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NEW ZEALAND'S FISCAL INHERITANCE
An Assessment of the Development of Direct
Taxation in the Mother Country Part III: 1801-1850

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NEW ZEALAND'S FISCAL INHERITANCE

An Assessment of the Development of Direct Taxation in the Mother Country

PART III

1801-50

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ABSTRACT

This paper is a quantitative assessment of the development of British taxation during the nineteenth century. According to the literature, when New Zealand was established in 1840, the country inherited the British tax system (Hooper, et al, 1998). To date, in the context of New Zealand fiscal history, there is a paucity of material which critically examines the contents of New Zealand's fiscal foundations, the evolution of Britain tax system. This paper, the third in a series of four, finds for the early nineteenth century; that the underlying principle of tax did not change between 1801 and 1850, the tax base was enlarged, due to population growth and industrialisation, the method of taxation altered three times during the century, indirect/direct then indirect and back to indirect/direct. In addition interest group behaviour and the politics of tax played a significant role in the development of tax policy. Tax revenue during the early nineteenth century did increase subject to population growth, industrialisation, and in line with inflation and deflation in an economy. Finally, the driver of tax reform during the period was still crisis; first external and more importantly, recurrent internal crises.

JEL: N, Economic History

Key Words: Nineteenth Century; Policy Development; English Heritage; Tax Law;
Drivers of taxation; Economic History; Tax History; British Tax History

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1. INTRODUCTION

The first and second paper in this series both began by stating that New Zealand was established in 1840 as an Administered Crown Colony; a small part of the British Empire. Therein, was the comment from Hooper et al (1998) which described the European experience that the settlers brought with them as being our shared English Heritage. However, both of the earlier papers did comment that the evolutionary details of British taxation policy are not found in the New Zealand tax history literature. Therefore, the question for the series of papers was to ask; what was the European experience of developing fiscal policy and of direct taxation in particular.

The purpose of this the third paper, Part III in the series², is to continue to fill a small part of the large gap that Hooper et al (1998) identified in Part I; to the best of my knowledge, no other New Zealand work has extensively considered any aspect of the fiscal methodology that is built into New Zealand's fiscal foundations. Therefore, this paper will build on the theme developed in the first two papers. The methodology was derived from an understanding of McKinnon (2003, p. 11); the genius and evolution of New Zealand's fiscal (tax) policy is the product of the transference of ideas, concepts and the experience of applications in taxation, from the Mother country.

Thereafter, using the chronological narrative, as a method in combination with a simple analytical framework developed in Part II, the paper will consider the development of the British tax system during the early nineteenth century; detail the process of change, and attempt to identify the drivers of early nineteenth century tax reform. The development of income taxation however, is not extensively covered herein; Part IV will focus on the development of nineteenth century income taxation and that alone.

Once again, this paper acknowledges that a necessary requirement of scholarship is a statement of direction. Thus, the five tentative suggestions of the first and second paper have become the hypotheses for Part III of this English Heritage series. First hypothesis, the key to understanding taxation lies in determining the period's principle of taxation. Second hypothesis, the balance of applied taxation regularly changes from indirect³ to direct⁴, and back again over time. Third hypothesis, throughout recorded history, crisis is the arbiter (driver) of change. Fourth hypothesis, economic thinking is a major influence on tax policy development. Fifth hypothesis, the politics of tax ultimately decides the final form any tax policy will take.

² This discussion paper is the third of four which focus on the Fiscal heritage of New Zealand. The intention was to begin with the years 1601-1700, and thereafter, to focus attention on the two centuries where statistical data is available. This has enabled a qualitative assessment to be undertaken of the two periods in question. In the last two papers, the discussion moves toward the development of direct taxation i.e. the income tax.

³ An indirect tax is one which is levied on goods and services; it becomes a burden on people only indirectly (Samuelson and Nordhaus, 1998, p. 441).

⁴ A direct tax is one which is imposed directly on an individual or firm (Samuelson and Nordhaus, 1998, p. 441).

The paper is laid out in the following manner. Section 2 contains the methodology, method and data section. Section 3 introduces the period 1801-1850, and Section 4 is the analysis section. Section 5 is the conclusion.

2. METHODOLOGY

In McKinnon's history of the New Zealand Treasury (2003, p.11), he comments on the centuries of English history which assisted in creating the New Zealand institution (The Treasury). Similarly, New Zealand taxation can be said to owe its heritage to the United Kingdom and the many years of fiscal evolution. Alley, et al, (2004) tell us that these [very] early historical underpinnings are important to the current-day practice of taxation, a view also shared by Ames and Rapp (1977, p. 161). Therefore, as a working methodology – the understanding which guides the four studies in this series of discussion papers, is a simple idea. The genius and evolution of New Zealand's fiscal (tax) policy is the product of the transference from the Mother country of ideas, concepts and applications in taxation.

2.1 Method

The primary method of this long-run study was to separate the English experience of tax policy development into three periods. Part I lacked statistical data and therefore, was a summary of the seventeenth century. For Part II, there was an abundance of statistical data and therefore, the paper attempted a quantitative assessment with the period's fiscal data, and undertook a review of the literature. This paper, Part III, covers the shorter period of 1801-50. This period is also replete with fiscal statistics and therefore, the two papers which consider the period (1801-50) are Part III, a quantitative assessment of the fiscal data, and Part IV is a brief review of the literature associated with the development of income tax. The important tax policy development of the period, the income tax, is the sole focus of Part IV. Furthermore, being the fourth and final paper, Part IV will also contain the conclusion section for the series.

The subordinate approach (method) of this paper is similar to the two which preceded it. The method is the chronological narrative, something that is not unusual in tax history studies; thus, the work follows a research track that is well worn. The work of this paper essentially reviews an important but limited body of scholarship. For example, the work of: Martin (1833); Dowell (1885); Kennedy (1913); Coffield, (1970); Matthias and O'Brien (1976); Sabine (1980); Hartwell (1981); O'Brien (1988); Beckett and Turner (1990); Adams (1993); Douglas (1999); Daunton (2001); Horstman (2003); and Kozub (2003).

2.2. Data

Previous papers in this series have acknowledged that selecting the appropriate statistics, and then deciding how they are to be used, is a common problem in the tax history literature. For example, there are as many existing statistical tables for the period 1701-1850 as there are studies. Some, such as Martin (1833), and Horstman (2003), use nominal values. Williamson, on the other hand, uses real values rather than nominal (Williamson, 1984). Sources are often similar between studies; for example, Mitchell and Deane (1962). However, some make use of Dowell, (1885); a seminal article on British tax history. To add to the confusion, when

different studies use similar data sources, there can still be large differences in the datum values and Hartwell (1981) is an example of how this is can be achieved. Finally, there are studies that simply transform the data before presentation i.e. O'Brien (1988).

The data used in this study are taken from the statistical tables of Mitchell and Deane (1962); *An Abstract of British Historical Statistics*. Mitchell and Deane are the preferred option for most if not all studies in British economic history. All data series have been changed only once; from nominal to real values. The changed data is then presented in this paper in the form of line graphs. Finally, a word of caution; the use of long-run historic data does require some qualification and there are several accepted reasons for this.

For example, Mathias and O'Brien have commented that "systematic quantitative studies, which seek to provide a comparative analysis of different national economies raise formidable conceptual, methodological and statistical problems" (Mathias and O'Brien, 1976, p. 601). This study does not compare different national economies however, the point is made that using historical data can be present problems. Accordingly, a simple inspection of the raw data used herein, reveals a disturbing similarity between all series. A relationship between variables is expected however, the pattern evident in some of the data does raise questions of a methodological nature. Nonetheless, an investigation of the construction of each variable is outside the scope of this paper. This completes the Methodology section; attention is now turned to the development of British tax policy during the early nineteenth century.

3. THE EARLY NINETEENTH CENTURY

The evolution of income tax during the early years of the nineteenth-century arose from the needs of a changing economy. The nineteenth century was a period during which much ideological debate would take place, and the system of economic management would undergo much change. Social, political and financial stress would combine to create pressure for economic reform. From the end of the Napoleonic War (1815), a period of development in all areas of the economy commenced; this was especially visible in changes to fiscal policy and taxation.

Kozub (2003) stated that the period 1700-1850 gave us the foundations of the tax system we have now (in the developed economies in general, and in New Zealand in particular). Hartwell (1981) considered the years 1790-1830 to be the crucial period for the development of taxation and Dowell (1885) informed us that 1815-1842 was "taxation in its zenith" (Dowell, 1885, in Horstman, 2003, p. 111). Having critically examined the eighteenth century the work continues into the nineteenth and focuses on the development of income taxation between 1801 and 1842.

3. 1. *Great Britain: 1801 -- 1850*

In a similar fashion to Subsection 3.1, of Part II, the discussion begins with a table of interesting data. This information delivers context and provides an overview of the period under study. The table also conveniently joins the eighteenth century to the nineteenth century. Table 3.1 below describes the Crown's total tax revenue, at ten year intervals, and places that information alongside the associated cost of raising that revenue, the major heads of expenditure, and what the revenue was spent on: Debt Charges, Civil Government and Military Expenditure.

Table 3.1
Total Taxes and the Allocation of Expenditures by Government, 1700 - 1860

Date ^a	Total Taxes	Cost of Collection	Debt Charges	Civil Government	Military Expenditure
'For the Year'	£	£	£	£	£
1760	9,394,898		3,440,816	1,175,510	13,744,898
1770	11,373,000		4,836,000	1,223,000	3,863,000
1780	11,385,455		5,450,000	1,137,273	13,517,273
1790	13,720,968		7,556,452	1,373,387	4,212,903
1802	25,723,684	1,578,947	13,092,105	3,684,211	24,605,263
1810	35,336,788	1,865,285	12,538,860	2,694,301	11,917,098
1820	44,015,152	3,333,333	23,560,606	4,090,909	8,181,818
1830	50,733,945	3,669,725	26,697,248	4,954,128	9,082,569
1840	40,468,750	2,968,750	23,125,000	4,375,000	7,109,375
1850	60,105,263	5,157,895	30,000,000	7,368,421	15,894,737
1860	58,416,667	4,500,000	23,916,667	8,083,333	20,750,000

(Mitchell and Deane, 1962, pp. 346-473).

Observable in Table 3.1 is three anomalies. The first, the Cost of Collection series, does not start until 1802. Second, the variability which all heads of expenditure exhibit between 1802 and 1860 is missing from the Civil Costs. These costs grow annually throughout the series. The third anomaly is Military Expenditure; this variable exhibits extreme volatility by comparison with all other variables in the table.

Simple comparative analysis of material in the table is unable to provide much information. However, the material of Table 3.1 does provide a connection to the suggested hypotheses of the period. These theories link the larger economic events to the rise of taxation between 1801 and 1850 and draw further attention to factors such as Debt Charges and one of the identified atypical variables i.e. Military Expenditure. Both of these factors/variables are mentioned in the hypotheses section which follows.

3. 2. *Hypotheses for the Century*

The years 1790 to 1830, mentioned in the introduction to the section, have been designated as being critical in English tax history. A reason for this perception can be found in the comments of Hartwell (1981).

Twenty percent of the national income was transferred to government.... [T]axes on imported goods and excises increased the cost of manufactured goods.... [S]tamps increased the cost of transactions, generally raising prices; assessed, land and income taxes reduced the incomes of all but the poor and hence reduced the ability to accumulate and to invest in productive activities (Hartwell, 1981, p. 151).

Not that surprising therefore, that the period has been called “taxation in its zenith” (Dowell, 1885, in Horstman, 2003, p. 111).

In the tax history literature for the period, war is considered a driver and a large contributing factor to the development of fiscal policy: Harling and Mandler suggest that “war and foreign policy.... were the motors of government” during the period (Harling and Mandler, 1993, p. 46). If Harling and Mandler’s argument is accepted, then crisis in the external sector determined British internal fiscal policy and thus, also taxation policy. The work undertaken thus far, suggests that external direction, if at all, is only a part of the story. Part I and Part II of this series has raised the reader’s awareness to internal (financial) crisis being more relevant to tax policy development.

Returning to the matter at hand; O’Brien states that “War was the driver [of fiscal policy] and it was funded by loans and taxes” (O’Brien, 1988, p. 2). He also comments that “taxes.... were indeed the sinews of war” (O’Brien, 1988, p. 28). Elsewhere, Hartwell suggests that “taxation was, essentially, for one purpose only – war” (Hartwell, 1981, p. 151).

However, there are alternative hypotheses which conflict with the idea of war being the key determinant of taxation policy. For example, “comments abounded throughout the period that contemporaries believed the rich were not paying their fair share. Alexander Baring a city financier said many MP’s thought that taking care of the landed interests was their purpose” (Horstman, 2003, p. 132)⁵. Even O’Brien has a conflicting view; “the main economic impact of taxation in Britain fell upon consumption and demand rather than savings and investment” (O’Brien, 1988, p. 32).

From Mathias and O’Brien there is a statement to suggest that “the failure to tax wealth and rising incomes effectively – which was at bottom a political decision – accounts for the increasing proportion of public revenue contributed by indirect taxation” (Mathias and O’Brien, 1976, p. 615). The authors cited herein were speaking, essentially, of the previous century but the comments do apply equally to the early nineteenth. Very apparent is the idea that instead of external crisis (war) being at the heart of tax policy development there is also a political economy explanation for new and increasing taxation in the late eighteenth and early nineteenth century.

Further thought on the politics of tax adds another insight; “the income tax of 1842.... was, deliberately to balance the loss of revenue from the long process of tariff reform” which began decade’s earlier (Sabine, 1980, p. 130). The idea is; that the type, level and driver of

⁵ “Comments abounded throughout the period [1816-42]”; no specific year is mentioned. (Horstman, 2003, p. 132).

taxation might also have factors other than war and debt influencing policy development. This was first signalled in Part I of this series. While war and debt are important drivers of taxation there are also others factors of equal importance in a more peaceful economic environment. Nonetheless, the discussion for the period 1760 to 1860 begins below.

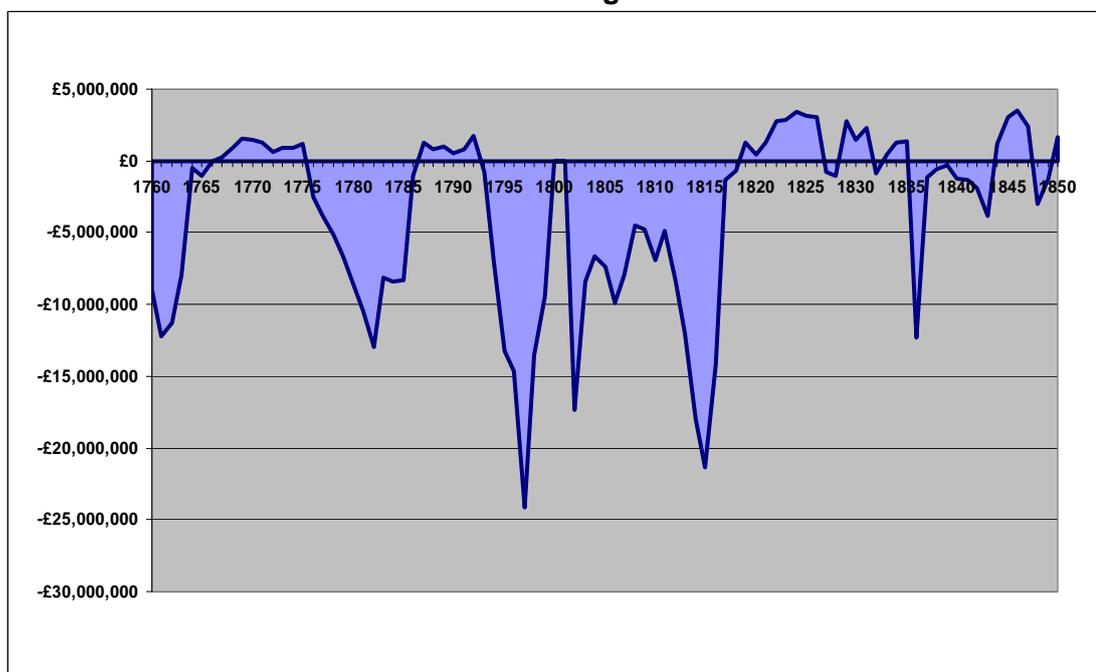
4. ANALYSING THE CENTURY

This section of the paper analyses the information obtained from a reading of the relevant literature. What follows is a quantitative assessment; an attempt to qualify and better understand the evolutionary process of British tax policy development during the nineteenth century. Analysis begins below with an overview of the Crown’s fiscal performance.

4. 1. *Fiscal Performance and the Economy*

The late eighteenth and early nineteenth century is a period of British history when arguably there are ample statistics available. By using the period’s fiscal data a relatively simple overview of the Economy via the Crown’s fiscal performance is obtained. The information pertaining to revenue and expenditure data for the period is displayed below in Figure 4.1⁶.

Figure 4.1
The Government of Great Britain’s Budget Balance: 1760 to 1850



(Mitchell and Deane, 1962, pp. 386–398).

⁶ Note: All data displayed in this study are real; nominal data does not provide researchers with a similar graphical description of the trends apparent in the deflated data. In most cases this study has used the general price series of Mitchell and Deane (1962, pp. 392-399); however, there is an alternative price series which will also transform nominal values into real values, that of Phelps-Brown & Hopkins (1956, pp. 311-314).

In Figure 4.1 above, the reader can observe that in real terms, during the nineteenth century, successive governments would experience many years of surplus. In the first half of the nineteenth century there were thirty years of deficit and twenty years of surplus. The two main periods of deficit in the nineteenth century; 1800-18 encompasses the Napoleonic wars, and the period 1836-43 the middle of the reform years also included a period of widespread economic depression⁷.

Irrespective of factors such as economic depression the large deficits, seen above in Figure 4.1, are closely aligned with periods of conflict; the Napoleonic war (1803), the Peninsular war (1808) war with America (1812), the Gurkha war (1814), Waterloo (1815), and war in Canada (1837). This last event, the war in Canada does not result in a spike in expenditure but, the budget remains in deficit. In any event that deficit is also an indicator of the cost of abolishing slavery the previous year⁸. In addition, post the 1836, there are successive wars in Afghanistan, India and Asia to consider.

Overlapping the government budget balance with expenditure provides more information. The result is displayed as Figure 4.2 and this is found on the following page. Again there is the well defined relationship; something first seen in Figure 4.2 of the previous paper in this series, Part II of the English Heritage story.

The peaks in Military Expenditure post 1800 are, of course, associated with periods of war but, the troughs seen in the budget balance might not be. Throughout the nineteenth century there were other events of note and these factors would also have impacted expenditure. There was a depression in 1814, riots at home in 1819, and a major financial crisis in 1825/26. Besides the expensive issue of slavery in 1836 there was also a severe recession and the coronation of Queen Victoria. Furthermore, in 1837, long-term economic depression had set in and this did not alter until 1842. All of these events/crises did impact the fiscal position of successive governments. However, the last three events do coincide with only one short period of deficit and while the graph on the following page only contrasts the budget balance with military expenditure there are practical limitations to the graphs ability to give an indication of a spike in general expenditure indication of a spike in costs.

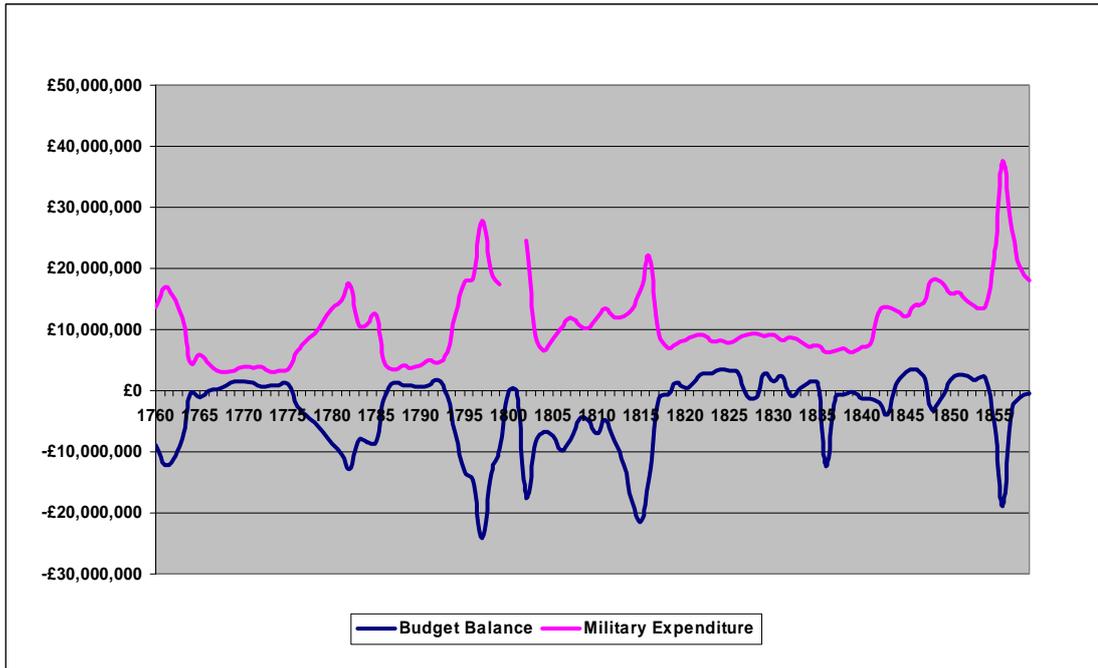
4.2. Expenditure

Figure 4.3 found on the following page, depicts the trend over time of the main expenditure items of Government. The expenditure heads depicted are: Debt Charges, Cost of Civil Government, Cost of Army/Navy/Ordinance, and Cost of Collection. There is one major expenditure head that is of interest: Debt Charges.

⁷ This second period, 1836-43 was also a moment in British history when, the responsibility for social and political reform passed from the Whigs to the pragmatic Tories (conservatives) and this to have a dramatic impact on fiscal policy. This view of politics during the era is constructed from reading primary sources of the period and some secondary literature, and the ideas expressed are not attributed to any single source. For example: Irwin (1989); Wilcox (1943); Woods (1924); the Edinburgh Review (various years); the Quarterly Review (various years).

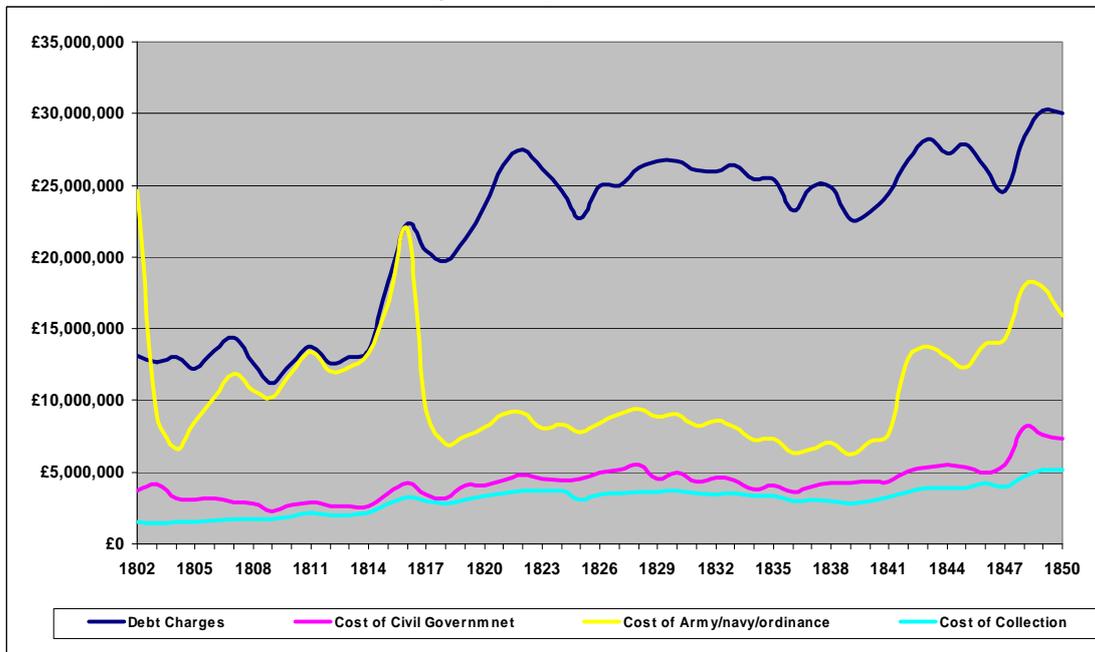
⁸ See Sheridan (1961) for an interesting discussion on the abolition of slavery and the cost to the British taxpayer.

Figure 4.2
Military Expenditure of Britain Compared with the Governments Budget Balance:
1760 to 1860⁹



(Mitchell and Deane, 1962, pp. 386–398).

Figure 4.3
Expenditure Breakdown by Principal Constituent Items: 1800 to 1850



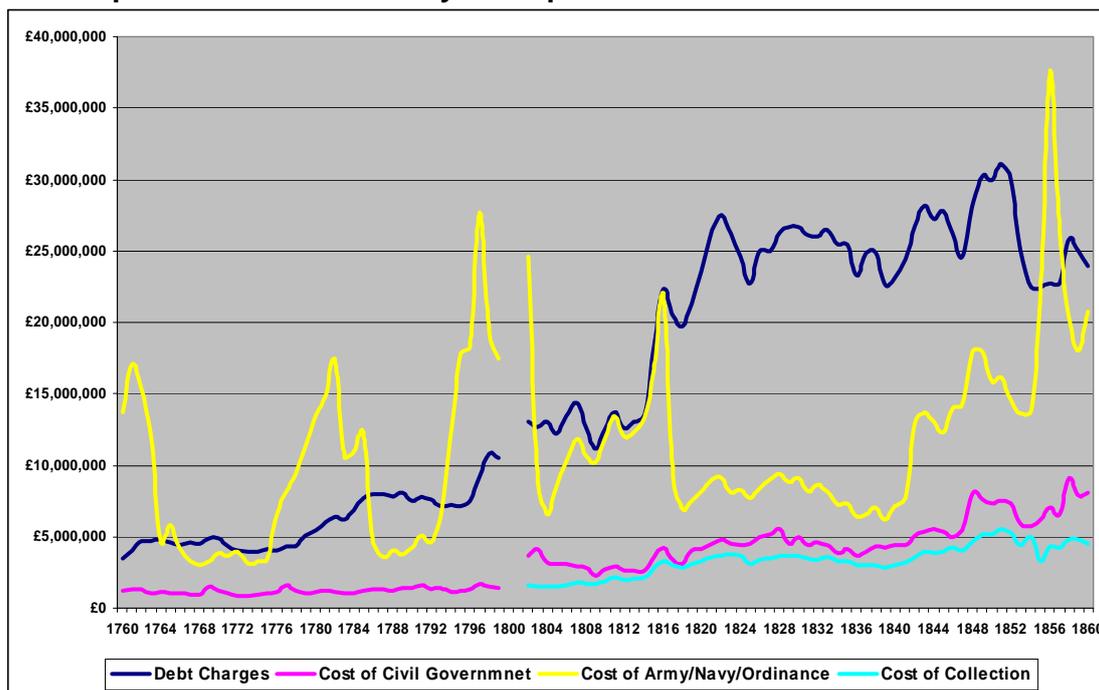
(Mitchell and Deane, 1962, pp. 386–398).

⁹ The series contains an anomaly for the years 1854–56; the values recorded do not recognize the impact of differing financial years in the series. The necessary information is contained in the footnotes (Mitchell and Deane, 1962, p. 399).

The information displayed in Figure 4.3 indicates that military expenditure peaks in 1816 and falls away sharply with the completion of the war with France and does not begin to rise again until further conflict arises in mid century. Debt Charges however, as a share of total expenditure, show a continual upward trend over time. A major turning point does appear to be 1816/17 and then 1822. After 1822 however, the trend changes and is, essentially, static until the decade of the 1840's. Whereupon, all other heads of expenditure; for example, Cost of Government and the Cost of Collection, increase.

To explain the change post 1816 and 1820 there is an argument that the population of England were “realising the consequences of continual warfare and the mounting public debt. The burden of these two circumstances was what many in their society considered, heavy and increasing taxation” (Smith, *Edinburgh Review*, 1820; in Hartwell, 1981, p. 130, also in Horstman, 2003, p. 111). Also evident in Table 4.3 is that from the second decade of the century, as successive governments ran peace-time economies, military expenditure was slowly declining. Other than, the expenditure associated with debt servicing costs, total expenditure was however, kept in check until mid century.

Figure 4.4
Expenditure Breakdown by Principal Constituent Items: 1760 to 1860



(Mitchell, and Deane, 1962, pp. 386–398).

To better understand the comments found in the hypotheses section of; mounting public debt, heavy and increasing taxation, the long-run view of one hundred years of expenditure is exhibited above as Figure 4.4. A discussion of what the graph may tell us is found in the paragraphs below the figure.

In the nineteenth century expenditure was much higher than in the previous century. Also noticeable in Figure 4.4 is the break in the series, a methodological issue, which may inadvertently disguise the real turning point for expenditure. That turning point may well have being the end of the eighteenth century. If the previous century was in fact the turning point then yes, in the early nineteenth century Debt Charges were higher, and taxes may well have being high to counter the rise in expenditure.

Further to the analysis of Figure 4.4, suggests that expenditure was increasing during the period with all variables (heads) exhibiting a positive slope. In addition, the periods of external conflict are clearly marked by the spikes in military expenditure. Furthermore, both expenditure graphs (Figure 4.3, and Figure 4.4), indicate that a visible change point for the early nineteenth century is 1816 through 1820; especially for Military Expenditure and there is a lagged effect for Debt Charges. However, for the other costs, the graph is less than informative.

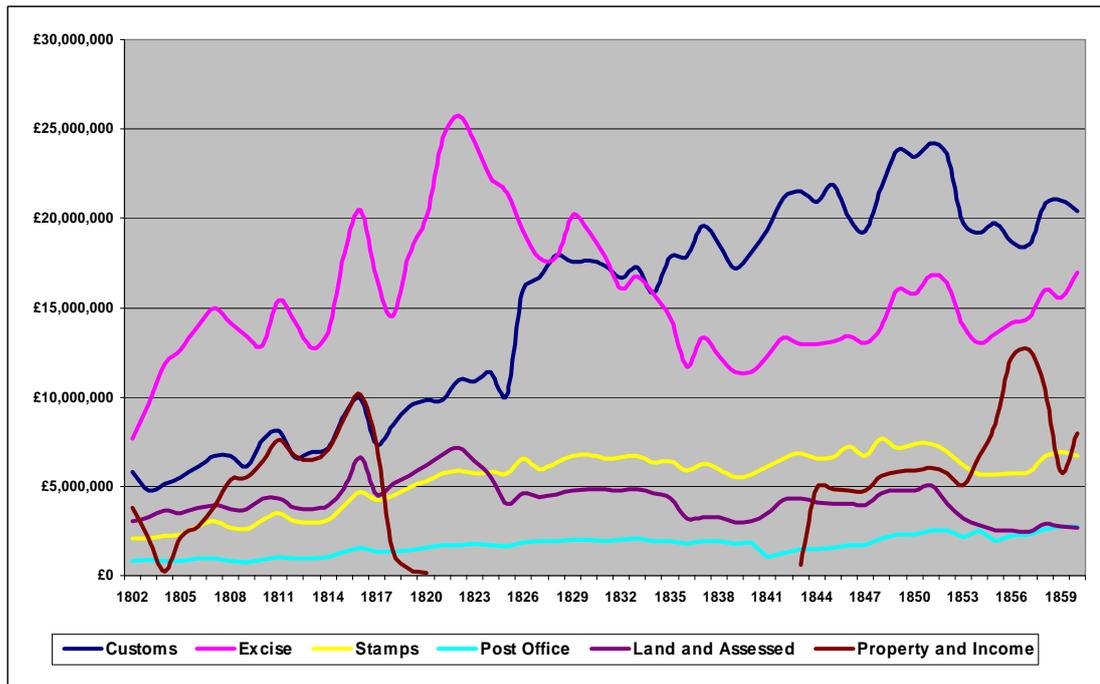
A suggestion is that political, social, and financial stress after 1816 did increase the pressure on the British fiscal system. Yet, the financial crisis of 1825/26 does not spike the Debt Charges; in fact that financial crisis coincides with a real trend change in the other variables. Perhaps, indicating a change in policy direction. That policy direction may have been to raise more revenue through taxation rather than further borrowing to meet expenditure and to maintain a balanced budget. To support this view, that of raising taxes, the graph indicates that overall, Cost of Civil Government and Costs of Collection grow slowly but, do so consistently throughout the period. Consequently, it is worthwhile to examine the revenue data to see if there are any tax related reasons which may assist in further explaining the apparent expenditure trends seen above.

4.3. Revenue

The Revenue breakdown by each major tax type is graphically depicted below as Figure 4.5. The major tax types are: Customs, Excise, Stamps, Post Office, Land & Assessed, and Property and Income. Each of these variables is discussed below the graph.

In Figure 4.5, found on the following page, there is no immediately obvious support for high and increasing taxation. Post 1816, and again in 1822, reductions were made to several heads, namely Excises, Land and Assessed taxes, and the Income tax. Lost revenue from these items appears to have being replaced by Customs receipts from 1825 onwards. Thus the balance of taxation appears to have changed i.e. and the distribution of the burden of taxation. The beneficiaries appear to be those who had previously paid Property & Income tax and the Land & Assessed taxes.

Figure 4.5
Revenue Breakdown by Major Tax Type: 1802 to 1860



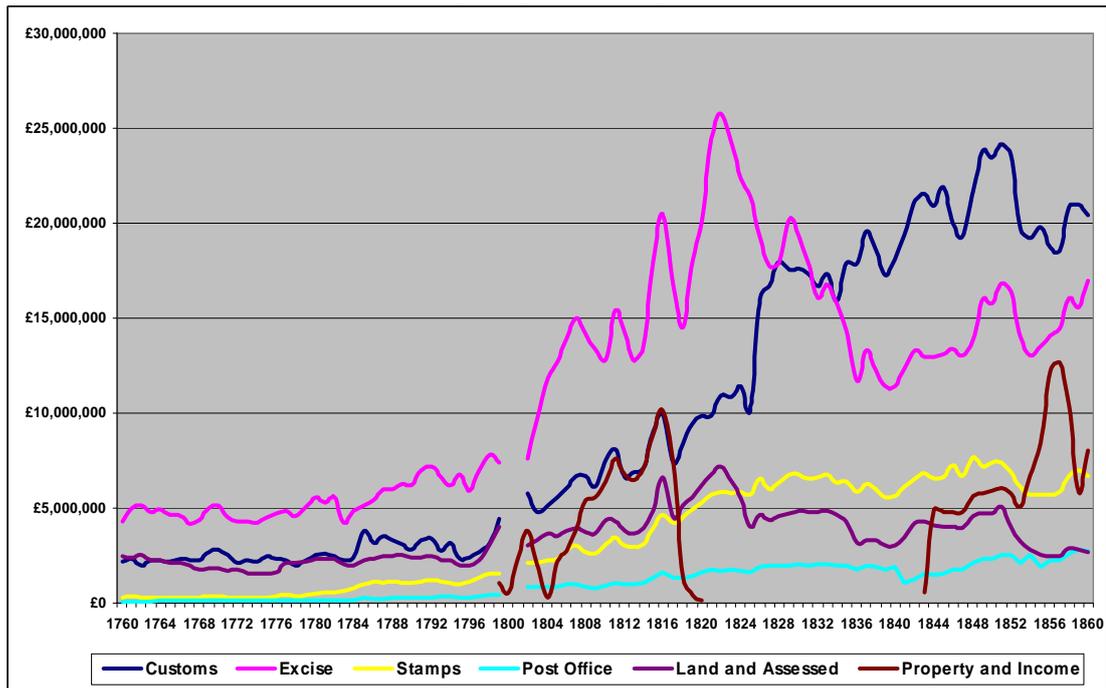
(Mitchell, and Deane, 1962, pp. 386–398).

With respect to revenue collection, a first consideration when observing the change in the pattern of taxation is the interests of commerce and the wealthy. If the mercantile interests, prominent post 1800, increasingly influenced the balance between tax types and the makeup of the tax base, then this might explain the declining trend in Customs, maybe even for the Excises. However, the trend evident for Land & Assessed taxes or Property & Income tax would not have been in their interests and therefore, this research does not support any suggestion that commerce shifted incidence. For example, in Figure 4.5 Customs actually increased. Change in the major tax types and their growth over time may reflect the changing circumstances and the trade-offs contingent to the externalities of political groupings but the evidence is not strong. Therefore, while taxation may have been rising it was also conflicted by the requirement to maintain neutrality, and a social balance.

In a similar fashion to the subsection on expenditure, this discussion of revenue takes a long-run view. To understand the earlier comments, those found above of, mounting public debt, heavy and increasing taxation; one hundred years of revenue collection is exhibited on the following page as Figure 4.6. An explanation of the graph begins below.

Figure 4.6 suggests that the comments which relate to high and increasing taxes during the period may have some substance when viewed over the long-run. Also, that those thought previously to have benefited from decreases to Property & Income tax and the Land & Assessed taxes had, in the long-run, not done quite as well as first thought. Seeking to expand on this information, the revenue and expenditure statistics for the extended period are reviewed below.

Figure 4.6
Revenue Breakdown by Major Tax Type: 1760 to 1860



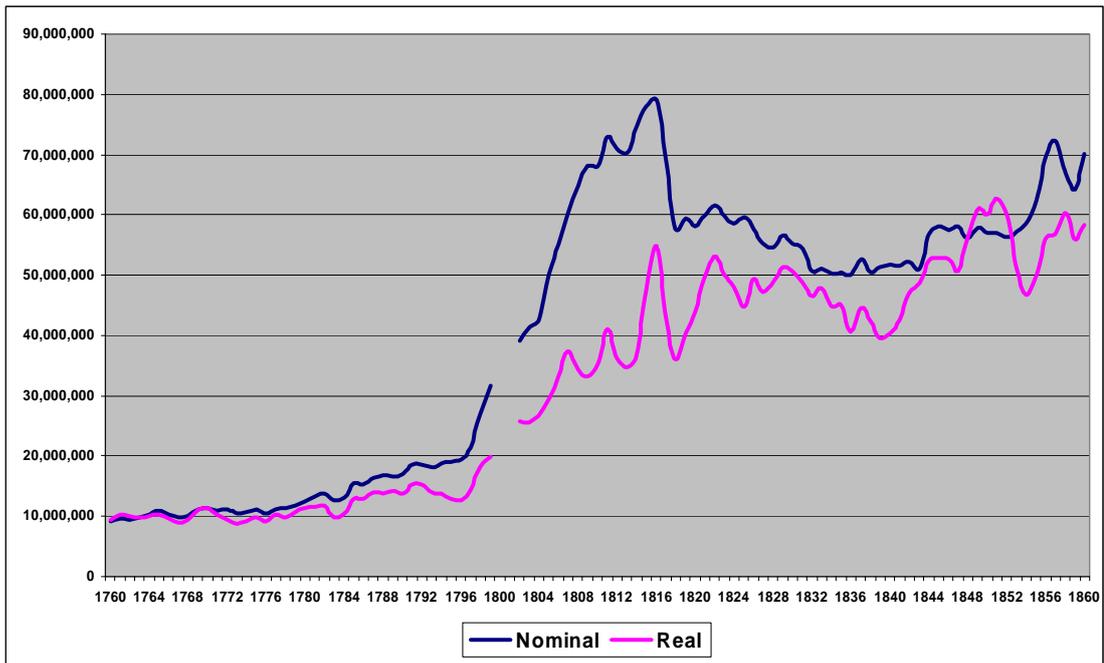
(Mitchell, and Deane, 1962, pp. 386–398).

4. 4. The Sum of Revenue and Expenditure

Looking first at the revenue returns over time; from 1760 to 1860, the combination of direct and indirect taxation had increased nominal revenue from £9,207 to a high of £79,100 in 1816 and a lower figure of £70,100 by 1860 (Mitchell and Deane, 1962, p. 387, and p. 392). The revenue did not again attain the heights of 1816 until 1879. By contrast the real revenue figures indicate a less aggressive trend. Real revenue in 1760 was £9,397; this grew to a high of £54,930 in 1816 and fell back to £58,417 in 1860 (Mitchell and Deane, 1962, p. 387, and p. 392). This information is graphically displayed below as Figure 4.7.

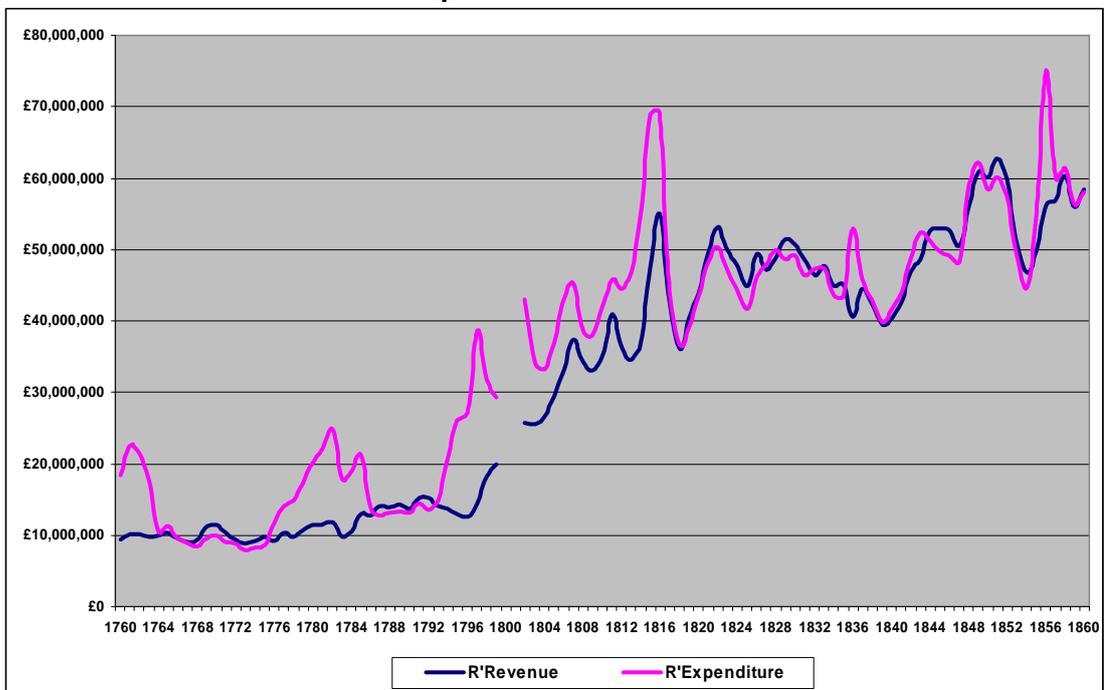
From Figure 4.7, Hartwell’s hypothesis of for the period which describes a predatory government, at least until 1816, and an oppressed economy, at least until 1845, may well be correct. However, with inflation removed the first argument of a predatory government is slightly weaker, and there is a strong convergence at the end of the 1840’s. The combined progress of revenue and expenditure during the period under review is also illustrated in Figure 4.8 on the following page.

Figure 4.7
Revenue; Nominal versus Real & Expenditure: 1760 to 1860



(Mitchell, and Deane, 1962, pp. 392 – 399).

Figure 4.8
Revenue & Expenditure: 1800 to 1850



(Mitchell, and Deane, 1962, pp. 392–399).

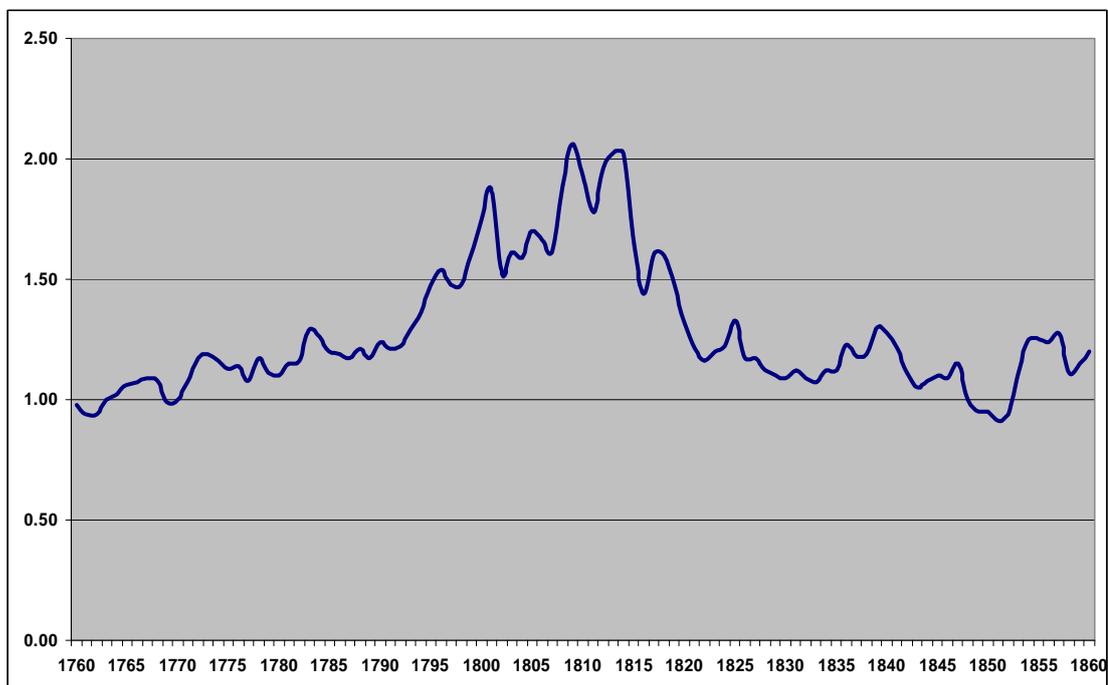
Figure 4.8 illustrates that the major turning points for revenue are 1816, 1822, and 1839. The lower revenue figures for 1816-1843 are explained by a combination of; the repeal of the Income tax and the reduced receipts from Excise, Land & Assessed taxes. The balance in the revenue came from Stamps and the Post Office. In any event the expenditure was in accord with the revenue. Further, if the latter years of the eighteenth century are removed then the growth rate for the period, 1800-60 averages 1.8% for revenue and 1.3% for expenditure. Further information is needed before conclusively finding for the hypotheses of a revenue maximizing process.

However, it is possible to say, from the above graphical illustrations, that tax revenue did grow over time and obviously taxes were much higher in 1850 than they were in 1760. However, were they high in terms of people's incomes or as a percentage of GDP for example, and after consideration of inflation, do the same explanations hold? Therefore, an inspection of other key factors such as: prices, population, and economic growth, is found below.

4.5. Prices

Prices were volatile between 1760 and 1860, and examinations of shorter time periods accentuate the pattern. Inflation continued to rise until 1814 and then began a decline that was not halted until 1851. Figure 4.9 below, is descriptive of the economy's inflationary performance during the period.

Figure 4.9
A General Price Index: 1760 to 1850



(Mitchell, and Deane, 1962, pp. 392 – 399).

Inflation for the period 1760 to 1860 is depicted in Figure 4.9. The average for the period 1800-1860 was the inverse of expenditure growth and the annual trend post 1801 was -0.16. This suggests that expenditure was growing at twice the pace of inflation and revenue at nearly two and a half times the inflation rate. The dramatic trend change, seen above (which incidentally bears a passing resemblance to the growth of industrial output found in Crafts and Harley, 1992), requires some comment.

Events connected to the construction of national debt would derive the financial crisis of the 1820's. The move to a paper currency (Bank restriction Act, 1797) led to the Cash Payments Act, 1819; this Act made all paper currency redeemable in bullion. The immediate effect was a withdrawal of the old paper currency, a fall in prices and an increased burden on debtors and taxpayers. "Farmers are reported to have been ruined, landlords embarrassed with distress widespread" (Coffield, 1970, p. 106). Economic decline was the result, and the turning point, from the data, is 1817.

4. 6. Population

The increase in population during the period may also be implicated in the British fiscal story and rightly deserves a mention¹⁰. Boldrin makes the following point; "around [the year] 1770 the population growth rate increases substantially and [thereafter] remains high for a century and a half".... This increase in population growth anticipates the increase in output growth of between fifty and one hundred years" (Boldrin, 2005, p. 7). In addition, in the early nineteenth century, the population of Britain was no longer (as it was in the previous century), dominated by agricultural production.

"By 1800 England had the lowest proportion of its population engaged in farming of any country in the world" (Overton, 1998, p. 53). This is in stark contrast to statements found in Part II of the series where the point was made that prior to 1800 the population of Britain was largely agrarian. The Industrial Revolution had wrought major changes in something less than fifty years, the most important of which was concentration. The population in the early nineteenth century was also more concentrated in larger communities where they (the general population) were less self-reliant, and subject to the unavoidable and regressive indirect taxation.

The tax system at that time (early 1800's) primarily used consumption taxes and they fell on the necessary items of existence as well as luxuries; the incidence of such taxation passed primarily to the consumer (it can then be suggested that this is where the final burden of taxation rested). There were also Excise taxes to contend with and these impacted locally manufactured products. These impositions reinforced the burden of taxation and hence the regressive incidence of the system was compounded.

Given the social changes spoken of above, and because this was not a tax system that was easily avoidable, it is not unreasonable therefore, to assume that tax revenues would respond in accordance with the changes to the population. Tax revenues were going to rise, and they

¹⁰ Part II; the review of eighteenth century British tax policy development did make mention of the fact that the important factor for tax policy development i.e. population growth, and that this would be discussed in this paper, Part III.

would form a larger share of national income, what is now called Gross Domestic Product (GDP). The next question is: what is known about GDP during the period?

4. 7. Economic Growth

There is available sufficient information on early British GDP to be able to comment in the following manner. While Britain had maintained an economic growth rate of 1.32% per annum between the years 1780 and 1801, this did increase to 2% per annum during the period this paper covers (Crafts, 1983, p. 199). Up to 1817 England had also experienced rising prices and a decline in the purchasing power of workers. Between 1760 and 1820 the standard of living, measured by personal consumption, showed little change (Crafts, 1983, p.199). Under such conditions increased and new taxes would have been a burden.

However, without a fairly detailed examination of the national accounting data it is difficult to say precisely how revenue performed as a percentage of GDP. Nonetheless from Crafts (1995) there is the suggestion that in 1788, tax, as a percentage of GDP, was 12.4%. From Williamson (1984) it can be estimated that taxation's percentage share of national income was 20.2% for the years 1811-20¹¹, falling thereafter to 10.2% for the years 1841-51. Corresponding values for tax as a percentage of GDP are found in Kozub (2003). Also notable in the data, is how tax as a percentage share of GDP matches the pattern of inflation for the same period (1780-1851)¹². When inflation is high, tax revenue is high, when inflation is falling, so too is tax revenue. This result is expected with a tax base that is predicated on the imposition of indirect taxation¹³.

Were taxes high and increasing, and were they driven by the needs of war and internal financial crises? From the evidence above it is clear that other factors, aside from war and external policy, may, just as they did the previous century (internal financial crisis) once again had a substantial influence on tax revenues (returns) during the period. One conclusion that can be drawn is; that the indirect tax system appears to have responded to population changes and also to inflation and deflation. These conclusions are borne out by the GDP record for the period.

4. 8. Wages and Purchasing Power

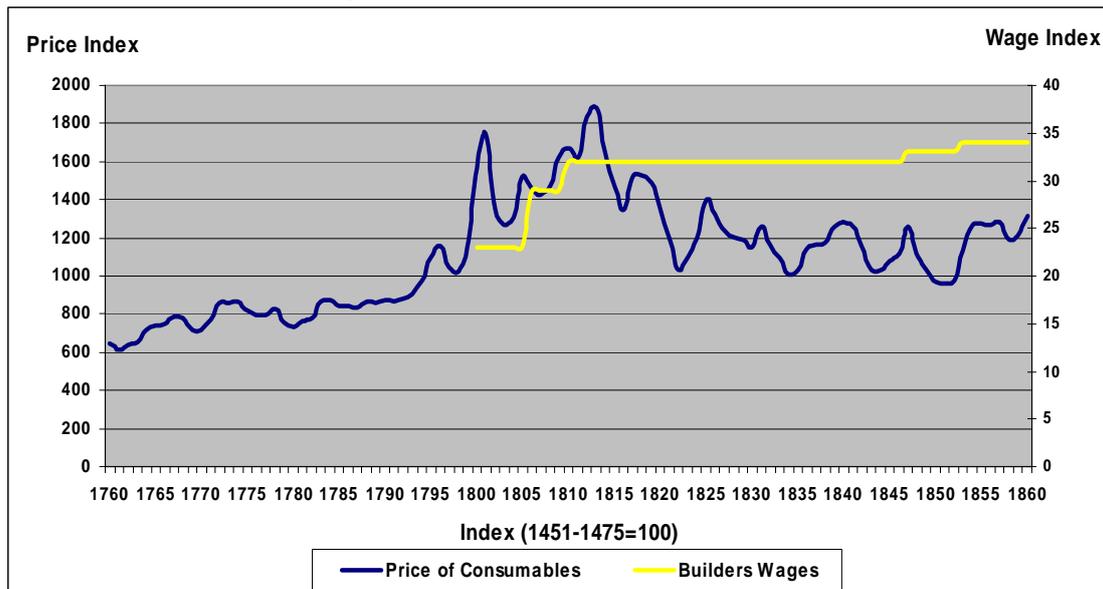
Before the end of the Napoleonic war in 1816, prices for consumables would begin to trend downwards as expenditure was controlled and inflation was checked by tighter monetary policy. The offshoot was that incomes for workers stabilised over time and remained ahead of inflation, thus real purchasing power increased. This is illustrated in Figure.4.10.

¹¹ These figures correspond with the statements of Hartwell (1981) quoted in the first paragraph of Section 4.1.

¹² See Mitchell & Deane, (1962, pp. 392–399), and Phelps-Brown & Hopkins (1956, pp. 311–314) for price statistics relative to the period.

¹³ This finding sheds light on the hypotheses of the previous centuries: inflation killed the revenue. Due primarily to the fact that the method of taxation was primarily indirect.

Figure 4.10
Wage and Price Indices: 1800 to 1860



(Prices: Phelps Brown and Hopkins, 1956, pp. 311 – 314).

(Wages: Phelps Brown and Hopkins, 1955, pp. 205 – 206)¹⁴.

Figure 4.10 above, illustrates a discernible four step increase in wages during the century. All wage increases are post the imposition of, or an increase to, the Income tax (1803, 1808, and 1842). It is worth noting that builders’ wages might not be the most suitable for analysis as many, it is assumed, may have earned incomes below the exemption thresholds of the Income tax. However, builders would still being impacted by Customs Excises, Assessed, Post Office, and perhaps even Stamps. The turning point, according to the price index, does appear to be in the second decade of the century – the 1820’s. By the end of the first decade of the nineteenth century, the ability to pay, for wage earners, had increased.

4.9. Summary of Section 4

To summarise the section; analysis has found the following. The GDP growth rate for 1780-1801 was 1.32% and for 1801-50 2% and the standard of living during the period is reported as being stable. However, the record of fiscal performance of successive governments informs us that thirty years of deficit, and twenty years of surplus, mark the first fifty years of the nineteenth century. The deficits were in response to war and economic depression, and once again the variable Military expenditure mirrors the budget balance during the period. The turning point for expenditure was 1816 and the end of war with France. Thereafter expenditure was kept in check until the mid century and even the 1820 beginning point of a major financial crisis did not create a spike in expenditure.

Overall, real expenditure in the economy grew at a rate of 1.3% during the early nineteenth century, reportedly at twice the rate of inflation. In fact inflation had an annual trend of -0.16

¹⁴ “Indexes (1451-75 = 100) of (1), price of composite unit of consumables; (2), equivalent of wage rate of building craftsman, expressed in the above composite physical unit; in southern England, 1264-1954” (Phelps Brown and Hopkins, 1956, pp. 311 – 314).

between 1801 and 1850. To explain this; there was much volatility in the general level of prices during the first fifty years of the century however, inflation was an increasing trend until 1814; thereafter, inflation began a decline of some consequence. The turning point identified in the data is 1817 a moment when the pressure of expenditure needs relaxed. Thereafter, loose monetary policy, it is assumed, led to the financial crisis of 1820. The response was the passing of successive bank acts and a reduction in the currency. This approach to applied monetary policy, on the part of the government, further depressed the already falling prices and result was widespread economic despair. The economic depression did not begin to lift until 1842.

For revenue, tax collection was rising until after 1816 and then declined due to repeal of Income tax and reductions to the Excises and the Land and Assessed taxes. Total revenue did not begin to rise again until 1825 due to increases in the Customs revenue. Furthermore, analysis indicates that revenue was also influenced by an increasing ability to pay as wages and purchasing power remained ahead of inflation. However, while the balance of taxation changed during the course of the century, once again neutrality was important to decision makers and the existing social balance was maintained throughout the early decades of the century. Nonetheless, tax revenue did increase over time and was highest in the first sixteen years of the century; the turning point was once again 1816/17. Over the course of the century real revenue grew at the rate of 1.8%.

The growth in revenue is directly associated with two things. First, population growth remained high throughout the period under study and reportedly outpaced growth for at least half a century (Boldrin, 2005). Second, because of industrialisation the population was, unlike the previous century, increasingly concentrated and subject to the unavoidable and regressive effect of indirect taxation. Thus the revenue increased.

To support this statement of increasing revenue returns there is the GDP record. Tax as a proportion of GDP in 1788 was 22.2%, 1811-20, 20.2% and for 1841-51, 10%. Incidentally, this matches the pattern of inflation during the period under study. In short, tax revenue during the early nineteenth century was only going to do two things. (1), increase; and (2), increase as a percentage of GDP. The reason for this was mentioned above; the indirect tax system of the period, 1801 and 1850 responded according to population growth, industrialisation, and the effects of inflation and deflation in the economy.

5. CONCLUSION

The story of New Zealand's English heritage is not found in the New Zealand literature and this discussion paper has being a third attempt to fill another small part of that gap. The paper made this an objective and thus, the work has achieved its first goal. The second objective was to answer two questions: What is the English experience of taxation; and, how did their tax system evolve from 1801 to 1850 i.e. what were the drivers of nineteenth century tax reform.

The Analysis of paper has not found any reason to disagree with the stated hypotheses of Subsection 3.2. However, it is possible once again to offer some additional insights. To begin; for the early nineteenth century the results of this quantitative assessment may not strengthen the hypotheses of the literature but they certainly do not weaken their case. For example, was more income transferred to government during the nineteenth century? Yes, but there were plausible reason aside from North's (1979) theory of a predatory ruler to consider. For example, there was inflation, depression, population increases and economic growth. Also worth mentioning is that this paper analysed two periods 1760-1860 and 1801-1850. The differing periods do derive a much different understanding of the economy, and this is exhibited in the paper's analysis of the changing tax system i.e. the period 1760-1860 exhibits a much different pattern to that for 1800-50.

Was war the key factor driving growth or change in taxation policy/revenue? From 1816 onwards external conflict was not as important as the previous century and is less of an argument for high and increasing taxation during the nineteenth century. Foreign policy as a determinant of tax policy development cannot be ascertained from the analytical approach. For specific items of expenditure, such as Debt Charges, being significantly culpable; it is uncertain as they altered pattern post 1816 and thus the argument that taxes were for one purpose – war - via the connection of cost and the consequent borrowing to pay for them, is not wholly plausible. The alternative, internal crises have more veracity. In the early nineteenth century loose fiscal policy resulted in recurrent deficits and a financial crisis in 1820, in tandem with the subsequent, it is assumed, poor policy response, which precipitated a major internal crisis. The paper finds that first, external and second, internal crises to be drivers of tax policy change during the early nineteenth century.

However, from the summary found in Subsection 4.9, other items of importance to the development of tax policy during the nineteenth century are as follows: Between 1816 and 1842 the driver of change is identified as being interest group behaviour and the politics of tax; first, there was repeal of income tax and reductions in the indirect taxes, then increases to customs and finally a new income tax. Nonetheless, tax revenue during the early nineteenth century was always going to do two things. (1), increase; and (2), increase as a percentage of GDP. The reason for this positive change in the revenue, as stated previously, is explained by a system of indirect taxation which responded to population growth, industrialisation, and the effects of inflation and deflation in an economy.

The introduction posited five hypotheses. The hypotheses of the paper are commented on in numerical order. First hypothesis, the key to understanding taxation lies in determining the period's principle of taxation. The underlying principle of taxation was not directly discussed in this paper however, the augmented benefit/ability to pay principle is assumed to hold for the early nineteenth century. The principle is however, not considered to be the key driver of change for tax policy during the century under study.

Second hypothesis, the balance of applied taxation regularly changes from indirect to direct taxation and back again over time. The early nineteenth century was a mix of direct and indirect taxation. The century began with a mix of indirect and subordinate direct taxes. After 1816 the preference was for indirect and by 1842 the pendulum had swung back again to a

mix of mainly indirect and a subordinate direct method of taxation. Therefore, the balance of applied taxation did change during the early nineteenth century.

Third hypothesis, throughout recorded history, crisis is the arbiter of change. This is the interesting hypothesis because as the first paper in this series indicated, our English Heritage is strewn with the detritus of war. Furthermore, In the British tax history literature war is presented as the arbiter of change i.e. external crisis. However, during the early nineteenth century there were severe internal crises; recurrent deficits, financial crisis and successive poor fiscal management. Therefore, this is also seen as being a major influence on the development of taxation. Therefore, crises (both external and internal) are drivers of tax policy development during the period under study.

Fourth hypothesis, economic thinking is a major influence on tax policy development. Once again, it is difficult to speak of the fourth hypothesis independently of the other hypotheses. Furthermore, this paper has not directly discussed this hypothesis. However, as stated in Part I and Part II; there is always, and at all times, an overarching framework of ideas and an ideological component attached to fiscal and political thought Thus, the hypothesis is assumed as being found to hold.

Finally, the fifth hypothesis; the politics of tax ultimately decides the final form tax policy will take. This hypothesis was only touched on briefly; however, that the politics of tax is implicated in the evolution of taxation is assumed as having merit. This aspect of tax policy development, in conjunction with the other four hypotheses, will be further discussed in the final paper of the series.

To conclude, his paper has quantitatively assessed the literature for the period 1801-1850. The paper has however only utilised the first half of the analytical framework established in Part II. The second half, the review, is found in the next paper in the series, Part IV. Therein, the focus is wholly on the development of the nineteenth century's fiscal innovation; the direct taxation of incomes.

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