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DOCUMENTOS DE TRABAJO

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DT-AEHE N°1102  
[www.aehe.net](http://www.aehe.net)



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February 2011



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**ECONOMIC IDEAS AND REDISTRIBUTIVE POLICY IN THE SPANISH PARLIAMENT: THE 1900 DEBATE ON FISCAL PROGRESSIVITY**

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JEL: A11, B12, K34, N43

**ABSTRACT**

This paper analyses the debate on the introduction of progressive rates in the inheritance tax, which took place in the Spanish Parliament in 1900. The article highlights the interest of this debate concerning two aspects: First, the parliamentary discussion itself, very controversial, showed an atypical alliance between conservatives and republicans supporting a very limited progressivity. In their view, this was just a tool to achieve real tax proportionality, and by no means should be a redistributive measure. Liberals' opposition feared the ultimate consequences of progressive taxes and refused its introduction in Spain, as it entailed serious hazard for property. Second, the wide use of economic ideas to support arguments in the debate make evident that the Members of Parliament taking part in the debate had a noteworthy degree of economic expertise. Therefore, parliamentary discussions were effectively contributing to the progress, expansion and institutionalization of political economy in contemporary Spain.

**Keywords:** economy, parliament, public finance, progressivity.

**RESUMEN**

Este artículo analiza el debate parlamentario que tuvo lugar en 1900 acerca de la introducción de tipos progresivos en el impuesto de sucesiones. Dicho debate tiene dos puntos de interés: Por un lado, la discusión –muy controvertida– mostró una alianza atípica entre la mayoría parlamentaria conservadora y la minoría republicana en defensa de la introducción de una progresividad limitada en este impuesto. Los tipos progresivos servirían para alcanzar una proporcionalidad real; nunca constituirían una medida fiscal redistributiva. Frente a ellos, la oposición del partido liberal temía las consecuencias últimas de la introducción de la progresividad en el sistema fiscal español, atacándola con el argumento del riesgo que entrañaba para la propiedad. En segundo lugar, los argumentos de doctrina económica desplegados por los parlamentarios permiten afirmar que la competencia teórica de los principales participantes en el debate era elevada. La difusión de este debate conduce a la conclusión de que los debates económicos en el parlamento constituyeron una pieza importante en el proceso de expansión e institucionalización de la economía política en la España contemporánea.

**Palabras clave:** Economía política, parlamento, hacienda pública, progresividad

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## Introduction

It has not been until recently that a substantial number of historians of economics have enlarged the boundaries of their research, shifting away –as A.W. Coats put it– “from preoccupation with the history of economic theory, towards broader, less precise and elusive matters”, among which the interrelationship between economic ideas and their historical context, the professionalisation of economics, or the influence of economic ideas on policy.<sup>1</sup> In this wider framework, the study of the institutional environment in which economists historically performed –which Augello and Guidi named “institutional history of political economy”<sup>2</sup>– has become a relevant field of research. In particular, some scholars have focused on the penetration, diffusion and influence of economic ideas in the political sphere, exploring how it fostered the process of institutionalisation of political economy in Western World, especially at the time in which it consolidated as a formal field of knowledge and its practitioners professionalized, in the second half of the 19<sup>th</sup> century and first decades of the 20<sup>th</sup> century, in the framework of liberal parliamentary regimes. In other words, a significant branch of studies on the institutionalisation of political economy has sought to assess the contribution of politics to this process, this is, to examine how economics and economists influenced political debate, thus aiding in the diffusion of political economy during this *liberal age*.<sup>3</sup> In this concern, the core institutions studied for that specific period have been national parliaments.

Focusing on the case of Spain, this essay aims at making a further contribution to the debate on the presence of economics in politics in the liberal age. Literature on this issue is not abundant, except for some national cases: Britain, Portugal, and, above all, Italy.<sup>4</sup> More specifically, this paper analyses the presence and role of economic ideas in

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<sup>1</sup> Coats (1993), p. 1.

<sup>2</sup> Augello and Guidi defined the idea of studying the history of economics from the point of view of the relationship of economists with the institutional environment where they performed as “the history of the institutional contexts surrounding the discourse on political economy, or, more briefly, the institutional history of political economy”. Augello and Guidi (2005), p. xiv.

<sup>3</sup> The performance of economists in politics has actually been considered an essential part of the process of dissemination of economic ideas and of institutional consolidation of political economy. Augello and Guidi (2005), pp. xiii-xiv.

<sup>4</sup> Studies on the influence of economic ideas and economists in the British parliament in the 19<sup>th</sup> century are pioneering: Fetter (1975, 1980), Gordon (1976), Grampp (1987), Harris (1997), Gambles (1999) and Schonhardt-Bailey (2003, 2006). The Italian case is probably the best known, thanks to extensive work developed by numerous scholars, gathered in the works edited by Augello & Guidi (2002, 2003), who

the particular debate on the introduction of progressive rates in the Spanish fiscal system, which took place in the Spanish Parliament in 1900. This debate is relevant, not only in terms of the use, influence and diffusion of economic ideas (this is, concerning the process of institutionalisation of political economy), but also from a strictly fiscal point of view. The debate ensued the bill issued by the Finance minister Villaverde, which established progressive steps in the inheritance tax. Although it was a relatively small tax and the progressivity very limited, this bill resulted in an exhaustive discussion of the issue of tax progressivity in the Spanish Legislative. Actually, the debate happened to be extraordinarily controversial, if compared to other parliamentary discussions in this campaign, in which other more significant reforms in the fiscal system were being considered. Remarkably, apparent political and social implications of progressivity were mostly avoided in the debate, it being grounded mainly in technical fiscal and economic topics. The role played by economic ideas and doctrines in the discussion was significant, they being well grounded on first-rank international literature. The economic expertise of the members of the Parliament (from now on MPs) who intervened in the debate should also be praised. The diffusion of economic ideas within the Parliament and to public opinion through the press, point out that the parliamentary institution was effectively contributing to the diffusion of economic ideas into cultured society.

This paper is organized as follows: First section depicts Villaverde's bill. Second section explores the parliamentary debate and the arguments there displayed in favour and against this fiscal reform. Third section deals with the influence of economic ideas on the lines of reasoning of the MPs taking part in the discussion.

### **Villaverde's tax reform project**

In 1899 conservative Finance minister Villaverde launched a plan to reform the tax system, in the framework of a general transformation of the Spanish public finance,

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also edited another international monography (2005). Portuguese researchers have leaded an important project to assess the influence of political economy in their national Parliament: Almodovar and Cardoso (2005), Cardoso (2007) and Bastien and Cardoso (2009). As for Spain, an excellent survey on Spanish parliamentarian economists was developed by Almenar (2005). The recent book by Martín Rodríguez (2009) on academic economists just reaches 1874.

which had been dragging out serious deficiencies for the entire century. Villaverde had been appointed minister in the conservative Silvela cabinet,<sup>5</sup> which had succeeded liberals after the war against the United States and subsequent loss of the last vestiges of the colonial empire in 1898. The “disaster”, as it was named, plunged Spain into a sort of collective despair, in front of which intellectuals and politicians started calling for the regeneration of the nation. One of the mottos of this movement was the healing of public finance. Prime Minister Silvela placed this as a priority and addressed Villaverde to urgently handle the problems of the public debt burden and budget deficit. It seems that there was indeed social demand for economic stabilization policies, led by taxpayers, in front of the increase in national borrowing and the problems caused by its inflationary financing through money issues.<sup>6</sup>

Villaverde’s immediate goals were to reduce the huge quantity of public debt –a problem worsened by the sums borrowed for the previous war– and to balance the budget; this is, to restore the Spanish credit. Concerning the debt problem, Villaverde decided to temporarily suspend amortization and to reduce its effective interest rate by charging its yields with a 20% tax. As for the tax system, he strove to set the bases to modernise it and improve its efficiency, so as to make it capable to face the public debt burden and to guarantee enough ordinary revenues to meet public expenditure.<sup>7</sup> He discarded a fundamental reorganization of the entire system in order not to risk current revenues. The most important innovations he proposed were a new tax on some kinds of incomes (the *impuesto de utilidades de la riqueza mobiliaria*), which aimed at charging

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<sup>5</sup> Raimundo Fernández Villaverde, marquis of Pozo Rubio (1848-1905), was an exceptional politician in the first part of the Bourbon Restoration. He was an expert in Public Finance, and Professor of Commercial Law and Criminal Law at the Universidad Central in Madrid. His political curriculum (always in the conservative party) was impressive, as it was his career as public official. He held several positions in the Finance Ministry, eventually becoming minister twice, in Silvela administrations (March 1899 – July 1900 and December 1902 – March 1903). He was also appointed minister of the Interior twice, minister of Justice, Chairman of the Parliament, and eventually Prime Minister (during two brief periods in 1903 and 1905). He was also a member of the Reales Academias de la Lengua, de Jurisprudencia and de Ciencias Morales y Políticas.

<sup>6</sup> Taxpayers would demand stabilization measures while criticised the Spanish oligarchic political system, stressing the divorce between producers or entrepreneurs and politicians. Vallejo (2001), p. 351.

<sup>7</sup> The Spanish tax system at the end of the 19<sup>th</sup> century was essentially the outcome of the Mon-Santillán tax reform of 1845. This had unified the liberal tax system under the principle of direct product taxation, inspired by the French model, which was complemented by some indirect taxes to generalize taxpaying and attain the sufficiency of the whole system. Its main levies were the tax on land property and the indirect tax on consumption goods. One of the flaws of this system was that capital and labour incomes remained almost unchanged. However, its most important limits were the short tax collecting capacity and its rigidity to tax new forms of wealth or new activities, which made the system shift more and more towards indirect taxation. See Fuentes Quintana (1990), pp. 3-47, and Vallejo (2001), pp. 39-43.

new activities' earnings that so far had avoided taxation;<sup>8</sup> some new taxes on specific consumption goods (especially alcohol and sugar); and a reform of the general tax on property transmissions (*impuesto de derechos reales y transmisiones de bienes*), which included the introduction of progressive rates in the inheritance tax. He completed these reforms with compulsory reductions of expenses in every government department and with restrictive monetary policy, turning back loans to the Bank of Spain. Summing up, Villaverde struggled to increase revenues and reduce expenses without disturbing credit or public services: This was the *leitmotiv* for his plan. This was not but the first step of a long-term project for the Spanish public finance: After solving the debt problem, balancing the budget and improving the tax system, the second stage would be the economic reconstitution of the country through the development of public services and the promotion of productive activities. The third step would be a tax relief of the most charged activities. Eventually, Villaverde dreamed on Spain entering the international gold standard monetary system.<sup>9</sup>

One of the most striking novelties in this reform plan was the introduction of the principle of progressivity in the taxation system through the inheritance tax. Before this, inheritance tax fees were proportional, they varying according to the relationship of the beneficiary to the deceased. Fees ranged from 1% of the amount inherited (applied to inheritances between direct ascendants and descendants), and 9% (applied to successions to third parties). However, some extraordinary surcharges had been recently imposed on behalf of the economic crisis and the war (in all, they made fees 40% higher).<sup>10</sup> Villaverde's project established different scales of fees, depending on the relationship between the beneficiary and the deceased. Each scale had five steps according to the amount inherited. In the first scale (that with the lowest fees), applied to inheritances between legitimate direct ascendants and descendants, fees ranged from

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<sup>8</sup> It bore certain similarity to an income tax. According to Solé, it was inspired by its Italian homonymous. Solé (1999), p. 27.

<sup>9</sup> Solé (1999), pp. 29-30. According to this author, Villaverde was an enthusiastic follower of the British income tax, and he even thought of introducing it in Spain, but rejected the idea in front of the enormous difficulties he foresaw. The income tax was somehow a myth for many Spanish economists. Navarro Reverter, minister of Public Finance from 1895 to 1897, recognized that the idea was interesting, but impossible to apply in Spain because of its management difficulties. Solé (1999), pp. 25-28.

<sup>10</sup> In 1897, the Finance minister Navarro Reverter introduced a transitory surcharge of 10% on the tax rates. Succeeding minister, liberal López Puigcerver, increased this surcharge to 20%, and, for the economic year of 1898-1899, introduced a war surcharge of another 20%, so the total surcharges grew up to 40% over the original rates of the tax. The issue of surcharges was important in the debate, as whether they were taken account of or not, Villaverde's plan turned out to benefit or harm taxpayers.

1% to 2,50%.<sup>11</sup> The highest fees applied to inheritances in which there was not any relationship between the deceased and the beneficiary: they ranged from 11% to 13%. There was not tax threshold. Inheritance tax did not furnish much to the Treasury: According to the income budget project for 1900, its revenues amounted to only 2% of the budget. It was a small tax, but its significance was high, as it fell harder on wealthy citizens, well represented in the Parliament. Progressivity was not new in the Spanish fiscal system. At that time, there were a couple of small taxes which applied progressive rates.<sup>12</sup> Nor was it entirely new in political discussion: Some MPs had defended this type of taxation in the Parliament before, and some public finance officials had also supported it occasionally.<sup>13</sup> But the first general debate on this matter took place in the 1899-1900 campaign, when Villaverde presented to the Parliament his tax reform plan.

Villaverde's general reform project faced hard opposition, and he eventually was constrained to reduce or remove some of his proposals in order to get the Parliament pass. However, he was very committed to the economic reform, he linking his remaining in office to the general acceptance of his plans, which caused difficulties to Silvela's cabinet, as many of the members of the conservative group in the Parliament were reluctant to accept some of the reform bills.<sup>14</sup> Villaverde had to fight extremely hard in that parliamentary campaign, often without actual support of his fellow MPs. Having achieved just a part of his projects, he resigned on July 1900.<sup>15</sup> However, his measures eventually served to balance the Spanish budget and to reduce the public debt burden. Surpluses in the public budget would last until the Morocco war in 1909, as Finance ministers in the following decade did not deviate from Villaverde's schemes.<sup>16</sup>

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<sup>11</sup> Fees in this first group were as follows: Inheritances (amount accruing to the beneficiary) under 10.000 pesetas, 1%; from 10.001 to 30.000 pesetas, 1,25%; from 30.0001 to 50.000 pesetas, 1,75%; from 50.001 to 150.000 pesetas, 2%; over 150.001 pesetas, 2,50%. See the bill in the *Diario de Sesiones del Congreso de los Diputados* (from now on, DSC), 1899-1900, 14, appendix 9, pp. 11-12.

<sup>12</sup> These were the tax on wages and salaries (*impuesto de sueldos y asignaciones*), in which progressive rates were applied just to public officials' wages; and the tax on personal identification documents (*impuesto de cédulas personales*), in which the tax burden was established according to external indicators, such as housing rent.

<sup>13</sup> DSC 1899-1900, 118, p. 4044; and 119, p. 4059.

<sup>14</sup> Martorell (2000), pp. 68-69; and (1999), pp. 73-75.

<sup>15</sup> Literature has made diverse evaluations of Villaverde's reform: See Solé (1999), pp. 25-28; Vallejo (1999), pp. 67-69; Betrán (1999), p. 121; Fuentes Quintana (1990), pp. 61-62; Martorell (1999), p. 75; and Comín (1988), pp. 589 and 596. Lately, Comín has stated that Villaverde's tax system was conceptually obsolete, as new fiscal principles circulated in Europe. Comín (2010), p. 231.

<sup>16</sup> The budget balance would serve to reduce the public debt, maintain money circulation and price level constant, and appreciate the Spanish peseta in front of the Sterling Pound.

## The debate on the progressive inheritance tax

The preamble of the inheritance tax reform bill, issued in June 1899, conveys the reasons Villaverde hinged on to justify this modification. It stated that the introduction of progressive fees in this tax was a means to compensate the reduction made in the fees of the other item of the tax on property transfer (*inter-vivos* transmissions), which had been done in order to encourage trade. The new progressive structure of the inheritance tax would benefit poorest classes by reducing the effective fees they were subjected to, whereas the tax burden would fall comparatively harder on large inheritances, as their beneficiaries were supposed to be more qualified to bear taxes. This “fits better the principles of equity and distributive fairness, which call for a reduction in levies on small capitals, in order to make taxpaying less onerous and easier”.<sup>17</sup> This was the clearest statement Villaverde made about the redistributive implications of progressivity: In the Parliament he would be much more ambiguous concerning distributive connotations of progressive rates. The preamble also stressed that all the new fees were lower than the old ones (plus surcharges),<sup>18</sup> and much lower than fees applied to inheritances in other European countries.

The debate in the Parliament did not take place until the end of January 1900.<sup>19</sup> Despite it being a discussion on a minor tax, it took up ten sessions (the longest debate in Villaverde’s reform plan), raising much controversy, probably much more than the government expected. The debate was established mostly on legal and economic principles, especially about the adequacy of progressivity as a tool to achieve a proportional allocation of tax burden. Apparent political and social implications of progressivity were almost entirely avoided. Ideas and writings by renowned political economists were often quoted to sustain MPs lines of reasoning (the quality of the discussion was praised by some of its participants).<sup>20</sup>

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<sup>17</sup> DSC 1899-1900, 14, appendix 9, p. 2.

<sup>18</sup> However, this was true only for smaller inheritances, those under 30,000 pesetas.

<sup>19</sup> Delay in the parliamentary discussion of economic bills led Villaverde to issue a new bill on the inheritance tax which would allow it to rule immediately on a provisional basis. In this new bill, the progressive steps had been slightly modified (steps were 8 instead of 5, and fees ranged between 1 and 2,75%; new rates hardly favoured medium-size inheritances. See DSC 1899-1900, 108, appendix 8.

<sup>20</sup> For instance, Azcárate (DSC 1899-1900, 119, p. 4058), Laiglesia (DSC 1899-1900, 119, p. 4073), or Gamazo (DSC 1899-1900, 120, p. 4093).

As it was usual in economic debates, only a handful of MPs participated. They were mainly economic-specialized MPs, not linked to academic posts (only a former professor of political economy, Moret, was among them).<sup>21</sup> The economic expertise of the vast majority of the MPs taking part in the progressivity debate was acquired through their university Law degrees and then through long careers as public officials in economic-related positions, or as politicians specialized in economic topics. Actually, a great number of them had held significant economic posts in the public administration, including appointments to the heads of some ministries. Many of them had been (or would be later) appointed Finance ministers: Liberals Moret, López Puigcerver, Gamazo, Suárez Inclán and Canalejas, and conservatives Bergamín and Villaverde.<sup>22</sup> The issue of progressivity divided the Parliament into two factions, although with no homogeneity inside them. Villaverde's reform was supported (supposedly) by the Conservative Party and the republicans, it constituting a quite unusual alliance. Their main representatives were Villaverde himself and Azcárate, who, nevertheless made severe criticisms to the project.<sup>23</sup> Opposition was conducted by the Liberal Party, whose five major representatives have been just mentioned.<sup>24</sup> Some MPs supported tax progressivity, but not this specific project. This was the case of Bergamín (a conservative dissident) or Canalejas.<sup>25</sup> As it would be expectable, many conservative MPs were against progressivity; however, the conservative group supported with their

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<sup>21</sup> Moret, a close follower of French optimistic school, had taught Political Economy between 1857 and 1859, and then was Professor of Public Finance at the University of Madrid from 1863 until 1875. Since 1881 he taught Administration. Almenar (2005), pp. 83 and 96; Perdices and Reeder (2003), p. 647. Only another scholar took part in the debate: Azcárate.

<sup>22</sup> This confirms Almenar's opinion that, since 1891, the participation of university professors in politics decreased sharply in a context of political professionalisation and divorce between academia and politics. The process of specialisation in economics was increasingly endogenous. Almenar (2005), pp. 86-87 and 92.

<sup>23</sup> Azcárate was a Krausist jurist and economist, committed to the progression of education and social reform. He was Professor of Comparative Legislation in Madrid. He used to take part actively in the cultural life of the country, and belonged to several royal academies and the Athenaeum. He was also the President of the Instituto de Reformas Sociales. Sánchez de los Santos (1910), p. 713.

<sup>24</sup> Moret had an impressive political career (he would be Prime Minister three times between 1905 and 1909). He had been appointed Finance minister twice in 1870 and 1871. Suárez Inclán was appointed minister of Agriculture and Industry and later, of Public Finance (1912-13). López Puigcerver, another strong follower of the liberal economic school, had been Finance minister twice (1886-1888 and 1897-1899). Gamazo had been the Finance minister between 1892 and 1894. See Sánchez de los Santos (1908 and 1910), Rull (1991), Perdices and Reeder (2003) and Urquijo (2004).

<sup>25</sup> Bergamín and Canalejas also occupied high posts in the administration. The former was appointed minister in several occasions (he would be th Finance minister in 1922). Canalejas became the leader of the Liberal Party and was Prime Minister in 1911-1912, when he was assassinated. He had also been the Finance minister for a brief period in 1894-1895. Rull (1991), pp. 68 and 81; Urquijo (2004).

votes Villaverde's plan, surely in order not to put at risk the cabinet steadiness, and possibly confident of the defeat of the project in the Senate, as it eventually happened.<sup>26</sup>

### *Against progressive taxation*

MPs from the Liberal Party were the main opponents to the progressive scheme. They started by questioning the legitimacy of the tax on property transmission: It levied capital and not income, thus violating the basic rule in taxation that taxes should never destroy future taxpaying capacity. So, this tax prevented capital accumulation, hindering economic growth and eventually harming working class. Progressive rates made these state of affairs worsen, and besides resulted in lower tax revenues, because they stimulated fraud.<sup>27</sup> However, it was with regard to progressivity itself that liberals displayed a much larger range of arguments against Villaverde's project, trying to prove that progressivity did not constitute a fair system of allocating tax burden, and defending the traditional proportional scheme. The first argument was that progressive taxes involved wealth redistribution. This was unacceptable, as distribution was a socialist idea which conferred the State a prerogative that should not have at all. López Puigcerver, the main adversary of Villaverde in this particular point, maintained that progressivity was not justified by any theory of fiscal fairness, but by the theory of the redistributive State, which considered taxes as tools to eliminate social inequalities, not only as instruments for the State to fulfil its duties and goals.<sup>28</sup> Moret stressed that tax relief for small fortunes, which progressivity entailed, should not imply higher taxes for large fortunes. In his opinion, tax relief to poor classes was not a matter of justice but of two other fiscal principles: cost-benefit calculation (costs to collect taxes from poor

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<sup>26</sup> In this particular matter, conservatives kept party discipline and backed Villaverde. But in other issues it was not infrequent that some of them absented from voting in order neither to support government plans nor to reject them, avoiding their responsibility for a government crisis. Actually, it was rumoured that in some periods, for instance in summer, conservative MPs left Madrid not for holidays, as they pretended, but in order not to support the government's policy. Martorell (2000), p. 75.

<sup>27</sup> López Puigcerver was the main supporter of this position. In his opinion, property transfer taxes existed just because they were easy to implement. DSC 1899-1900, 117, p. 4005; and 118, p. 4030. Azcárate, a defender of progressivity, also believed that taxes on property transmission were unjustified, as they only represented government eagerness to tax every human activity. DSC 1899-1900, 119, pp. 4058-4060.

<sup>28</sup> "Whatever the theory might be to justify or explain this tax [...] you will not find any idea of justice to justify it; you will only find a single theory to explain it; and this is the theory of those who believe that the State must intervene in the distribution of wealth; the theory of those who believe that taxes are not a means for the State to fulfil its duties and to meet the budget expenditure; the theory of those who believe that taxes are something to make social inequalities to be eliminated". DSC 1899-1900, 118, p. 4032. However, some liberals accepted a certain degree of anticyclical fiscal policy: Gamazo and Moret believed that the government could never use taxes to create the economic cycle, but the latter admitted that it could "steer" it. DSC 1899-1900, 119, p. 4072; and 120, p. 4097.

taxpayers were higher than the revenues they produce), and the mentioned principle of not destroying taxpaying capacity.<sup>29</sup> Needless to say, Villaverde and fellow conservative MPs in the debate denied that their progressive project was redistributive policy.

A quite common position in the defence of progressive taxes at that time, also in economic literature, was to consider them as measures to counteract the supposedly general regressivity of the tax system, caused by the presence of indirect taxes, particularly those on consumption goods and necessities. So, progressive taxes served to achieve real proportionality in overall taxation. Liberal MPs also rejected this line of reasoning: Gamazo and López Puigcerver stated that, at least in the case of Spain, there was no need to compensate lower classes in this regard, because there were several taxes paid only by the high-income social group, which already created this compensatory effect in the whole tax system.<sup>30</sup> Somehow astonishingly, this opinion was explicitly accepted by Villaverde, who did not use this compensation argument to support progressivity, contrary to many European liberal authors who acknowledged the possibility of its existence on this basis.

The third significant argument against progressivity showed well the social question that lay beneath this issue and the chief controversy of the reform: Progressive tax rates put at risk property and wealth. This was the main reasoning of López Puigcerver, who openly feared that, although progressivity was not new in the Spanish fiscal system, its spreading to new taxes would create a harmful precedent. López believed that passing this project would involve the eventual creation of new progressive taxes. He warned that this was not a matter of political debate and party competition, but something much more essential, as it was safety of propriety, wealth, capital and business, and therefore of the entire economic system.<sup>31</sup> As a consequence, he was intimately persuaded that any progressive tax was unacceptable. He explicitly grounded this belief on Léon Say

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<sup>29</sup> “This is not progressive, regressive or progressional: This is, simply, a matter of common sense”. DSC 1899-1900, 119, pp. 4071-4072.

<sup>30</sup> Gamazo considered that the taxes paid only by upper classes amounted more than the 20% of the total tax revenues. In his opinion, it would be interesting to implement other sort of measures, such as a tax threshold to achieve a higher degree of equity, but a progressive tax on capital, as he considered the inheritance tax, should be never established. DSC 1899-1900, 120, p. 4095. López Puigcerver believed that the tax structure in Spain compensated lower and upper classes, although he admitted that, in other countries, circumstances could be different, such as in England. DSC 1899-1900, 119, p. 4068.

<sup>31</sup> DSC 1899-1900, 118, p. 4032.

and Leroy-Beaulieu's writings. This argument was underlined by all the opposition: Gamazo said that the progressive inheritance tax would charge capital so heavily, that it was in fact confiscation. Moret also stressed the tax confiscatory character; whereas Suárez Inclán thought that progressivity discouraged capital accumulation.<sup>32</sup> Radical liberal MP Canalejas stated that the issue at stake was truly crucial, because its approval implied the actual introduction of the progressive tax principle in Spain (precedents were minor). He mentioned the fear many conservative MPs had in front of this reform, but did not dare to express frankly. This shows that Villaverde did not have the actual support of the conservative parliamentary group.<sup>33</sup> Republican MP Azcárate, in turn, stated that, despite the fact that progressivity already existed in the Spanish tax system, the true discussion about this issue rose when a progressive tax on property was proposed.<sup>34</sup>

Last, liberals stressed the unfairness aspect of progressivity, as its rates were always arbitrarily established, and as it did not take into account taxpayer's personal circumstances (this could also be applied to proportionality, but, as Suárez Inclán pointed out, progressivity aggravated it).<sup>35</sup> The problem of the establishment of the steps of the progression rates, which depended on the legislator will, was widely stressed by contemporary literature, and highlighted by opposition in the debate (actually, this issue has remained as the most important flaw of progressive taxes)<sup>36</sup>. Among the rest of criticisms made to the reform, the absence of a tax threshold for small inheritances stood out. Many MPs believed it was a strong contradiction, as Villaverde had said that his progressive plan supported low income groups.<sup>37</sup>

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<sup>32</sup> DSC 1899-1900, 117, p. 4005; 119, p. 4070; and 120, p. 4096

<sup>33</sup> DSC 1899-1900, 120, p. 4101. These grief opinions were not unanimous, though: MP Romero Robledo, who was contrary to progressivity, denied that Villaverde's plan would cause a general introduction of fiscal progressivity in Spain. DSC 1899-1900, 120, p. 4104.

<sup>34</sup> DSC 1899-1900, 119, p. 4060.

<sup>35</sup> It was mainly Moret who stated that progressivity was arbitrary, and therefore, unfair. DSC 1899-1900, 117, p. 4005; and 119, p. 4072.

<sup>36</sup> See, for instance, Neumark (1994), pp. 189-197, or Slemrod (1994), pp. 1-4.

<sup>37</sup> Other reasoning used by liberals was that progressive taxes were forbidden in the Constitution of 1876. This was quite a restrictive interpretation of the constitutional text: It just stated that the population should contribute to the expenses of the public administrations proportionally to their wealth (Sánchez Agesta (1985), p. 60). At the end of the debate, López Puigcerver uttered that the progressive inheritance tax was not necessary even for the reason of collecting the revenues planned in the budget: they could be easily raised with the old proportional system. DSC 1899-1900, 118, pp. 4023, 4029 and 4044; 119, p. 4062; and 120, p. 4102.

### *In favour of progressivity*

The defence of the reform of the inheritance tax was carried out by Villaverde and some other conservative MPs close to him. Except for them, only republican MP Azcárate aided in the support of the advisability of progressivity. Villaverde and fellow MPs strongly maintained that the planned progressivity was not a redistributive measure; but, apart from this, they did not have a clear strategy and unified criteria to defend the project: Their arguments were often contradictory and Villaverde himself maintained conflicting lines of reasoning in the debate. Villaverde sustained that progressivity was neither a redistributive measure nor a social compensation device for poorest classes, but just a means to achieve real proportionality in taxpaying. Significantly, progressivity supporters avoided using the word “progressivity”, they borrowing the concept “progressionality” from Joseph Garnier, to keep away from the distributive (and socialist) connotations and to ease the passing of the project. Conservative MPs supporting Villaverde in the debate always had in mind the main goal of the reform, namely, to reorganise the tax system in order to make it capable to meet the State duties. As MP Laiglesia, the chairman of the parliamentary budget commission, pointed out, the object of the entire project was both to strengthen direct taxes and to find new fiscal resources, mainly taxing activities that so far had avoided taxation.<sup>38</sup> Villaverde firmly believed that the tax base in Spain was much larger than data from fiscal administration stated: there was not a correlation between the wealth of the country and the State resources.<sup>39</sup> Villaverde started the debate justifying the legitimacy of the property transmission tax, attacked by the liberals: It was the State the institution that guaranteed the validity of contracts of transmissions; therefore it had the right to take a part of the amount transferred as a payment for the guarantee supplied.

Regarding the progressivity issue, as it has been said, Villaverde tried not to use the argument of the progressive tax as a way to correct the tax system general regressivity caused by indirect taxes. However, his reasoning throughout the debate was sometimes confusing, and he indirectly ended up acknowledging that relief of poor classes (which

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<sup>38</sup> DSC 1899-1900, 119, p. 4075.

<sup>39</sup> Villaverde believed that the financial difficulties of the state were not a direct consequence of the economic crisis of the end of the century: There had been economic growth since the central decades of the century, but it had not reflected in the public incomes. Villaverde (1973), pp. 593-594.

his progressive tax entailed) was a matter of correcting unfair tax burden allocation.<sup>40</sup> Nevertheless, he attempted to pass over this issue by simply rejecting the existence of any actual progressivity in the inheritance tax: His project only involved what he called “progressional proportionality”, in the sense defined by Garnier, and also adopted by J.B. Say and J.S. Mill. Villaverde claimed that he needed to charge direct inheritances with a fee of 1,70% in order to accomplish the balanced budget. By using his progressive model, he assumed to relief the lower classes fulfilling the constitutional real proportionality requirement. So, as he said, the inheritance tax turned out to be not progressive, but *degressive*: its goal was to reduce the tax burden on small fortunes.<sup>41</sup> Therefore, Villaverde’s plan of a limited progressivity was the result of combining public finance requirements and constitutional justice commands, but it was also a consequence of his fidelity to the fiscal principle of ability to pay in the allocation of the tax burden as the best way to attain taxation justice. In order to accomplish this –what he called “proportionality of faculties”, which he believed was commanded in the Constitution–, it was necessary to implement the progressivity system in some taxes.<sup>42</sup> In another occasion, the minister said that taxes were the contribution of each citizen in proportion to his wealth, so that the State could exist: This “proportion” was sometimes better achieved through a graduate scale. This, he stated, was Léon Say’s doctrine, which he followed.<sup>43</sup> Azcárate also interpreted the constitutional “proportionality” as “proportionality of faculties”.<sup>44</sup> This idea led him to support the progressive system, always in Garnier's limited fashion. In his opinion, the “progressional” tax fitted well with the values of freedom and justice, whereas the pure proportional system was unfair. Applying it to some taxes was in order to achieve the equality of sacrifice in taxpaying.<sup>45</sup>

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<sup>40</sup> Villaverde corrected the argument used by his fellow MP Fernández Hontoria, who had said that the progressive scale was a device to correct the overall regressivity of the tax system, caused by the indirect taxes. The inheritance tax was a mechanism to achieve tax justice, looking for the real proportionality commanded by the Constitution. DSC 1899-1900, 118, p. 4029. This shows the confusion conservatives had in the defence of progressivity.

<sup>41</sup> DSC 1899-1900, 118, pp. 4036-4039. Laiglesia called Villaverde’s proposal of progressivity as a “modern proportionality” and remarked that the real progressivity was in fact the suggestion of liberals to establish a tax threshold. DSC 1899-1900, 119, p. 4075.

<sup>42</sup> DSC 1899-1900, 118, p. 4040.

<sup>43</sup> DSC 1899-1900, 119, p. 4060.

<sup>44</sup> Azcárate said that the constitutional order to pay taxes according to the individual ability should not be interpreted in a restricted way, as if it stood for proportionality in taxation. DSC 1899-1900, 119, p. 4061.

<sup>45</sup> DSC 1899-1900, 119, p. 4068.

Having stated the not progressive nature –in the redistributive meaning– of his inheritance tax reform, Villaverde faced the other attacks launched by the liberals: First, he absolutely rejected the idea of using taxes as a mechanism to modify wealth distribution, as a socialist tool to equal fortunes. This idea, defended by the *Kathdersozialisten*, was absolutely alien to his economic and political thought.<sup>46</sup> In this concern, Azcárate supplied him with solid support, he rejecting the use of taxation as a redistributive mechanism, for, in his opinion, making use of taxation as an instrument for social reform was a mistake (he explicitly rejected Wagner’s idea of using taxes for social transformation through wealth redistribution)<sup>47</sup>. Second, Villaverde denied that progressivity had been proposed as a compensatory device: Although the “progressional” technique of taxing used direct taxes to counteract the relatively greater harm caused to low-income economies by indirect taxes, there was no need of this effect of compensation in Spain. This was because, in his opinion, taxes on consumption turned out to be mostly direct taxes, as in practice they functioned as surcharges on the main direct taxes on agricultural and industrial activities returns. For this reason, implementing the progressive inheritance tax would not lead to an extension of progressivity to every tax. Thus, Villaverde was trying to reassure liberals and conservatives, most of them defenders of proprietors’ interests. As a matter of fact, Villaverde said that he had not recommended the progressive system to be applied also to *inter-vivos* property transfer in order to avoid any risk of confiscation, because one asset could be transmitted several times in a short period.<sup>48</sup> On the contrary, Azcárate considered progressivity legitimated only in the framework of the theory of compensation: Progressivity itself was not fair, but served to compensate the excess of tax burden on lower classes caused by indirect taxes. In his opinion, this was the idea supported by Leroy-Beaulieu and Léon Say.<sup>49</sup> Third, progressivity supporters denied that the inheritance tax would hamper capital accumulation or risk economic growth

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<sup>46</sup> “This is not a progressive tax, a progressive tax [...], as it has been defended by the *Kathdersozialisten* in their books and lectures, and as it has been defended by action socialists in their programmes, is a fiscal device with which the State intervenes in the distribution of wealth. It entails a constant, continuous and practical progression, equal or bigger than the progression of wealth; it tends to make fortunes equal [...] It is not, therefore, a fiscal mechanism to intervene in wealth distribution; it is a financial tool, seeking proportionality”. DSC 1899-1900, 118, p. 4040.

<sup>47</sup> “There is a school [...] which supports progressive taxation, what for? Wagner has stated it, he making a glaring error; he has stated that time has arrived for this tax to cease to be a mere fiscal device; it must become a tool for social reform. And this is a fundamental error: this tax will never be other than a fiscal device”. Azcárate believed that social reforms should be implemented through laws, not through taxes. DSC 1899-1900, 119, p. 4060.

<sup>48</sup> DSC 1899-1900, 120, p. 4106.

<sup>49</sup> DSC 1899-1900, 119, p. 4060.

because it was extremely small. Laiglesia estimated that this tax amounted just 1,26% of the total tax base in Spain, according to statistics from 1890-1891 and presupposing that GDP had remained constant.<sup>50</sup> The lack of tax threshold (claimed by some parliamentarians, including Azcárate, and qualified by Villaverde as true progressivity) was a sort of contradiction in Villaverde's plan, he being well aware of this. Fernández Hontoria, another conservative spokesman MP, recognized that the minimum tax exemption would be desirable, but it was not possible to apply because the Treasury could not dispense with those revenues. Anyway, he rejected the assumption that progressive taxes necessarily implied tax exemptions.<sup>51</sup>

The debate of the inheritance tax seldom touched the distributive aspects which progressive taxation involve. Although liberal MPs insisted on this line of reasoning in order to attack progressivity (taxation should not be a tool for income distribution), Villaverde, by radically denying that inheritance tax rates entailed any distributive consequence, avoided a general debate on taxation fairness, which would have probably prejudiced his reform. Redistribution was deemed a socialist policy, and therefore Villaverde could never acknowledge the ultimate consequences of progressive taxation. The lack of social debate might be also connected to the structure of the Spanish Parliament: In spite of the country having male universal suffrage since 1891, traditional elites managed to keep workers' parties out of the Legislative, or scarcely represented. Instead, the debate lie in fiscal technical arguments on the means to approach tax proportionality, which was widely considered as the cornerstone of tax fairness, or the limits of tax rates and its effects on property.

Villaverde's commitment to the defence of the progressive inheritance tax is undeniable, and he eventually could get his project to pass the Parliament proceeding.<sup>52</sup> However, as probably many MPs expected, it did not get the Senate pass. This opened an institutional crisis, as some MPs complained about the real significance of parliamentary debates. Ironically, the only progressive measure the Senate agreed to pass was a tax threshold for the inheritances below 1.000 pesetas, which Villaverde

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<sup>50</sup> Villaverde believed that a maximum tax rate of 2,75% could hardly damage capital. He insisted that his project did not raise tax rates, but, on the contrary, lowered them (he was taking into account the effect of the temporary surcharges). DSC 1899-1900, 119, pp. 4064-4065; and 120, pp. 4105-4112.

<sup>51</sup> DSC 1899-1900, 118, p. 4029.

<sup>52</sup> Solé said that Villaverde's interventions in the Parliament to defend the progressive inheritance tax were much longer than any other discourse he made to support any other tax reform. Solé (1967), p. 203.

eventually accepted. The reform of this tax was settled by the Law of 2 April 1900. Although Villaverde did not succeed in his attempt to establish a progressive tax, as it happened in other European countries, he nevertheless had sowed a crucial idea, quite early in comparison with other nations' fiscal systems. A tax on inheritances with progressive rates would be introduced later by the Finance minister Osma, it being limited to inheritances to distant relatives and third parties. Cobián established a general progressive inheritance tax in 1910.

### **Ideas on progressive taxation in the Parliament**

MPs in the debate often made references to ideas and works by renowned economists in order to reinforce their lines of reasoning. Liberal authors, mostly French, were most quoted as sources of authority. This matched the Spanish economic thought environment at that time: In spite of the fact that the highly influential Spanish liberal school of economic thought (the *Escuela economista*, which flourished in the mid-decades on the 19<sup>th</sup> century), had already faded away, new trends of economic thought (represented mainly by Krausist and Social-Catholic authors) had accepted the main tenets of economic liberalism, and therefore did not supply with doctrinal renewal. The main works produced by Historicists and *Kathedersozialisten* were known by Spanish economists at the end of the century, but their ideas never found major support, as they postulated a wider scope for State intervention in the economy, with redistributive connotations. As for marginalism, the degree of knowledge of this school in Spain at that time is still to be assessed, but in any case, it did not reflect in the works of any Spanish authors.<sup>53</sup>

Therefore, French liberal economists specialized in public finance were the most mentioned authors in the Parliament. Leroy-Beaulieu and Léon Say's ideas were profusely used, both by supporters and enemies of progressivity. Garnier's idea of a limited progressivity was the crucial reference for Villaverde and fellow MPs;<sup>54</sup> and J.S. Mill and J.B. Say were also mentioned in their discourses. Socialist theories of taxation showed up in the debate, just to be absolutely rejected by both sides. Wagner was

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<sup>53</sup> On the Spanish economic thought in the 19<sup>th</sup> century, see Almenar (2000) and Serrano *et al.* (2001)

<sup>54</sup> The idea of "progressionality" was in Garnier's *Elements d'Économie politique* (1848).

quoted, most of the times to discard his thoughts on taxation as a mechanism of wealth redistribution. However, the rejection of this part or his doctrines did not prevent his works to be highly considered among contemporaneous Spanish economists on behalf of their deep scientific character. Needless to say, uses of intellectual sources in parliamentary debates were often instrumental. However, it is remarkable that MPs seemed to be aware of the main European taxation theoretical trends and to know well the ideas and authors they were using in the debate, and also other countries' policies concerning progressive taxation. In this regard, most quotations seemed to be solidly grounded. It is also worth to observe that no Spanish economist was mentioned in the debate.

Opponents to progressive taxation grounded their arguments on the theoretical framework supplied by Leroy-Beaulieu and Léon Say, particularly MPs Moret and López Puigcerver. Leroy-Beaulieu clearly stood against tax progressivity, rejecting its theoretical foundations (the theory of equality of sacrifice) for it being “sentimental” and not reasonable. In his opinion, progressivity was either useless if it was mild, or extremely harmful if it was strong. The expansion of progressivity would create impossible and unfair situations, leading to confiscation of every increase in income; for this reason, mathematical progressivity was impossible to apply, and some systems had been devised to limit it.<sup>55</sup> Leroy stressed the arbitrary characteristic of progressivity and its tendency towards the correction of social inequalities, which he considered “dangerous”.<sup>56</sup> Léon Say agreed with Leroy in the principle of national solidarity as the base for allocating tax burden in a country, rejecting the theory of equality of sacrifice, and also in the impossibility of a mathematical progressivity. This had been replaced with a “rationally limited progression”, this is, Garnier’s system of “progressional tax”, which applied progressive rates not to the whole tax base, but to increases in the tax base.<sup>57</sup> In L. Say’s opinion, it was impossible to scientifically determine the rate of progressivity, as the inequality of sacrifice could not be measured in money. Like Leroy, L. Say feared the consequences of progressive taxation: if rates were high, it

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<sup>55</sup> Leroy-Beaulieu (1906), pp. 178 and 186-189. Leroy said that J.B. Say’s system to limit progressivity avoided the whole income to be absorbed by the tax, but, anyway, rates made it intolerable.

<sup>56</sup> Leroy compared the arbitrariness of progressivity to the establishment of a tax threshold, which had no arbitrariness, except for the definition of the threshold. In his opinion, progressive tax was not useful because the wealth taxed to high rates was not big enough so as to provide large revenues, and rich people would try to commit fraud. A light income tax would produce equal revenues than a strong progressive tax, without causing so many problems. Leroy-Beaulieu (1906), pp. 182-183, 190, 200-202 and 214.

<sup>57</sup> Léon Say (1894), p. 365.

destroyed capital; if moderate, they did not supply but very short revenues.<sup>58</sup> All these ideas were put forward by liberal MPs in the debate, they closely following the lines of reasoning of these two authors, particularly Leroy's. These influences were openly acknowledged: López Puigcerver followed Leroy's *Traité de la science des finances* in his discourses, whereas Moret used Léon Say's *Les solutions démocratiques de la question des impôts*.<sup>59</sup>

MPs in favour of progressivity based their argumentation on doctrines by J.S. Mill, Jean-Baptiste Say and Garnier, but also on Leroy-Beaulieu and Léon Say's ideas, as these two authors observed some exceptional cases in which progressive rates could be admissible. Villaverde justified his progressive tax project on Mill's theories, which rejected general taxation progressivity, but accepted it for inheritance taxes.<sup>60</sup> He also leant on Jean-Baptiste Say's writings.<sup>61</sup> Villaverde claimed that his plan had been inspired on Garnier's "progressional proportionality"; hence, his inheritance tax was not actually progressive. He left this expression only to taxes seeking wealth redistribution, as defended by Wagner and the *Kathedersozialisten*. He also reminded that "progressional" taxes existed in Switzerland, Holland, the United Kingdom and France (although it was here temporarily suspended). Azcárate backed his support to progressivity following Garnier's model, and explicitly rejecting Wagner's ideas on redistribution. He recognized that Leroy-Beaulieu and Léon Say discarded progressivity in general (even in its "progressional" form), but he tried to justify the limited progressivity contained in Villaverde's project as the exception those authors accepted to compensate the general regressivity caused by indirect taxation.<sup>62</sup>

Certainly, Leroy and L. Say accepted an exception in the introduction of progressivity, this is, counterweighing the effect of indirect taxes. Leroy named this exception *impôt dégressif*, which intended to relieve lower tax bases, instead of surcharging higher tax bases. Direct tax exemption or moderation, especially in taxes on income, would be admitted. This was justified by the existence of indirect taxes in fiscal systems; tax

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<sup>58</sup> Léon Say (1886), pp. 172-173.

<sup>59</sup> DSC 1899-1900, 118, p. 4044; and 119, pp. 4067-4068 and 4072. López Puigcerver stated that L. Say had opposed Poincaré's progressive tax reform in France 1894.

<sup>60</sup> DSC 1899-1900, 118, pp. 4039-4040; and 120, pp. 4108-4109. See Mill (1987).

<sup>61</sup> J.B Say had stated in his *Traité d'économie politique* that "taxation cannot be equitable, unless its ratio is progressive". J.B. Say (2001), p. 455.

<sup>62</sup> DSC 1899-1900, 119, pp. 4060-4061 and 4069.

relief served to compensate poorer people. According to Leroy, the *degressif* tax would relieve totally or partially lower tax bases, but then it should charge the rest of taxpayers or taxable base (in fact, the vast majority of it) with a uniform tax rate.<sup>63</sup> Léon Say also accepted a sort of *degressif* tax, proposing a moderate form of progressivity: a tax relief for tax bases which were equal to the minimum amount to survive. Although he thought that it was questionable from the equity point of view, he accepted tax relief for the smallest tax bases and tax moderation for medium tax bases in order to compensate the effects of indirect taxation. As in Leroy's case, this would be a system to recover real proportionality in taxation, justified by the existence of taxes that surcharged low-income social groups. He considered that, although progressive rates were always arbitrary, even in this case, it was essential to recognize the great difference between progressive rates to re-establish proportionality and progressive taxes created to redistribute wealth.<sup>64</sup>

Although most MPs seemed to know well the sources they used, there were doctrinal misuses in the debate. The case of Leroy-Beaulieu, contrary to progressivity but ready to accept the *degressif* exception, is evident. Leroy approved progressive rates in a very concrete form, which did not match Villaverde's inheritance tax. In this case, Leroy's ideas could well support arguments against progressivity, as López Puigcerver said, but not the opposite position. So, Azcárate was not right quoting Leroy's exception to the proportional system. Nor was right liberal López Puigcerver when he invoked Proudhon's censure of progressive taxes (as Proudhon deemed all taxes, as they were actually constituted, unfair).<sup>65</sup> In any case, many liberal economic authors were rather ambiguous in their writings about taxation, which allowed politicians to make use of these sources quite comfortably. This was the case of Léon Say. He was against progressivity, but he accepted it as an exception in a broad sense, to be applied in systems in which there were indirect taxes that charged harder lower fortunes, just to recover proportionality. So, his ideas could be used both for advocates and detractors of progressivity. Villaverde did not back his plan with this argument of compensation, and neither did it on behalf of Leroy's ideas, as he probably knew they did not suit him. On the contrary, Garnier was the author who best fitted Villaverde's plan. Certainly

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<sup>63</sup> Leroy-Beaulieu (1906), pp. 203-205.

<sup>64</sup> Léon Say (1894), p. 366; (1886), pp. 180, 185 and 190-192.

<sup>65</sup> DSC 1899-1900, 118, p. 4040; Proudhon (1868), p. 185.

Villaverde and his fellow MPs tried to make up progressivity naming it “progressionality”. However, this fiscal expression, created by Garnier some fifty years before, could not hide the real idea behind it.<sup>66</sup> Probably the only clear support for progressivity was the economic thought of *Kathedersozialisten*. But this source could not be used, even partially, because of the fear to socialism which was so widespread among upper and medium classes in Spain. The absence of mentions to Spanish economic writers among the authorities used to support MPs’ arguments is remarkable, in spite of the fact that public finance was a fashionable topic in contemporaneous Spanish economic literature and that some valuable works on fiscal matters had been produced in this period. Probably quoting first-rate international economists served MPs’ goals better.<sup>67</sup>

Concerning the diffusion of the debate on progressivity, it should be said that it raised interest among Spanish cultured society. Media in general used to pay attention to economic debates in the Parliament. Although only a few newspapers went into the matter in depth, some others also grasped the magnitude of this debate and its consequences to the Spanish fiscal system, and highlighted its doctrinal depth. Nearly all newspapers positioned in the debate. Conservative-oriented papers in general supported Villaverde: *La Época* praised Villaverde’s interventions in the Chamber; it even stated that equity in taxation was slowly leading to the introduction of progressivity in more taxes. *El Tiempo* condemned opposition’s “deplorable campaign” against the government. *El Heraldo de Madrid* evoked one of MP Canalejas’ address, favourable to progressivity. *El Nacional* considered the project “very healthy and very democratic”, and severely criticised liberals for rejecting progressive taxation, against the tradition of their party.<sup>68</sup> Newspapers linked to the Liberal Party wrote against the new inheritance tax. *El Globo* qualified progressivity as a “revolutionary demand”, and “essence of socialist doctrine”. *El Liberal* was extremely critical of Villaverde, but also

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<sup>66</sup> According to Olózaga, the first to speak of “progressionality” was Garnier in his *Traité des finances*. Olózaga (1886), p. 488.

<sup>67</sup> The only exception, although his name was not mentioned, was Piernas Hurtado, the main public finance specialist at that time. His ideas were mentioned several times, although not directly connected to the issue of progressivity, but concerning a general taxation model. Piernas referred to the progressivity debate in the 1900-1901 edition of his *Tratado de Hacienda Pública*: He stated that neither progressivity nor proportionality could really achieve tax equity. Piernas (1900-1901), pp. 291-300.

<sup>68</sup> *La Época*, 17-19 June 1899, 27 January 1900, and 1, 2 and 4 February 1900; *El Tiempo*, 2 and 4 February 1900; *El Heraldo de Madrid*, 17-24 June 1899 and 6 February 1900; *El Nacional*, 2 February 1900.

of liberal opposition for not being tough enough. The weekly finance periodical *El Economista* devoted three long articles to the issue, warning against “the socialist criterion, without precedent in our country”, and accusing conservatives for attacking property and capital.<sup>69</sup> *El Correo*, neutral, published that this “profitable discussion” was not a matter of tax rates, but of tax structure. In June 1899, this journal stated that Villaverde’s budget had at least fostered interest for political economy in the country, which was “a symptom of regeneration”.<sup>70</sup> *La Época* and *El Nacional* highlighted the doctrinal background of the debate, and *El Globo* stated that it was of extraordinarily high level.

## Conclusions

The 1900 debate on the progressive inheritance tax was not a discussion on a key instrument of economic policy, nor was it a crucial event for the contemporaneous political process, and the eventual outcome hardly had actual fiscal consequences. However, it had some attributes that make it interesting and important both in terms of fiscal modernization of Spain and in terms of the process of diffusion of economic ideas and of political economy itself through political institutions.

Concerning the Spanish fiscal development, this debate entailed the introduction in the political debate of a modern crucial topic in fiscal theory, with implications in income distribution and, in all, in the organization of society. However, the debate did not lie in redistributive issues, as advocates of progressivity absolutely denied that progressive rates in the inheritance tax could involve any measure of social justice. On the contrary, the debate was established mainly on economic and fiscal technical matters, leaving apart arguments of wealth distribution lying behind progressive taxes. The context of this debate was particular: It was a non-representative parliamentary system, in which only elites were well represented, which probably aided to prevent a deep debate on tax justice. In spite of a challenging atmosphere with increasing social clashes, not a single MP mentioned that this debate and the subsequent implementation of a progressive tax

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<sup>69</sup> *El Globo*, 18-24 June 1899 and 2 February 1900; *El Liberal*, 4 February 1900, *El Economista*, 8 December 1899, 10 February, pp. 96-97, and 10 March 1900, pp. 164-166.

<sup>70</sup> *El Correo*, 2 February 1900, and 18-21 June 1899.

could serve to pacify society. The issue of a conservative Finance minister launching this bill is also atypical. The most plausible explanation has to take into account the current process of economic reforms in which Villaverde was engaged, with the aim of modernising the national economic structure. In this regard, both the regeneration movement in Spain after the 1898 political crisis and the example of modern nations, such as the United Kingdom and France, in their contemporaneous attempts to implement progressive rates in their inheritance taxes (which took place in 1894 and 1898 respectively), should have not been insignificant.

The debate was quite fertile regarding economic thought. MPs used economic ideas and theory, grounding their opinions in well-known international fiscal literature: It mirrored to a large extent the intellectual debate concerning progressive taxation that economists were having through their writings. The analysis of arguments and of influences allow saying that the expertise of the Spanish MPs taking part in the progressivity debate was noticeable: They knew well both doctrinal sources and fiscal policies implemented in other European countries. The quantity and quality of economic ideas displayed, the transcendence of the topic and the controversy it raised, and its diffusion mostly through the press, made this specific debate to enhance the role of the Parliament in the transmission of economic ideas. No doubt this is a relevant case in its particular contribution in the contemporaneous process of expansion and institutionalisation of political economy, both in the political realm and in Spanish society as a whole.

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