History Teaches That Taxing the Wealthy Gives Them a Stake in National Wellbeing

Deborah A. Boucoyannis, George Washington University

“No taxation without representation” is a saying that resonates in Anglo-Saxon political consciousness. It suggests that liberal democracy flourishes when strong social groups can limit government revenues. But my research shows this is misleading. England evolved into a constitutional state and ultimately a liberal democracy on the basis of a government that could demand big fiscal contributions from its most privileged citizens. Nations that refrain from – or are unable – to tax their richest citizens are actually undermining the foundations needed for effective democracy.

An Unvarnished Look at the Roots of the English Parliament

Imagine a nation where the richest of the rich – the one-tenth of one percent, as it were – were forced to loan exorbitant amounts of money to the government, and the loans were often not paid back in full. Imagine, as well, that the elites were penalized for failure to perform onerous obligations to the state by temporary or even permanent expropriations of their property. And imagine further that all the rest of the top 10% had tax obligations almost as onerous, along with other duties such as provisioning the army or accepting bureaucratic posts without payment.

What nation might this be? Cuba? Venezuela? Most people would imagine the society I have described to be a classic authoritarian, socially repressive, “extractive” regime. But in fact it is a description of England in the 1200s, when that country’s parliament was first taking institutional shape. Given what most people think about England’s role in launching western constitutional government, this is pretty remarkable. Yet, as I show in my research, the original web of fiscal dependency between monarchs and privileged English elites was critical to the emergence of the English Parliament as an effective governing institution. Many presume that representative institutions with a say over taxation emerge when the bargaining power of societal groups is strong and public authorities are weak and starved for cash. But that is a mistaken view, because parliamentary arrangements actually have roots in elites who had a strong stake in governance.

Through an original database of over five hundred members of the English nobility active between 1200 and 1350, I show the remarkable scale of obligations, both fiscal and military, that the top levels of English society owed to the crown. Unlike their French or Castilian counterparts who were typically exempted from fiscal duties, the English nobility bore a heavy burden. Nine of every ten were obliged to perform military service and more than 30% had had their estates confiscated or their rights suspended when they failed to fulfill obligations to the crown. And they also owed taxes to the crown; at any time, more than 20% were in debt for overdue taxes.

True, some of the most famous nobles, the topmost echelon of society, paid paltry amounts to the crown in taxes. Probably the richest lay magnate of the 1290s, the Earl of Cornwall, had an annual income amounting to three or four thousand pounds, yet contributed only a miniscule ten pounds to a tax on movables. However, the Earl had lent over £18,000 to the crown, almost one fifth of his lifetime income, a remarkable amount at a time when the highest tax rate was 10%. Such loans, often never reimbursed, were advanced by earls and top magnates of the day. What is more, when the Earl of Cornwall died childless, his entire estate was forfeited to the crown.

Given their strong fiscal stakes, it is not surprising that three-quarters of the English nobility attended Parliament. With the state already extracting high taxes, they were motivated to monitor its actions and limit its reach. In addition, given the loans the crown extracted from so many, they had powerful reasons to support taxes sufficient for repayments. The underlying mechanism is actually quite old. The ancient Greek historian Plutarch recounted how Eumenes, a Macedonian general, solicited loans from his rivals, thus vesting them in his survival.

Loans are serviced by taxes, and in pre-modern societies local and regional magnates often successfully resisted or limited royal taxation. That happened in medieval France, where localized resistance and bargaining thwarted the extractive reach of the monarchy and inhibited the consolidation of a central representative institution as effective as the English Parliament. Fragmentation and social strife were the result. But in England, local magnates were neutered in the early period and drawn into national finances, gaining a vested interest in the extractive capacity of the national state and in parliamentary arrangements to monitor it. A similar dynamic occurred among European merchants who became heavily vested in the public debt of city-states and carved out a presence in representative assemblies that granted taxation.

Modern Implications

The contemporary implications of my English story are evident in the failure of the tax state in fiscally poor countries like Greece: in such cases, the government is too weak to force the affluent to actually pay taxes, allowing these citizens to remain indifferent to the public good. Poorer citizens then justify rampant tax avoidance by claiming the state does not “deliver.” By contrast, those few who do pay taxes are typically too weak to secure change. The result is a stalemate wherein the government cannot tax those most able to pay, but who, at the same time, are also those most able to demand change and accountability.

Resource holders must be captive to states’ extractive reach before they will mobilize to hold the state accountable. This important principle seems counterintuitive to many people, who presume that effective government policies are given “in return” for resources freely granted by social groups. Unfortunately, in the real world, resource-holders who are powerful enough to bargain tend not to demand rights in return; instead, they try to evade obligations or obtain special deals that weaken government’s capacity to act efficiently on behalf of the entire economy or society.

Calls for “taxing the rich” have recently grown louder, especially given data from economist Thomas Piketty and others documenting fast-growing inequalities of wealth and income. Even so, many on the left worry that taxing the rich cannot do enough to support strong welfare states, while many on the right denounce this approach as inefficient envy. Yet as my research shows, the historical record underlines another reason for taxing the wealthiest – to give them a vested stake in effective government for the common good. This dynamic has a venerable pedigree and, indeed, was implicated in the emergence of representative institutions in the first place.

Read more in Deborah Boucoyannis, "Taxation of the Rich and the Origins of Representative Government," University of Virginia, August 2014.