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**Making the Modern American Fiscal State: Law, Politics,  
and the Rise of Progressive Taxation, 1877-1929 by  
Ajay K. Mehrotra (review)**

Dennis J. Ventry Jr

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*Making the Modern American Fiscal State: Law, Politics, and the Rise of Progressive Taxation, 1877–1929.* By Ajay K. Mehrotra (New York, Cambridge University Press, 2013) 429 pp. \$90.00 cloth \$34.99 paper

Mehrotra's award-winning book is truly a tour de force.<sup>1</sup> It chronicles a transformative period in the development of the American fiscal state during which the old fiscal order—characterized by indirect, hidden, mercilessly regressive, and partisan taxation—gave way to a direct, transparent, steeply progressive, and professionally administered tax regime.

The new revenue system “dramatically altered fiscal burdens and profoundly revolutionized federal government finances” (6). It also reshuffled social, political, and economic life in the United States. According to Mehrotra, the fiscal reordering that occurred between the late 1870s and the financial crash of 1929 “reallocated across both income classes and national regions the economic responsibility of financing the growing needs of a modern industrialized democracy” (11). Moreover, it remade the “social meaning of modern citizenship” and expedited “a fundamental change in political arrangements and institutions” that ushered in a “proto-administrative state” (11, 14). If these changes were not enough, the emergent fiscal order—which hastened the demise of the nineteenth-century party system and highlighted the contagion of civic irresponsibility—effectively “helped underwrite the subsequent expansion of the American liberal state” (11).

In Mehrotra's skilled retelling of the period, taxes destroyed the old order and forged a new one. Consider what happened to the national tariff, a fixture of the old regime. Long decried as “the mother of all trusts,” the tariff, which protected domestic industries and generated a majority of national revenues, was highly politicized; its extensive duty list and rate structure fluctuated with each election and favored certain geographical regions over others. It was also thoroughly polarizing: “Protectionists” battled “free traders,” and consumers opposed producers. To ordinary consumers of the necessities burdened by the tariff, the levy meant higher prices and a higher cost of living, since merchants and manufacturers shifted the tax costs to end-users. Along with similarly unpopular excise taxes on alcohol and tobacco, the tariff hurt lower- and middle-class consumers more than wealthy ones.

As the beacon of a new fiscal order, the progressive income tax challenged the reign of the callous tariff. In 1890, the tariff produced nearly 60 percent of total federal revenue, but by 1920, the figure had plummeted to 5 percent (7). Meanwhile, the federal income tax—direct, transparent, and progressive compared to the tariff's indirect, hidden, and regressive nature—started collecting revenue in 1913 with the passage of the Sixteenth Amendment. Six years later, it generated an astonishing 66 percent of federal receipts (7). Moreover, wealthy Americans began paying their fair share of citizenship under the new levy: In its first year,

1 The book won the 2014 Society for U.S. Intellectual History Book Award.

the top marginal rate reached a modest 7 percent (a “normal” tax of 1 percent plus a “surtax” of 6 percent); by 1918, it had reached an astounding 77 percent.<sup>2</sup>

No palace revolution, the fiscal reordering that Mehrotra details was real and lasting. But its leaders were not the usual revolutionaries engaged in traditional combat: “The great transformation in American public finance was led by a conceptual revolution. Ideas were critical weapons and blueprints for building powerful political coalitions” (9). Professionally trained intellectuals and social scientists, many of them trained in Germany, soldiered this battle, wielding ideas rooted and forged in the “raw social experiences of the modern industrial age” and “the massive material inequalities of the time” (9). These “ethical” political economists—headed by Henry Carter Adams, Richard Ely, and Edwin R.A. Seligman—“trafficked in a new wave of transatlantic ideas about changing conceptions of the self, society, economy, and the state.” Their goal was to make “European ideas palatable for an American audience that was generally suspicious of foreign influences and entanglements” (11), particularly those that disturbed the existing social and economic order.

As the “visionaries” and “architects” of a new fiscal regime and incipient social-welfare state (11), the new public-finance theorists attacked the “benefits principle” of taxation (whereby taxpayers paid according to what they received from the state) and its policy manifestations (the tariff, excise taxes, and general property taxes) as an inequitable and immoral protection of private property. In its place, they championed the “ability to pay” principle, which “promoted an active role for the positive state in the reallocation of fiscal burdens, the reconfiguration of civic identity, and the rise of administrative authority” (10). With this principle as their rallying cry, the progressive political economists touted graduated income and wealth taxes as the way not only to raise revenue, but also to recalibrate the distribution of taxes, rewrite the social contract alter conceptions of civic identity (what Mehrotra calls “fiscal citizenship”), and build a professional administrative infrastructure that could mold new political institutions.

According to Mehrotra, however, these fiscal revolutionaries were not radical redistributionists; they were middle-ground progressives fighting to ensure “that those who had the greatest taxpaying capacity were contributing their fair share” (12), not to create a perfectly egalitarian society. Their pragmatic and contextually bound reforms laid the foundation for the modern American welfare state. In the process, they helped to alleviate wealth inequality and administrative corruption to some extent, but they also had a hand in restricting the options available to remedy these social and institutional ills. By heralding “ability to pay” and denouncing the “benefits principle,” these ethical political economists severed the link between benefit and burden and between

2 Revenue Act of 1913, ch. 16, 38 Stat. 114, 166–168; Revenue Act of 1918, ch. 18, 40 Stat. 1057, 1062–1064.

spending and extraction. By fixating on reallocating fiscal burdens through soak-the-rich taxation, they ignored the “transfer” side of the tax-and-transfer system. Direct transfers, funded by steeply progressive taxes, could have reapportioned fiscal burdens. Consumption taxes, too, could have raised revenue to counterbalance the regressive incidence of other consumption taxes (an approach that some Western countries adopted later in the twentieth century to finance redistributive social-welfare states). But the reformers’ “fiscal myopia” limited their imagination, as well as “the imagination of future American tax theorists and reformers” (17).

In some respects, Mehrotra’s criticism of the reforms explains too much. Arguably, for instance, the runaway success of the federal income tax—particularly the “mass-based” income tax that was born of World War II exigencies—made consideration of other national taxes less pressing. Moreover, although consumption taxes, such as a sales tax or a “spendings” tax, failed to take root at the federal level, states and municipalities embraced and expanded versions of those revenue instruments throughout the twentieth century.<sup>3</sup> Furthermore, Social Security, the largest U.S. social-welfare program, has always funded its reserves with a regressive tax (exempting earnings beneath a certain level), but it pays out benefits that provide higher returns to workers’ first dollars earned and lower returns to last dollars earned.

In any event, the fiscal transformation that Mehrotra recounts was a “qualified success” (20). It did not go as far as some populist reformers and intellectuals may have wanted (25–27, 143–154). But the “dramatic shift from a regressive, hidden, disaggregated, and politicized tax system to a graduated, transparent, and centrally and professionally administered one” . . . laid the foundation for a revolution in American fiscal relations” (27). The resulting bedrock was “absolutely crucial to the accelerating development of the modern fiscal state,” not just during the crucible of two world wars but also “for its resiliency” after both conflicts.<sup>4</sup>

As Mehrotra notes in this book and elaborates elsewhere, this period of fiscal reordering marks a “lost moment in American history—a moment when progressive reformers, thinkers, lawmakers, administrators and ordinary citizens believed in social solidarity and collective obligations” (414–418).<sup>5</sup> Although its promise “may have lost some luster over the years, it can still remind us of what was, and is, possible” (416).

*Making the Modern American Fiscal State* will appeal to historians across multiple disciplines with diverse research interests. Mehrotra’s diligent chronicling of “what actually happened in the past” aptly fulfills

3 William Vickrey, “The Spendings Tax in Peace and War,” *Columbia Law Review*, XLIII (1943), 165–170.

4 See <http://prawfsblawg.blogs.com/prawfsblawg/tax/>—an online symposium focused on this book, in which Mehrotra responded to readers’ comments and elaborated some of the book’s main themes and claims.

5 *Ibid.*

the historian's mandate "to trace and explain change over time."<sup>6</sup> Moreover, Mehrotra identifies and informs all of the relevant schools of thought about state-building at the turn of the century, including the influence of national crises, the "corporate liberal" view that Progressive Era reforms were designed to deflect more radical change, "progressive" historical accounts of ineluctable advancement and "great men," and "democratic-institutionalism" as advanced not just by historians but also political scientists, sociologists, and economists. By emphasizing the power of ideas and the contested and contingent nature of history, Mehrotra fits comfortably in the democratic-institutionalist camp, while adding to the interpretive approach an abiding and expert appreciation of "the role of law, juridical institutions, and legal professionals and processes in the creation of a new fiscal order" (29).

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*Cold War Kids: Politics and Childhood in Postwar America, 1945–1960.* By Marilyn Irvin Holt (Lawrence, University Press of Kansas, 2014) 214 pp. \$34.95

The history of childhood is an interdisciplinary field of study that focuses on age as a central category of analysis. To understand better the lives of children in the past and the cultures that defined them, childhood historians often integrate the methods and concerns of the social sciences, media and cultural studies, educational and intellectual history, and material-culture studies. Much recent childhood scholarship has converged on the post–World War II period, examining the influence of politics, institutions, and the popular culture of the 1950s and 1960s on young people. Books in this vein include Mickenberg's work on radical children's literature, Delmont's study of American Bandstand, and de Schweinitz's research on children and the civil-rights movement.<sup>1</sup> Holt's *Cold War Kids* is a helpful contribution to this growing historiography.

Holt seeks to understand the ways in which the presidential administrations of Truman and Eisenhower "reacted to special problems and needs associated with children and teenagers" (3). In particular, she examines the national discourse surrounding issues of education,

6 William E. Nelson, "A Response: The Impact of War on Justice in the History of American Law," *Chicago-Kent Law Review*, LXXXIX (2014), 1109 (describing the "easy and often fruitful way of doing history" that Nelson learned from Bernard Bailyn).

1 Julia Mickenberg, *Learning From the Left: Children's Literature, the Cold War, and Radical Politics in the United States* (New York, 2005); Matthew Delmont, *The Nicest Kids in Town: American Bandstand, Rock 'N' Roll, and the Struggle for Civil Rights in 1950s Philadelphia* (Berkeley, 2012); Rebecca de Schweinitz, *If We Could Change the World: Young People and America's Long Struggle for Racial Inequality* (Chapel Hill, 2011).