law was therefore an important factor in securing the acquiescence of the traditional élite to the income tax.

*The shifting of the tax burden*

Another explanation for the acquiescence of the landed élite to the income tax can be found in the idea that the tax provided an opportunity to shift the tax burden away from land and onto new forms of industrial wealth. This view has been advanced by Mares and Queralt, who have argued that the income tax was introduced to Western economies at a time of

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\(^{171}\) The *Manchester Times and Lancashire and Cheshire Examiner* (Manchester, 2 April 1842) 2 col 4. See also Noble’s argument that the landed interest…was not unwilling to concede the income tax, as the price of maintaining the corn laws’: ibid 14.


\(^{173}\) See Daunton’s statement that ‘In 1842, many landowners were suspicious of Peel's motives in reintroducing the income tax, fearing that it would make the maintenance of import duties - including the corn laws - redundant on revenue grounds’: *Trusting Leviathan* (n 17) 88. See also note 128, above, where it was suggested that there were strong grounds for this suspicion, and that Peel used the promise of continued protection to secure consent to his reforms, reneging on that promise once his objectives had been achieved.

\(^{174}\) See Daunton’s description that ‘[protectionists] might accept that Peel’s budget of 1842 was part of the constant process of preserving balance and offering fair recognition of the needs of the urban consumer. In the words of Croker, it was “the best combination and adjustment of all interests that our position admits”’: ibid 90.
limited suffrage, which they contend is surprising given that any income tax would target higher earners. A central explanation that they give for this ‘puzzle’ is that the tax offered particular economic benefits to landed élites. Although this article is, like most other histories, focused on the motivations behind the political decision to introduce the tax, as opposed to this chapter which considers public reception to the proposal, this account provides a valuable insight into the incentive of the landed interest, both in and out of Parliament, to accept the tax. This contributes to the broader aim of this chapter: to shed light on the wider social climate for the tax’s reception.

According to Mares and Queralt, ‘Anticipating a future decline in economic power, politicians representing the interests of landowning élites regarded the income tax as a tool that could rebalance some of these economic losses by imposing a higher tax burden on the industrial sector’. An important factor in accounting for the diminished public opposition to the tax can be identified: that the societal changes that had taken place in the years leading up to 1842 likely resulted in a greater impetus for the landed élite to accept the tax. Declining economic power in light of the prodigious increase in industrial output posed a significant threat to the dominance of the landed élite. The income tax, however, provided an important opportunity to partially redress this balance, in taxing income as opposed to wealth. Making income the tax base meant that industrial taxpayers would be uniquely affected by the tax, especially as compared to landed interests holding significant capital but possessing comparatively modest income. Thus, ‘owners of fixed assets considered the taxation of income as a much more attractive fiscal instrument as compared with owners of mobile assets’. Mares and Queralt support this argument by analysing MPs’ backgrounds and constituencies as against their voting record on the income tax. From this, they conclude that politicians representing landed interests were much more likely to support the tax than those representing industrial interests. Assuming that this attitude was also adopted by landed

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175 Mares and Queralt (n 172) 1975-6.
177 See Mares and Queralt’s point that: ‘The 1842 income tax adopted in Britain did not tax capital gains, not even from real estate, whose major owners were landowners, but did levy income stemming from trade, thus targeting the new industrial elites’: ibid 1984.
179 Ibid 1996-2001. However, there are issues with relying too heavily on this analysis. For instance, the analysis notes but does not take into account the potential influence of party affiliation over a politician’s voting intentions. Thus, the fact that industrial interests were more likely to be represented by a Whig politician with a corresponding disincentive to support the tax is largely ignored.
interests outside of the political process, it seems that the opportunity to retain the economic power of élites played an important role in the public acceptance of the tax. This, combined with the opportunity to retain the economic interests of protected sectors, provides another important explanation for why the social climate was more receptive to the tax’s reintroduction in 1842 than in the past.

The political exclusion of the working classes

The opportunity to preserve societal position was not only attractive to landed élites, however. A related explanation for the acceptance of the income tax can be found in the notion that it also allowed new industrial groups to preserve their position in the social scale. It was explored in the previous chapters that the period witnessed the emergence of a newly enfranchised middle class, often rooted in the manufacturing sector and with greater economic and political power than ever before. However, with this development came unprecedented challenges. It has been noted that politics remained weighted in favour of the traditional élite. The recently empowered industrialists were forced to fight for their place in the new social order, meaning that the consolidation and development of their economic and political power had to be a priority. Furthermore, the growth of an increasingly organised working class seeking political representation and better social conditions also threatened the interests of middle-class industrialists, many of whom depended on the continued exploitation of the working classes for their high profit margins. Thus, the consolidation of their power was likely an important influencing factor over the attitudes of industrialists to national policy. It is argued in this section that this motivation contributed to commercial acquiescence to the income tax, as the tax offered the opportunity to industrial factions to promote their political and economic power. This opportunity came in the form of the continued exclusion of the working classes from the political debate.

However, it is first necessary to give greater consideration to the argument considered above and expounded by Mares and Queralt: the tax offered the opportunity to shift the tax

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180 For instance, as noted in the previous chapter, Rubinstein has argued that the largest fortunes remained in the hands of the traditional élite. Furthermore, the makeup of Parliament after 1832 remained broadly the same: as such, middle class political influence remained largely indirect in nature.
burden away from landed interests and onto industrial taxpayers, thus giving rise to landed support and industrial objection to the tax. Although, as argued above, the role that this played in incentivising landed support for the tax was likely an important factor in securing public acceptance of the tax, it is submitted that the second aspect of Mares and Queralt’s argument is simplistic. It is incontrovertible that some industrial players objected to the tax on the grounds that it shifted the tax burden in their direction, and indeed this was explored at the beginning of this chapter.\textsuperscript{181} However, it was also considered that there is no evidence that any significant coordinated opposition to the tax was mounted by commercial actors. This is particularly surprising given that the period witnessed large-scale commercial opposition to the Corn Laws, showing that the commercial community remained more than capable of launching coordinated opposition. The broad commercial reception to the income tax can therefore be better characterised as being of reluctant acquiescence. Furthermore, it has been argued through the course of this chapter that the commercial interest, and the industrial interest as a significant part of that, had several important incentives to accept the tax. In particular, the presentation of income tax as the price of free trade, an important commercial objective of distinct importance to manufacturing interests, likely went a long way towards rendering the commercial climate more receptive to the income tax. Thus, to view the picture as a simple tale of landed support and industrial opposition to an income tax on the grounds that the tax particularly targeted industrial income is unsatisfactory.\textsuperscript{182} The attitudes of industrial interests towards the tax were instead a complex amalgamation of reluctance and incentivised acceptance, ultimately resulting in a mixed climate that allowed the tax to pass back into the fiscal scene. In part responsible for this mixed opinion were the opportunities that the tax offered for industrial interests to consolidate their political and economic power.

A significant attraction of the tax to middle-class industrialists may have been that it promised to ensure continued exclusion of the working classes from the political and fiscal debate. Mares and Queralt have noted that many nineteenth-century Western economies imposed what they refer to as a vote-tax link: ‘preexisting electoral laws conditioned voting

\textsuperscript{181} However, Mares and Queralt note that, in practice, there is little evidence of any significant redistribution of the tax burden taking place until the turn of the twentieth century: (n 172) 2000.

\textsuperscript{182} Furthermore, as noted above, it is unclear as to the role that political partisanship played in influencing the breaking down of the analysis to landed versus industrial also ignores the attitudes of financial and trading interests, thus ignoring the voices of the commercial sector more widely.
rights on direct tax payments’. Thus, by imposing a link between tax payment and voting, the political process could be ‘reconfigured at times of elections as a wedge that excluded low-income voters from parliamentary participation’. Although there were no such rules in Britain linking suffrage to payment of direct tax, voting was conditional on the payment of local taxes. Furthermore, the fact that property thresholds were imposed both for paying income tax and in order to vote could be taken to imply an indirect link between the two. Thus, by conflating the processes of fiscal contribution and political participation, the income tax provided a way to minimise working class participation in the political process by reducing the attraction of enfranchisement. Mares and Queralt have noted that a link between payment of tax and suffrage would be likely to discourage lower-income citizens from lobbying for enfranchisement. This effective exclusion of the working classes from the voting system would have been an attractive option, especially to industrial interests. Given the increasing calls from the working classes for fairer working conditions, the granting of which would have significant implications for industrial profit margins, it was in the interests of the manufacturing sector to prevent working class enfranchisement. Furthermore, as was considered in Chapter 3, a link between tax and voting was considered desirable by high-income taxpayers more generally, as it was believed at the time that allowing non-taxpayers to vote would result in support for expensive government, given that such voters would not have to bear the financial costs of expenditure through taxes. The exclusion of those in receipt of low income from the political process would provide benefits to all high-income voters, and, importantly, would allow manufacturing interests to preserve their interests and place in the political hierarchy. This therefore likely contributed to the reluctant acceptance of the tax by such interests.

183 Mares and Queralt (n 172) at 1977.
184 See mention of this in Chapter 3, text at note 187.
185 See Mares and Queralt, (n 172) 1987.
186 See, for example, Daunton, Trusting Leviathan (n 17) 86.
187 See Mares and Queralt’s point that, in countries with a vote-tax link, the ‘advantages of this restrictive electoral for political insiders could be shared by all high-income voters, irrespective of their asset ownership. As such, these considerations created opportunities for a political alliance in support of an income tax among owners of fixed and mobile assets whose economic considerations about the adoption of the new income tax could differ’: (n 172) 1977.
188 See Mares and Queralt’s point that ‘An income tax would have been just too hard to administer with the frontal opposition of the industrial elite’: ibid note 11.
5.2 Alleviating the threat to social order

The income tax also promised to play an important role in dispelling the threat to social order. It was explored in Chapter 3 that one of the most significant societal changes that took place during the period was the titanic shift in the population from rural to urban areas, as former agricultural labourers sought work in the new factories. This placed unique and unprecedented pressures on the social structure, and allowed longstanding grievances to be converted into organised campaigns and social unrest. In improving economic conditions, distributing the tax burden more fairly and demonstrating the willingness of the élite to make contributions to the state, historians have argued that the income tax promised to defuse some of this discontent.  

The attraction of fiscal reform to the working classes was well-established: calls for a radical shift in the fiscal system had been growing from the lower classes for a number of years, owing to the regressive nature of the tax system. In 1829, economist and political reformist Thomas Attwood declared to the audience at a public meeting in Birmingham that the aristocracy should ‘indulge their fancy – by a property tax – by a tax on themselves – by a tax on the public wealth, and not by imposts on the public poverty’. Furthermore, there is evidence to suggest that the proposed tax met with a fairly positive reception from the working classes in 1842. In a letter to the editor of The Times, allegedly from ‘A Working Man’, the author proclaimed that ‘Sir Robert Peel’s measure will satisfy us – us, the millions, the working man’. Some also felt that it gave the middle classes their just desserts after the perceived betrayal over the Reform Act issue in 1832:

Is it possible to conceive of anything so repugnant to the principle of fair-play, as the conduct of the “middle-class men” in opposing the imposition of a tax which will

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189 This was developed at length in Chapter 3. See also Peel’s argument that ‘The real way in which we can benefit the working and manufacturing classes is, unquestionably, by removing the burden that presses on the springs of manufactures and commerce’: HC Deb 18 March 1842 vol 61 col 906.
190 See, for example, Stephen Utz, ‘Chartism and the Income Tax’ [2013] British Tax Review 192, which explores the attraction of fiscal reform and the income tax particularly to Chartists.
191 See Ramsay’s point that ‘At a time when the workman was agonising, imposts, for revenue or protective purposes, were piled to the limit upon almost every article of consumption. Bread was taxed: meat, butter, tea, sugar - almost every common article of food save the potato - were taxed. The poor man lived in darkness, because there was a tax on glass: he lived in filth, not merely because sanitation and town-planning were infant sciences, but because there was a tax on soap’: Ramsay (n 128) 219.
192 Thomas Attwood, Causes of the Present Distress. Speech of Thomas Attwood, Esq. at the Public Meeting, Held in Birmingham, on the 8th of May, For the Purpose of Considering the Distressed State of the Country (Birmingham 1829) 15-16.
193 See Brown’s argument that ‘the first reaction of the Northern Star to Peel’s reintroduction of the income tax was one of warm approval’: Brown (n 33) 146.
194 The Times (London, 22 March 1842) 5 col 3.
affect themselves, when they have maintained the iniquitous system which has rendered that tax necessary and just?195

Moreover, some contemporaries believed that middle class disaffection with the tax would support Chartism, as it would turn the middle classes against Peel and towards a democratic system: ‘let Peel tax away; the more the merrier; the sooner will the profitocracy learn justice, and you get the Charter’.196 It therefore appears that many working class interests approved of fiscal change through an income tax as furthering their ambitions for greater political and fiscal equity. This has been explored by Utz, who has argued that ‘Chartists hailed the re-introduction of the income tax’, in marking a step towards a more equitable society.197 This was an important motivation behind the government’s decision to propose the tax’s reinstatement, as in conceding fiscal reform through the income tax and the accompanying tariff amendments, a key source of working class discontent could be diminished.

However, it will now be shown that this also incentivised taxpayer acquiescence to the reimposition of the tax. For traditional élites, the threat of working class insurrection was formidable, and the period gave rise to fears of revolution.198 This almost certainly induced a sense of increased willingness to accept the tax amongst the upper classes, in recognition that the tax would provide an important concession to working class grievances. In conceding to fiscal reform through the income tax and the accompanying amendments to the tariff, élite interests likely hoped to dispel working class tension, and the threat of revolution. However, the role of the tax in easing working class discontent was also of particular benefit to the commercial sector. Social tension led to apprehension in the market, thus inhibiting demand.199 Furthermore, a peaceful and settled society provided businessmen of all kinds with the opportunity to enjoy profits to their full potential, without the need to spend money

195 Northern Star (Leeds, 23 April 1842) 4 col 2.
196 Northern Star (Leeds, 2 April 1842) 1 col 3.
197 Utz (n 190) 222.
198 For a good description of the major sources of unrest through the period, see the description given by Robert Slaney MP in the House of Commons: HC Deb 04 February 1840 vol 51 cols 1222-1224. See also the view of an anonymous pamphleteer that ‘[t]he dangers which threaten us are not visionary; and if some strenuous effort is not forthwith made to mitigate the burthens, and ameliorate the condition, of all classes in the state, and thereby to bring back the poor to contentment and obedience, we must prepare ourselves for those national convulsions, which are ever the consequence of embarrassed finances, and of which the French revolution afforded us a fearful example’: ‘A Land and Fund Holder’, The National Debt, Its Evils, and Their Remedy (London 1831) 45.
199 See Montgomery Martin’s view that, were the burdens of the poor not eased, this would result in revolution, which would mean ‘[England’s] lands would be untilled–her workshops silent–her manufacturers beggared’: R Montgomery Martin, Taxation of the British Empire (London 1833) xxii.
on protection of their premises and workers. Thus, commercial interests held a stake in the amelioration of social tension. One author at the time argued:

The object of all governments is to preserve order and to afford adequate protection to the life and property of the subject. Now order and good government are doubtless necessary to the quiet enjoyment by the landowner of his rents, and by the fundowner of his dividends. But are they not, at least, as necessary to the merchant and the professional man? 

Therefore, this may have provided another incentive for commercial interests to acquiesce to the tax. Furthermore, by improving the financial situation of the working classes and thus inflating working class purchasing power, this would increase demand for manufactures. Some commercial interests advocated for economic improvement on this basis: for example, a letter signed ‘By a Wholesale Grocer’ argued that:

no measure can have ultimately any good effect, unless it be founded on the amelioration of the condition of the poor, and you may continue to lower the duties on wines, silks, gloves, &c., as long as you please; but, unless you can improve the condition of the labourer, and thus make him a better customer to the manufacturer, and the manufacturer a better customer to the merchant, you will not advance a single step towards carrying this country through her difficulties.

This, the letter suggested, justified submission to the income tax.

The promise of the income tax to ameliorate working class discontent also held benefits for industrial players more particularly. Industrialists enjoyed a closer relationship with the working classes than any other sector, and relied upon a populous labour force in a way that the merchants of the eighteenth century never had. This rendered industrialists particularly vulnerable to the effects of social unrest. Any negative impact on the productivity

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200 This has been noted in the context of the Reform Act in 1832: ‘Employers and City men clamoured more loudly every week for a creation of peers to pass the Bill and save social order’: Trevelyan (n 95) 237.
202 A Letter to the Duke of Wellington, on the Expediency of an Income Tax, by a Wholesale Grocer (London 1842) 6. This was published in 1829, however it was republished with additional comments by the author in 1842, and was addressed to ‘Brother Grocers’.
203 Ibid 10.
204 See Nenadic’s point that manufacturers often had ‘a close and frequently uncomfortable relationship with a large industrial workforce, a group that lay beyond the normal range of social contacts and cultural understanding of the middle class’: Stana Nenadic, ‘Businessmen, the Urban Middle Classes, and the “Dominance” of Manufacturers in Nineteenth-Century Britain’ (1991) 44 Economic History Review 66, at 80. This meant that, according to Nenadic, ‘major manufacturers’ were seen by other interests at the time as the ‘arbiters of social relationship with the factory workforce…[as they] were thought to have that day-to-day contact which allowed them to know how workers were thinking, to understand why they were behaving in particular ways, and to interpret those thoughts and behaviours to society and to government’.

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of workers had a direct effect on profit. The involvement of their workforce in movements such as Chartism therefore alarmed industrial interests, as it provided an unwelcome distraction to workers and contributed to a culture of civil unrest.\textsuperscript{205} Furthermore, industrialists were also more exposed to the physical damage that social insurrection could inflict, both given physical proximity to working class areas and the fact that factories were a physical embodiment of the crushing regime that imposed poor working conditions and low wages. This was likely of acute concern to manufacturing interests, especially given the trend of machine-breaking that had been witnessed earlier in the century.\textsuperscript{206} Thus, although manufacturing interests were often strongly opposed to the tax, the benefits that it offered in terms of settling working class tension possibly became another factor that reduced the inclination of the commercial sector to actively oppose the tax.

Although the principle of the tax continued to inspire resentment, it was likely considered a small price to pay to protect property and ensure continued productivity.\textsuperscript{207} Therefore, strong support can be presented for the idea that the income tax was considered to be the price of social stability, and that this contributed to its acceptance by taxpayers, in particular by those engaged in industry. Although it cannot be conclusively established that commercial players at the time were motivated to accept the tax on the basis that it afforded greater social security,\textsuperscript{208} it is fair to suggest that, given the increasingly potent threat, there may have been some private cognisance amongst the commercial community that the tax may on balance offer more benefit than disadvantage.

\textsuperscript{205} See Thompson’s point that ‘the triumph [of a working class movement]…was scarcely to be welcomed by the mill-owners, iron-masters and manufacturers’: E P Thompson, The Making of the English Working Class (Penguin Modern Classics, Penguin Books 2013) 888. See also Halévy’s reference to ‘the chronic unrest which kept the manufacturing districts of the north in a state of almost perpetual ferment’: Halévy (n 101) 119.

\textsuperscript{206} See, for example, E J Hobsbawm, ‘The Machine Breakers’ (1952) 1 Past and Present 57.

\textsuperscript{207} Especially as the rate had been reduced to three per cent: see below at text to note 210.

\textsuperscript{208} In fact, it is likely that some interests failed to see past the financial burden of the tax. Phillips accounts that: ‘On Saturday morning, according to a contemporary journal, thousands of those good merchants who had agreed that something must be done for the poor, but who had previously had faith in the elastic resources of the country, “might be seen with astonishment on their faces, their jaws dropped down to their waistcoats, and their breeches-pockets gaping with horror! Sevenpence in the pound! Ruination! Friday’s sun rose upon Sir Robert as tutelary genius of England, Saturday came, and the Prime Minister was the despoiler of men’s cupboards”’: William Phillips, ‘How Income Tax Came Home to Roost’ [1959] British Tax Review 313 at 321.
5.3 Societal changes: a summary

The societal changes that took place over the first half of the nineteenth century were wide-ranging and held a number of important implications for British life. One such implication, which has been emphasised throughout the course of Part II of this thesis, was the development of growing social unease, both from the increasing challenge posed to the traditional social hierarchy, and the dramatic increase in working class unrest. This section has argued that the income tax offered a solution to both of these challenges, and that this mitigated some of the longstanding opposition to the tax. In particular, it has been established that the tax offered important benefits to commercial actors, in both allowing them to preserve their position within the social and political order, and in defusing tensions within their workforce. Thus, it appears that the societal changes witnessed over the period served to decrease some of the longstanding commercial hostility to the tax, and contributed to a more amenable commercial climate to the tax’s reinstatement.

VI. CONCESSIONS BUILT INTO THE TAX

This chapter has argued that important changes in the administrative, economic and social spheres in the years leading up to 1842 resulted in the emergence of a social climate more receptive to the reintroduction of the income tax. In particular, and unlike in the past, these changes gave commercial interests important incentives to accept the tax, despite longstanding resentment towards it. This accounts for the more muted response to the tax’s proposed reinstatement. This interpretation will now be supplemented by another argument: that the substance of the law further mitigated hostility towards the tax. Peel, like Pitt and Addington before him, implemented key concessions to public ill-feeling, and in particular to commercial complaints, thus designing the tax so as to secure popular consent to it. This was important not only to ensure the successful reinstatement of the tax, but also to maximise compliance when it came into effect. This section will first consider the general concessions to public discontent, before assessing the special concessions afforded to commercial

taxpayers. It will conclude that, as in the past, these concessions played a crucial role in securing public, and particularly commercial, acceptance of the tax’s reinstatement.

6.1 General concessions

The first general concession made in the substance of the tax was that the ordinary rate of the tax was reduced: where between 1806 and 1816 a contribution of ten per cent was required, in 1842 this was significantly reduced to ‘for every Twenty Shillings of the annual Value thereof, the sum of Sevenpence’, or just under three per cent. This was surely intended to secure acceptance of the tax: the financial burden that the tax posed was much smaller than it had been in the past, and for most taxpayers the contribution required of them would be very small. Such a small contribution would be much less likely to inspire opposition, especially given the financial benefits that Peel had promised that individuals would gain from tariff reform. Furthermore, section 163 of the Act raised the general exemption limit to those with an ‘aggregate annual Amount of his Income…[of] less than One hundred and fifty Pounds’, significantly higher than the £50 per annum limit imposed by the 1806 Act. This concession was likely made to appease the criticisms made during the operation of the tax previously, that those in receipt of income a little above the exemption limit could ill-afford the tax.

Another concession made was to the country’s farmers, the plight of which had been a significant complaint made against the tax in 1816. At the point of the tax’s repeal in 1816, a farmer’s profits had been computed as equivalent to three-quarters of the rent paid to the landowner in England, and one-half in Scotland. However, likely heeding the threat that discontent over this had posed to the tax’s fortunes in the past, Peel significantly lowered the assumed estimates in 1842: to one half in England, and one-third in Scotland. This was considered to better reflect the costs of running a farm, as well as the precarity of agricultural income, given the unpredictability of harvests. Thus, despite changing comparatively little

210 An Act for Granting to Her Majesty Duties on Profits Arising from Property, Professions, Trades, and Offices, until the Sixth Day of April One Thousand Eight Hundred and Forty-Five 1842 (5&6 Vict c 35) (hereafter The Income Tax Act 1842) s 1.
211 See Hope-Jones’s point that ‘The second great complaint was that the duties…were unfair to the landowner and farmer, as compared with the merchant, manufacturer or trader’: (n 94) 117.
212 The Income Tax Act 1842, s 167.
when compared to the previous legislative framework, Peel took care to update the legislation in order to address anticipated sources of public objection. Although central complaints as to the tax’s operation remained, these concessions would have gone some way towards mitigating discontent.

In introducing the tax much as it had been in 1816, Peel also retained many of the concessions that had been built into the tax by his political predecessors. One which was strongly emphasised by Peel, was the temporary nature of the tax. Section 193 of the Income Tax Act 1842 stated that:

This Act shall commence and take effect from and after the Fifth Day of April One thousand eight hundred and forty-two, and, together with the Duties therein contained, shall continue in force until the Sixth Day of April One thousand eight hundred and forty-five, and no longer [emphasis added].

In proposing the tax on a temporary basis only, Peel adopted the approach of Addington and Pitt before him, who had secured acceptance of the tax on the basis of its temporary nature. Thus, Peel stressed that the purpose of the tax was only to support the country’s financial and economic objectives until the economy improved. It is difficult to know whether Peel genuinely intended that the tax would operate only temporarily,\(^{213}\) or whether it reflected a strategic objective, in introducing the tax on a temporary basis at first in the hope that opposition would diminish over time.\(^{214}\) Regardless of his true motivation, the temporary nature of the tax likely played a role in securing acceptance of the tax, and it is likely that Peel was aware of this, as he was careful to stress its temporary nature in Parliament.\(^{215}\)

Another concession retained by Peel was the tax’s adherence to the principle of localism that had proven so instrumental in securing consent to the previous taxes. The tax was collected locally by General Commissioners, who were appointed within the local

\(^{213}\) Daunton appears to believe that it was: ‘Peel did not expect the income tax to be permanent, and he held out the prospect that the insurance premium against political disaster could be allowed to expire once the danger had passed and the economy had recovered’: *Trusting Leviathan* (n 17) 81.

\(^{214}\) This certainly seemed to be the opinion of some contemporaries: ‘It is pretended that the Income Tax is only a temporary expedient for the next three years, but the probability is that it will be continued as long as the Corn Law, which it is called into requisition to bolster up’: *Examiner* (London, 26 March 1842) 194 col 1.

\(^{215}\) In fact, his first mention of the income tax was preceded by ‘for a time to be limited’: HC Deb 11 March 1842 vol 61 col 439.
community, before the assessments were sent to the Treasury. In making declarations to local Commissioners, seen as part of the local community and not simply as a representative of the centralised machine, this likely moderated taxpayer dislike for the process. It therefore seems that much of the general infrastructure of the tax that had previously reconciled taxpayers to its imposition had been retained. In minimising sources of objection through concessions built into the tax, Peel trusted that, when combined with the benefits that the tax enabled, this would pose a sufficiently tolerable proposition for the country to bear.

6.2 Commercial concessions

Peel therefore made use of general concessions in ensuring acceptance of the tax. However, Pitt and Addington had both also understood the need to offer particular benefits to the commercial sector. It was explored at length during the first half of this thesis that commercial interests lay at the heart of much of the powerful objection to the tax that ultimately forced its demise in 1802 and 1816. In order to neutralise potential commercial complaint, then, Peel adopted the same tactics, and also made concessions to commercial taxpayers.

It was noted at the beginning of this chapter that many commercial complaints in 1842 hinged on inequity: commercial taxpayers argued that the tax would operate unfairly on them given the precarity of trade. As Mr Roebuck MP argued in the House of Commons at the time:

Mercantile men, and men in trade, were liable to all the chances of the seasons – to tempests, to money panics, and to the folly of their neighbours, all of which rendered the amount of their gains doubtful.

216 The Income Tax Act 1842, ss 4-6. See Stebbings’s point that ‘The protective features inherent in localism, and forming its essential raison d’être, remained the same: the commissioners’ independence and their local knowledge’: (n 54) 81.

217 This narrative was also evident in the debates in Parliament at the time. For instance, see Lord Brougham’s opinion in the House of Lords that: ‘But what proved only an inconvenience to him [the landowner], might be absolute ruin to the trader. It was not a matter of morbid sensibility, or wounded vanity or pride, or what you will, that made the trader averse to have any one prying into his concerns. To him, it might be a matter of life and death to have it known in what circumstances he was placed. The consequence was this, that he was fain sometimes to pay upon a much larger income than he really possessed’: HL Deb 17 March 1842 vol 61 col 747.

218 HC Deb 29 April 1842 vol 62 col 1261.
As such, many commercial contemporaries held the view that they should be afforded special consideration in the application of the tax. It was argued in a contemporary publication that:

all [the tax’s] peculiar hardships and evils fall upon the trading and professional classes…[Therefore] Some practical distinction should, if possible, be drawn between industry and idleness, usefulness and inutility, acquisition and enjoyment, productive and unproductive subjects.219

Peel attributed little importance to this argument,220 and he was keen to emphasise the benefits in the way of reinvigorated trade that the commercial sector would receive, that he argued would more than make up for the contribution required in the way of income tax. As he argued during Parliamentary debates over the tax’s reintroduction: ‘I cannot but think that the measure will work for the especial advantage of those who are connected with the trade of the country’.221

However, likely in pragmatic recognition of the importance of compromise to the commercial sector in order to secure acceptance of the tax, Peel did propose several key concessions to appease commercial complaint. First, the general approach of self-declaration in making commercial assessments was retained. This meant that, in the words of Monroe, ‘Nothing so troublesome as an account would be called for, and his books would remain unexamined’.222 A taxpayer liable under Schedule D of the Act would thus be assessed on his own estimates of his income, and would only be challenged if a Commissioner had reason to believe those estimates to be false. Moreover, declarations continued to be made to Commissioners appointed from the local community, as under the second tax. However, Peel also added an extra layer of secrecy in the process of commercial assessment, seeking ‘to apply a remedy to those special evils which were alleged to arise from an inquisitorial examination of the concerns of the trader or professional man’.223 Section 131 of The Income Tax Act 1842 provided that a taxpayer could elect to deliver a statement of income to so-

220 See Peel’s argument that: ‘there is on the part of every interest in the country a universal desire to remonstrate against any interference with them, each saying that they are part of the community which is most hardly treated by the tax’ – HC Deb 04 April 1842 vol 61 col 1282.
221 HC Deb 18 March 1842 vol 61 col 872.
222 Monroe (n 1) 21.
223 HC Deb 18 April 1842 vol 62 col 658.
called Special Commissioners.\textsuperscript{224} This provision was an important concession to commercial concerns, as Special Commissioners were civil servants and not selected from the local community.\textsuperscript{225} This minimised the concerns of those taxpayers who had resented exposing financial affairs to neighbours: \textit{The Times} speculated that, in London at least:

\begin{quote}
The placing of commissioners at the West-end of the town, and the selection of such men as would not naturally feel a great interest in the affairs of their neighbours may possibly alleviate the dislike which many felt to the working of the old income tax.\textsuperscript{226}
\end{quote}

Accordingly, some held the view that the inclusion of the option would put an end to ‘the absurd grumbling respecting the inquisitorial nature of the income tax’.\textsuperscript{227} Although objections continued to be made, the lack of organised opposition to the tax suggests that the concession to some extent was effective.

\section*{6.3 Concessions: a summary}

In reintroducing the income tax, Peel adopted the tactics of his predecessors, by offering key concessions to public opinion which were designed to secure popular acceptance of the tax. Many of these were retained from the tax’s framework as it stood in 1806, however notable new additions included the lower rate, concessions to the agricultural sector and increased secrecy in the nature of commercial assessments. Although, given past experience, these concessions alone were unlikely to prompt acceptance of the tax,\textsuperscript{228} they served to counterbalance some of the key sources of antipathy towards the tax, especially amongst the commercial community. This demonstrates that, alongside the changes in the administrative, economic and societal spheres explored in this chapter, concessions in the substance of the tax also played an integral role in the evolution of a social climate more amenable to the tax’s

\begin{footnotes}
\item[224] By virtue of s 110, this statement could be delivered under seal, meaning that only the taxpayer and the relevant Commissioner would know its contents. The Commissioner was also sworn to secrecy (s 38), with the oath was laid out in Schedule F of the Act: ‘I will not disclose any Particular contained in any Schedule or Statement delivered with respect to any Duties charged under the Provisions and Regulations relating to Schedule (D.) of the said Act’. The Special Commissioners also had an important appellate function, in adjudicating over disputes of commercial assessments. This, Stebbings notes, would prove to be their most important function, as appeals would come to ‘dominate their work’: Stebbings (n 54) 107.
\item[225] See Stebbings, ibid 107-109.
\item[226] \textit{The Times} (London, 21 March 1842) 5 col 3. See also the view, also published in \textit{The Times} the following month, that ‘This is some alleviation of the old inconvenience’: \textit{The Times} (London, 19 April 1842) 6 col 3.
\item[227] \textit{Morning Post} (London, 22 March 1842) 6 col 4.
\item[228] For instance, when the tax’s continuation had been proposed in 1816, this had been at a lower rate of five per cent. Therefore, it appears that concessions in the form of the tax were insufficient without other inducements to accept it.
\end{footnotes}
existence. However, a second point is also highlighted: that, as in the past, policymakers recognised that commercial consent was crucial to the tax’s success. This apprehension of the necessity of securing commercial acceptance underlines that, despite a more complex picture surrounding the tax than in the past, there remained an important relationship between the commercial interest and tax policy.

VII. CONCLUSION

This chapter has proposed that, contrary to the implicit assumption of existing histories of the income tax, public reception to the income tax was fundamentally changed in 1842. Although dislike for the tax continued, little actual opposition to the tax was mounted, which suggests that the public response to the tax was more characteristic of reluctant acquiescence. It has been argued that this can be explained by the evolution of a social climate more receptive to the tax’s reinstatement. This altered climate came about as a result of developments in the administrative, economic and societal spheres, each of which encouraged a mitigation in traditional hostility towards the tax. These changes, combined with important concessions in the substance of the tax designed to secure taxpayer consent to it, meant that the attitudes and priorities of the taxpaying public at the point of the tax’s reimposition were very different. This, it is argued, made the tax easier to reintroduce than ever before. At the heart of this evolved social climate lay a mitigation in commercial opinion, as each of the fundamental changes explored in this chapter held especially important implications for the commercial interest. It was argued in Part I that commercial opposition had proved injurious to the tax’s success on more than one occasion at the beginning of the century, forming a key barrier to the tax’s development. This chapter has argued that the change in commercial attitudes towards the tax by 1842 served to break down this barrier, making the tax’s successful reintroduction a greater possibility than at any other point in the past.

It is important to note here, as at various points through this thesis, that there are limits to what can be known when undertaking historical research, especially when attempting to speak to the attitudes of the public. Although there may be some evidence of a particular attitude, the limited availability of documentary evidence, combined with the fact that
representation of views through history has not been equal across society, makes it very difficult to state this with certainty. Thus, the conclusions drawn in this chapter as to commercial attitudes must be treated with care. Some of the hypotheses may, in principle, be tested by further research. For example, the extent to which free trade was an incentive to accept the income tax could be tested further, for instance, by considering the attitudes to the reintroduction of the tax of those in groups which stood to benefit from free trade, such as those engaged in the shipbuilding industry. This could then be compared to the attitudes of those belonging to groups favouring protectionism, such as agriculturalists and shipowners. Similarly, the idea that changes in accounting practices may have resulted in a reduction of antagonism towards the tax could possibly be tested by researching the views of accountants themselves. However, other hypotheses are harder to prove: for instance, the notion that industrial interests were incentivised to accept the tax on the basis that it may alleviate the threat to social order and could therefore offer greater protection to their economic and property interests. The fact that overall attitudes to the tax were characterised more by reluctant acquiescence than by outright support for the tax means that finding a consistent body of opinion in favour of the tax is unlikely. Similarly, any articulation of a non-altruistic motive behind easing the burdens on the poor on the part of an employer would likely have been unwise. As a result, studies such as this thesis are limited to circumstantial evidence when attempting to explain changes in contemporary attitudes.

Nevertheless, this chapter clearly demonstrates evidence of an amelioration in commercial feeling towards the tax in the decades leading up to 1842. This change coincided with broader shifts in commercial attitudes and priorities which, it is logical to conclude, may go some way towards explaining the mitigation of commercial dislike of the tax. This interpretation supports the broader argument made across Part II of this thesis: that we cannot properly historicise the reintroduction of the income tax without incorporating the role played by the commercial interest. At the beginning of the century, the commercial interest had posed two key barriers to the tax’s success: influence over policymaking, and outright opposition to the tax. Part II has demonstrated that, by 1842, changes in the political scene had resulted in a significant reduction in commercial influence over fiscal policymaking. Furthermore, it has been proposed that a shift in commercial attitudes and priorities likely prompted a reduction in general anti-income tax feeling. In particular, the association of the tax with free trade ideas probably increased the attraction of the tax to commercial taxpayers,
as the price of achieving their free trade ambitions. As a result, by 1842 both of the longstanding barriers to the tax’s development had begun to break down, allowing the income tax to pass back into the fiscal scene. Once again, it seems that the commercial interest proved integral to the fortunes of the income tax, albeit in a different manner to that witnessed previously.
CONCLUSION

The first half of the nineteenth century is widely acknowledged to be a crucial period for Britain in both the history of the income tax, and in the history of tax law more widely. A complex and interdependent confluence of factors, including unprecedented military expense, growing centralised governance, increasing calls for fiscal reform and changes in economic philosophy resulted in the perfect climate for an evolution in the nature of taxation. Whereas at the beginning of the nineteenth century the fiscal-military state was built upon heavy and indirect taxation, by the end of the period this had begun to evolve towards a more modern system characterised by fewer duties and higher yields. The income tax played a crucial role in this shift, in marking the introduction of what would one day become the country’s largest single revenue generator. The period also sat at the heart of an ongoing shift in the nature of commerce and the commercial sector, as the powerful mercantile interests of the seventeenth and eighteenth centuries gave way to the industrial giants of the Victorian era. Given the importance of both of these developments, it is surprising that the interaction of these two histories has received little consideration. This is likely rooted in the fact that tax history remains an underdeveloped area of scholarship, and as such existing commentary has often been confined to the form of the tax, and to the developments that can be easily traced as antecedents to the modern system. This thesis has sought to draw these two histories together in order to shed light on how and why the income tax evolved as it did during the period.

Among existing works, consideration of the development of income tax law during the period has been largely confined to its administrative framework. Furthermore, the interdisciplinary nature of tax, which sits at the heart of politics, economics, administration, and social development, has meant that much of the existing consideration of the income tax has formed part of a broader history of these subjects, and not as a study of the tax itself. This has meant that examination of the tax has mainly only taken place insofar as it enhances the relevant history at hand. The limited number of studies that have focused on the tax itself have been primarily concerned with developments in the administrative form of the tax, or of evolving principles of taxation. However, in recent years this has begun to change, with some scholars choosing instead to ‘historicise’ tax law, by situating it in its broader political, economic, legal and social context.
This thesis builds on this more recent scholarship by using the wider commercial context to account for the evolution of income tax policy. It has presented significant evidence of a previously unacknowledged relationship between the commercial interest and the legal form of the tax, its financial produce, and the public reception that it received. It has argued that we cannot understand the tax’s initial failings or its ultimate success without reference to this relationship. At all points in the first half of the nineteenth century, a link can be identified between the country’s commercial interest on the one hand, and the development of the tax on the other. That said, it cannot be argued that income tax policy evolved entirely as a result of the influence of the commercial interest. Instead, a more nuanced approach has been put forward: against a backdrop of financial and political imperatives for the tax’s existence, the influence of the commercial interest proved a key factor in why and how the income tax developed as it did.

It has been demonstrated that commercial influence over tax policy can be broadly divided into two differing experiences of income tax: of failure, and of relative success. This, it has been shown, resulted from the changing nature of the relationship between the commercial interest and the tax. The first stage, between the years of 1799 and 1816, saw the commercial interest impeding the tax’s development, by using its influence both within the political system and over public opinion to undermine the effectiveness of the tax, and ultimately cause it to be rejected. It has been established that there was significant commercial antipathy towards the tax, which underpinned its financial failure. In order to secure commercial consent to the tax, policymakers opted for an administrative framework that was generous to commercial taxpayers, allowing considerable commercial evasion to take place. Furthermore, this antipathy resulted in widespread commercial rejection of the tax once the financial imperative for its existence had abated. This ultimately led to the tax’s repeal in 1802 and in 1816.

The second stage, in the years leading up to 1842, witnessed a different experience. The ongoing process of industrialisation and a shift in the country’s political environment resulted in diminished commercial influence over policymaking. This was combined with an
evolution in the attitudes and priorities of the commercial sector, in particular in the direction of free trade, and acceptance of income tax as the necessary price of that. This, the thesis argues, resulted in greater alignment between commercial priorities and an income tax, thus neutralising some of the traditional commercial hostility. The second stage in the tax’s development was therefore characterised by two concurrent processes: a reduction in the influence of the commercial interest over tax policy; and a softening in commercial attitudes to the tax. Thus, by 1842 the two central barriers that the commercial interest had posed to the tax’s previous development had to some extent broken down. This meant that the climate in which the income tax was reinstated was more receptive to its reintroduction than in the past. This allowed the tax to shift from a much-hated fiscal device which could only be borne in wartime, to an admittedly unpopular but tolerable peacetime measure. The thesis therefore argues that, notwithstanding a shift in the nature of the influence they exerted, the commercial interest continued to play a central role in the movement of tax policymaking.

The thesis builds on existing studies of the early income taxes by foregrounding the theme of commercial influence within that narrative. Although the influence of the commercial community over the direction of tax policy has been recognised in some isolated instances,¹ no previous work has identified a continuous relationship between the commercial interest and the development of the income tax. It has been established that this relationship touched all areas of the tax’s early evolution, in influencing its legal form, its financial productivity, and the reception it received within society. However, commercial influence cannot be considered the only explanation for how the tax developed: the thesis also supports the conclusions drawn by historians that the imposition of the tax was at points necessitated by the financial situation, especially during the French Wars. It also endorses the interpretation put forward by Daunton: that the period saw a transition in the nature of economic policy, as state actors attempted to display disinterest in order to re-establish public trust in government.² This, the thesis argued, played an important role in the changing relationship between the commercial interest and tax policymaking. In examining the basis for commercial opposition to the tax, the thesis also supports arguments made by Stebbings,

¹ For instance, in the opposition to the tax in 1816: it has been acknowledged that the City were important opponents to the tax.
who argues that the tax inspired opposition on the grounds that it was considered a breach of a constitutional right to consent to taxation.\(^3\) The thesis argues that this perceived breach of liberties underpinned much of the antipathy to the tax displayed by the commercial interest, as well as society more generally. However, the thesis also questions the ability of these interpretations to wholly account for the tax’s initial failings and ultimate success. Instead, it has been suggested that the development of the early income taxes should be considered as reflective of a number of factors. These factors not only include the financial imperatives of war and economic difficulty, as well as the political quest to re-establish trust in the state, but also of the previously unexamined influence of the country’s powerful commercial interest.

This thesis has developed existing histories of the early income taxes by identifying a continuous and evolving relationship between the commercial interest and tax policy. At the beginning of the nineteenth century, the commercial interest used its influence to secure the adoption of an advantageous scheme of tax policy, and to inflame existing public hostility to the tax, which ultimately contributed to its repeal in 1816. By the early 1840s, however, important changes that had taken place in the nature of commercial influence over policymaking, as well as commercial priorities, had resulted in the emergence of a commercial climate more receptive to the reintroduction of the income tax. Thus, the longstanding commercial barriers to the development of the tax had begun to break down, allowing it to be readmitted to the fiscal fabric. It is therefore submitted that in order to properly historicise the evolution of Britain’s early income taxes, we must acknowledge the importance at all points of the enduring relationship between the commercial interest and tax policy.

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