Check for updates

Received: 19 April 2022 | Revised: 30 June 2022 | Accepted: 7 July 2022

DOI: 10.1111/spsr.12541

ORIGINAL ARTICLE

SPSR Swiss Political Science Review
Schweizerische Zeitschrift für Politikwissenschaft
Revue Suisse de Science Politique
Rivista Svizzera di Scienza Politica

International Trade, the Great War, and the Origins of Taxation: Sister Republics Parting Ways

Patrick Emmenegger[1] | **André Walter**[2]

[1]University of St. Gallen
[2]University of Zurich

Correspondence
Patrick Emmenegger, Department of Political Science, University of St. Gallen, Müller-Friedberg-Strasse 8, 9000 St. Gallen, Switzerland.
Email: patrick.emmenegger@unisg.ch

Abstract

The First World War was a watershed moment for the development of the modern tax state. Yet, whereas the tax yield strongly increased in this period, little is known about how the tax mix changed, in particular regarding the turn to direct taxation. Examining the two 'Sister Republics' Switzerland and the USA, this paper demonstrates that tax reforms in this critical period for modern tax systems were conditioned by coalitions among producer groups, which had already come into existence before the war. Most notably, farmers and their position on international trade were important in shaping coalitions on the turn to direct taxation. The Great War's main role was to temporarily interrupt (Switzerland) or cement (USA) the tax system's reorientation. The paper thus shows that war-induced tax reforms have a lasting impact on the tax mix only if powerful coalitions support these reforms independently of the war effort.

Zusammenfassung

Der Erste Weltkrieg war ein Wendepunkt in der Entwicklung des modernen Steuerstaates. Während das Steueraufkommen in dieser Zeit stark anstieg, ist nur wenig darüber bekannt, wie sich der Steuermix veränderte, insbesondere was die Hinwendung zu direkten Steuern betrifft. Anhand der «Schwesterrepubliken» Schweiz und USA wird in diesem Beitrag gezeigt, dass

This is an open access article under the terms of the Creative Commons Attribution License, which permits use, distribution and reproduction in any medium, provided the original work is properly cited.
© 2022 The Authors. *Swiss Political Science Review* published by John Wiley & Sons Ltd on behalf of Swiss Political Science Association.

Steuerreformen in dieser für moderne Steuersysteme kritischen Periode durch Koalitionen zwischen Produzentengruppen bedingt waren, die bereits vor dem Krieg entstanden waren. Vor allem die Landwirtschaft und ihre Position in internationalen Handelsfragen spielte eine wichtige Rolle bei der Bildung von Koalitionen für die Hinwendung zu direkten Steuern. Die Hauptrolle des Ersten Weltkriegs bestand darin, die Neuausrichtung des Steuersystems vorübergehend zu unterbrechen (Schweiz) oder zu zementieren (USA). Der Beitrag zeigt also, dass kriegsbedingte Steuerreformen nur dann einen nachhaltigen Einfluss auf den Steuermix haben, wenn mächtige Koalitionen diese Reformen unabhängig von den Kriegsanstrengungen unterstützen.

Résumé

La Première Guerre mondiale a été un moment décisif pour le développement de l'État fiscal moderne. Pourtant, alors que le rendement fiscal a fortement augmenté au cours de cette période, on sait peu de choses sur la façon dont la composition des impôts a changé, en particulier en ce qui concerne le passage à la fiscalité directe. En examinant la Suisse et les États-Unis, cet article démontre que les réformes fiscales de cette période ont été conditionnées par les coalitions entre les groupes de producteurs, qui avaient déjà vu le jour avant la guerre. Le rôle principal de la Grande Guerre a été d'interrompre temporairement (Suisse) la réorientation du système fiscal ou de la cimenter (États-Unis). L'article montre donc que les réformes fiscales induites par la guerre n'ont un impact durable sur le mix fiscal que si des coalitions puissantes soutiennent ces réformes indépendamment de l'effort de guerre.

KEYWORDS
Agriculture, Redistribution, Taxation, Trade, War

INTRODUCTION

The First World War, also called the Great War, was a watershed moment in the development of modern tax systems. Before the war, the *tax yield* was low in capitalist economies, hovering around 5% of GDP for most of the 19th century. Since 1914, tax revenue has been constantly

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

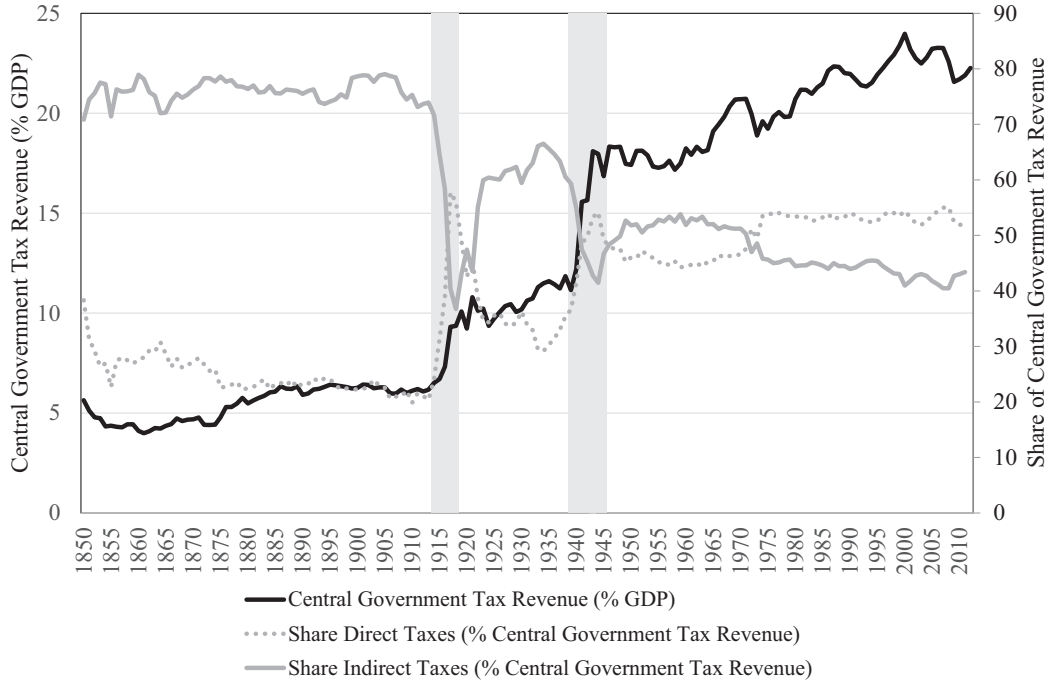


FIGURE 1 Central government tax revenue (% GDP), left scale, and share of direct and indirect taxes (% central government tax revenue), right scale, in capitalist economies, 1850–2012. *Note*: World War periods in gray. *Source*: Andersson and Brambor (2019). Countries included are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, and United States.

on the rise (see Figure 1, left scale). Yet, what happened to the *tax mix* in this period? Here, the literature offers conflicting expectations. Whereas Scheve and Stasavage (2016) observe a turn to direct taxes on income and wealth during the Great War, Morgan and Prasad (2009) argue that some countries continued to rely on indirect taxes on trade and consumption. Seelkopf et al. (2019) find that war leads to the introduction and expansion of both direct and indirect taxes.

Figure 1 (right scale) shows that during the Great War, the share of direct taxes in central government tax revenue skyrocketed. However, indirect taxes experienced a comeback in the interwar period. The Second World War increased the share of direct taxes once again before the shares of direct and indirect taxes settled around 50% each in the postwar period. This turn to direct taxation is of great importance. Direct taxes were superior to other forms of revenue generation in terms of extractive capacity and required the state to develop the administrative grid necessary to tax based on subjects' capacity to pay (Peters, 1991; Cardoso & Lains, 2010). For these reasons, the turn to direct taxation is one of the most significant events in the development of modern tax states.

Yet, Figure 1 hides important variation, as the comparison of Switzerland and the USA shows. These two countries are sometimes called the Sister Republics (Hutson, 1991) because of their similar political systems. Before the Great War, both countries relied on indirect taxes, mostly on international trade, which are commonly the most important taxes to be levied by young communities (Seelkopf et al., 2016). Trade taxes generated 50% of central government tax revenue in the USA, more than 80% in Switzerland, and 44% in capitalist economies more generally. In contrast, direct taxes played virtually no role in either country (see Figure 2).

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

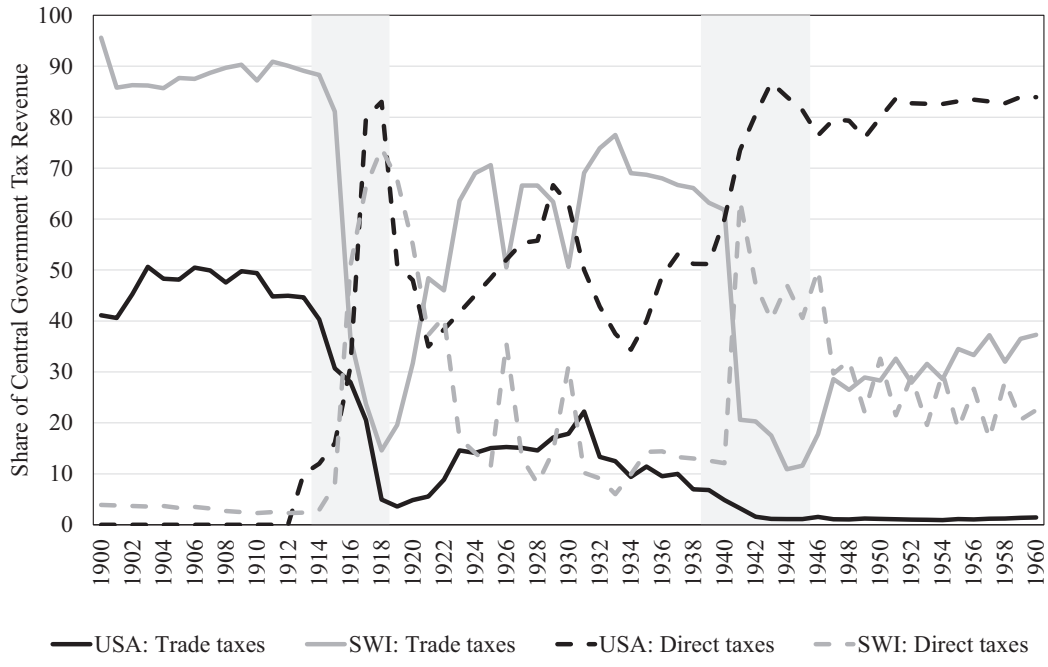


FIGURE 2 Share of trade and direct taxes in central government tax revenue, USA (black) and Switzerland (gray), 1900–1960. *Note*: World War periods in gray. *Sources*: Data from Andersson & Brambor (2019), except direct taxation for USA in 1900–1921 (Mehrotra, 2014: 300) and 1922–1924 (linear imputation).

The Great War changed this situation. If wars are short, alternative means of revenue generation such as borrowing may suffice (Queralt, 2019). Yet, large-scale wars almost certainly require a higher tax yield. For instance, in Switzerland, which was surrounded by belligerent countries but did not actively participate in fighting, mobilization costs for the war period were almost twelve times larger than total central government revenue in 1913 (Geyer, 1934: 18–19). Moreover, war removes extraction options because international trade and private consumption collapse. By 1918, revenue from trade taxation had declined to 5% in the USA, 15% in Switzerland, and 17% in capitalist economies more generally, whereas revenue from direct taxation had increased to 83% (USA), 74% (Switzerland), and 56% (capitalist economies), respectively.

However, whereas the USA made a *permanent* turn to direct taxation at the time of the Great War, Switzerland – after *temporarily* relying on direct taxation – returned to trade taxation after the war (see Figure 2). Due to the importance of path dependency in tax systems – "how fiscal systems develop depends significantly on how they started" (Bird & Zolt, 2005: 1649) – these differences are still visible today. The US tax system is among the most progressive in the world, while the Swiss tax system belongs to the least progressive ones (Prasad & Deng, 2009).

This paper sheds light on these differences by examining the politics of taxation in Switzerland and the USA in the years around the Great War. As we will show, these two countries were strikingly similar in terms of pre-war tax systems, contextual factors, and mass mobilization for war. Nevertheless, they emerged from this critical period with radically different tax systems.

Complementing the rich literature that analyzes taxation primarily as a matter of redistribution (e.g., Steinmo, 1993; Boix, 2003; Scheve & Stasavage, 2016), we emphasize the role of trade policy, which was the central economic issue in the period before the development of

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universität St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

the modern welfare state (Frieden, 2006). We argue that tax reforms in both countries were shaped by producer coalitions, which had already come into existence *before* the Great War. Farmers and their trade policy preferences were particularly important in shaping the extent to which countries decided to rely on direct taxes. The Great War intensified countries' activities to increase the tax yield due to urgent revenue needs and the collapse of international trade. Moreover, the war fueled equality of sacrifice concerns that made countries turn to direct taxes. However, unless powerful coalitions – involving farmers – supported these new taxes *independently* of the war effort, as in the USA, this turn to direct taxation proved to be a flash in the pan, as the Swiss case shows.

More generally, we argue that the literature on the origins of taxation needs to pay more attention to economic considerations other than the class conflict because tax policies affect the cost of all economic activities (Haffert & Mertens, 2021). Since actors' interests are not only shaped by concerns about redistribution but also by their situation in the international economy, the resulting multidimensional policy space allows for different actor coalitions (Barnes, 2020). Most notably, farmers were an influential but often overlooked group shaping the politics of taxation in this foundational period for the modern tax state (Prasad, 2012). Yet, farmers primarily care about trade taxes because they have a direct effect on farmers' situation in the international economy. Nevertheless, with *capital* and *labor* clashing over the redistributive role of direct taxation, farmers' tax policy preferences may prove decisive.

The remainder of this paper examines this argument through a comparative-historical analysis. The next section develops our theoretical argument. Subsequently, we introduce our research design and discuss the limitations of possible alternative explanations. Next, we empirically explore the politics of taxation in Switzerland and the USA in the early 20th century. The final section discusses the implications for research on the origins of taxation.

INTERNATIONAL TRADE AND THE POLITICS OF TAXATION

The years around the Great War were a critical juncture in the development of modern tax systems (Morgan & Prasad, 2009). Yet, countries emerged from this period with strikingly different tax systems. In this section, we argue that the politics of taxation during this critical period were decisively shaped by policy coalitions *preceding* and *outliving* the Great War. These policy coalitions differed across countries because actors' interests were also shaped by their positions in the international economy.

Trade taxes are prime examples of taxes with economic implications. They benefit some groups at the expense of others, because they affect prices of goods, influence access to markets, and protect certain producer groups from international competition (Barnes, 2020; Haffert & Mertens, 2021). This is particularly true for farmers. However, farmers are often overlooked in the literature on the politics of taxation (an exception is Prasad, 2012), although they constituted a substantial share of the population in turn of the century polities (ca. 30% of the population in Switzerland and the USA) and were often politically well-organized.

Trade taxes were also a major source of government revenue. If revenue from trade taxation collapses, it must be replaced with new revenue. In the short run, borrowing may suffice to compensate for the revenue shortfall, but in the long run, governments must find more sustainable forms of revenue generation. One promising alternative to trade taxation is the expansion of direct taxes, which, in 1913, generated only about 20% of central government tax revenue in capitalist economies (see Figure 1). Another possibility is the expansion of consumption taxes, although not during periods of warfare, because private consumption often collapses due to economic contraction (for the Great War, see Andersson & Brambor, 2019). In any case, there is a direct link between trade considerations and tax policies.

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

While war and the resulting collapse of international trade make a (temporary) turn to other taxes more pressing, the direct link between trade and taxation exists independently of military conflict, because countries always have the option to turn to free trade and compensate lost revenue through other taxes (Seelkopf et al., 2016). Following Barnes (2020), we thus argue that trade considerations may lead to political coalitions that vary in their openness to direct taxation.

What explains policy choices in the years before the Great War? To organize our discussion, we follow Rogowski's (1987) classic model of trade policy coalitions, which, informed by the Stolper-Samuelson theorem, distinguishes between three groups: *labor* (and the poor more broadly), *capital* (and the rich more generally), and *land* (farmers, both the landed elite and rural smallholders). We use this model to, first, identify trade policy preferences, second, tax policy preferences, and, finally, discuss their implications for coalition building.

We start with the trade policy preferences of *land*. The industrialization of agriculture and technological advances in transportation in the late 19th century exposed a previously sealed economic sector to international competition (Findlay & O'Rourke, 2006). For countries with a highly industrialized and export-oriented agricultural sector such as the USA, these developments provided opportunities for additional economic gains through free trade (Federico, 2005). Yet, high tariffs did not allow export-oriented farmers to fully capitalize on their economic efficiency, because domestic tariffs often led to retaliatory tariffs on exports, which included a large share of agricultural products (Irwin, 2017). The situation was different in countries disadvantaged by topography, such Switzerland, where farmers were not competitive on world markets and demanded protection against cheaper agricultural imports. Consequently, we expect non-competitive farmers to favor high tariffs to protect themselves from international competition, whereas export-oriented farmers opposed domestic tariffs.

The situation was more complicated for *capital* and *labor*. Before the Great War, relative to Great Britain, most capitalist countries were still what Rogowski (1987) called "backward economies" (crafts and the manufacturing industry), whereas other segments were dependent on international trade (financial industry and merchant trade). Therefore, we expect significant parts of *capital* to have responded to increasing trade exposure by pushing for protectionism, whereas other parts continued to support free trade (Hiscox, 2001; Humair, 2004; Prasad, 2012; Irwin, 2017).

For *labor,* the situation was equally challenging. In many countries, especially on the European continent and in Scandinavia, *labor* favored free trade due to its relative abundance. In other countries, such as the USA, *labor* might have favored protectionism due to its relative scarcity (Rogowski, 1987: 1124–1125). However, it is unlikely that most workers were able to benefit from protectionism because higher prices due to tariffs were not compensated by higher wages. For instance, before the First World War, union density was generally very low (6% in Switzerland and 8% in the USA, see Korpi, 1983: 31) and the industrial integration of unions incomplete. For these reasons, contemporary social democratic writers suggested that *labor* should always side with consumer rather than producer interests and favor free trade (Mann, 1978: 301). Similarly, in the late 19th century, the US labor movement began to endorse free trade policies because they believed workers to bear the cost of tariffs (Prasad, 2012: 126; Mehrotra, 2014: 276–289). For instance, in 1909, the prominent progressive writer Ida Tarbell argued that protectionist tariffs mainly increased the profits of manufacturers, whereas "every penny added to the cost of food, of coal, of common articles of clothing means simply less food, less warmth, less covering" for the working class (cited in Irwin, 2017: 378).

While *capital* and *labor* were sometimes divided on trade policy, their tax policy preferences were straightforward. By the turn of the century, the class conflict had become an important political cleavage in all capitalist economies with *capital* and *labor* occupying opposite poles on the redistributive dimension (Korpi, 1983). In general, *labor* favored direct taxation and opposed consumption taxes for their distributive implications. For the same reason, *capital*

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

opposed direct taxation and considered consumption taxes a more acceptable form of revenue generation.[1]

With their positions on direct and consumption taxation diametrically opposed, *capital-labor* coalitions in tax politics were hard to create. Consequently, the tax policy preferences of *land* were crucial. Yet, *land* primarily cared about trade policies because tariffs had a direct effect on farmers' situation in the international economy, while it was less clear how the other taxes affected them (given farmers' comparatively low levels of market consumption and income). Thus, we argue that *land* primarily evaluated tax policies with regard to their implications for tariff reform.

This discussion suggests that an export-oriented *land* is most likely to form a coalition with *labor* for free trade and direct taxes. Because *land* favors free trade and wants to see the tariff system scaled down, they can join *labor* to push for the direct taxation of income. This coalition can shift taxation to the third group, *capital*, to compensate for revenue loss because of tariff reform. Given that broad-based consumption taxes were still rare before the Great War, a *capital-land* coalition was unlikely to generate the necessary revenue.

In contrast, an internationally non-competitive *land* is most likely to form a coalition with *capital* to install a protectionist trade policy regime. In this case, *land* finds its most important demand fulfilled (protectionism). In addition, revenue from trade taxation makes the development of direct taxes unnecessary, which corresponds to the preferences of *capital*. Importantly, we argue that *land* mainly had strategic reasons to oppose direct taxes, because their absence kept the state financially dependent on revenue from tariffs.[2]

In the following, we examine these expectations empirically. However, first, we discuss our research design.

RESEARCH DESIGN

This paper employs a most similar cases design to examine differences in tax policies in Switzerland and the USA. Before the Great War, these two countries' tax systems were strikingly similar. In both countries, the central government relied on trade and excise taxes (i.e., taxes on specific services and goods such as alcohol), while revenue from direct taxes was reserved for the subnational level.[3] After the war, the two countries had parted ways. The USA had turned to direct taxes, whereas Switzerland, after a temporary, war-related period relying on direct taxes, returned to trade taxes (and later consumption taxes) as the main source of revenue (see Figure 2).[4] What explains this difference?

We argue that *land's* trade policy preferences were crucial for coalition-building in tax politics. *Land's* trade policy preferences, in turn, were informed by their competitive position in international trade. To our knowledge, there is no direct, internationally comparable

[1]In recent decades, *labor* has opened to consumption taxes as a second-best solution due to increasing revenue needs for welfare state expansion and macroeconomic constraints imposed by capital mobility (Kemmerling, 2014).

[2]We do not consider the distinction between protective and revenue tariffs. In principle, protective tariffs need not generate revenue, while revenue tariffs may offer little protection (e.g., tariffs on goods not produced domestically). While such revenue tariffs were historically an important source of revenue, the first wave of globalization, which ended with the Great War, increased the importance of protective tariffs. At the same time, however, tariffs remained an important source of government revenue. Over time, most countries therefore turned to tariffs that combined revenue generation and protection.

[3]In this paper, we focus on central government revenue. In federal states, tax politics might be driven by different factors at national and subnational level. Admittedly, this focus on central government revenue in federal states might limit the potential for generalization.

[4]The USA had temporarily relied on direct taxes to cover the expenses of the Civil War. Switzerland had a direct tax at federal level. Yet, this military service exemption tax affected only a small minority (men unable to serve in the military), was administered by cantons, and revenue was marginal.

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

measure of agriculture's competitive position in the relevant period. However, there can be little doubt that Swiss and US farmers occupied opposite poles on this dimension. At the turn of the century, the US agricultural sector was comparatively industrialized and strongly export-oriented (Prasad, 2012; Irwin, 2017). In contrast, Swiss farmers, disadvantaged by topography, were not competitive on world markets (Junker, 1968; Gruner, 1988). To this day, Swiss farmers depend on state support in the form of tariff protection and public subsidies (Federico, 2005).

What are the implications for policy coalitions and tax policy preferences? In the USA, we expect *land* and *labor* to converge on free trade and direct taxes, which allows both groups to follow their most important preference. In Switzerland, by contrast, we expect *land* and *capital* to converge on trade taxation as the primary source of central government revenue. Put differently, we expect Swiss *land* to trade resistance to direct taxation for *capital's* support for continued protectionism, whereas US *land* supports *labor*'s push for direct taxation to clear the way for a free trade regime.

Turning to alternative explanations for differences in tax policies, we find that Switzerland and the USA are in fact strikingly similar. For instance, some authors point to the role of political institutions and economic development (e.g., Steinmo, 1993; Mares & Queralt, 2015; Beramendi et al., 2019; Emmenegger et al., 2020). Yet, in the relevant period, the two countries featured similar political institutions. They share long traditions of competitive elections and institutional features such as federalism, bicameralism, (quasi) presidentialism, and first elements of direct democracy. Similarly, the presence of an electorally strong social democratic party in Switzerland should have worked in favor of more direct taxation.

Differences in economic development cannot account for the divergence either. Economically, Switzerland was on pace with the USA (Müller & Woitek, 2012: 95), while the level of industrialization was almost identical.[5] Rather than economic development as such, Morgan and Prasad (2009) highlight the role of uneven processes of industrialization, which led to a rural–urban conflict in the USA and ultimately gave rise to a political coalition between farmers and the labor movement, which successfully pushed for income taxation. However, Switzerland featured comparable regional disparities regarding industrialization. Moreover, in both countries, these economic inequalities overlapped with historical conflict lines, separating the rural South from the industrialized Northeast in the USA and the rural Catholic areas from the industrialized Protestant areas in Switzerland. In both countries, there was thus the potential for a coalition between the historical losers in the process of state formation with the political left in support of taxes on the rich.

Another prominent literature links taxation to a social contract between the government and its people, in which a common good (e.g., external defense) is exchanged for investments in the state's extractive capacity (Levi, 1988; North & Weingast, 1989; Timmons, 2005). Building on this literature, Scheve and Stasavage (2016) argue that in periods of mass warfare, the social contract is under severe strain because of an uneven mobilization of soldiers. The duty to serve the country does not affect the population equally. As young men of lower social classes are more likely to be conscripted, citizens demand the wealthy to bear a disproportionate share of the financial burden to establish some equality of sacrifice. Given the emergency and calls for national unity, governments are well-positioned to overcome political resistance to tax reform.

Yet, military conflict cannot account for differences in tax policies between Switzerland and the USA either, because both countries were to a similar extent affected by the Great War. Since the conflict destroyed neither country's capital stock (Haffert, 2019), we focus on the

[5]44.3% of Swiss workers were employed in manufacturing and construction in 1900–1913 compared to 41.5% in the USA in 1910 (sources: https://www.bls.gov/opub/ted/2016/employment-by-industry-1910-and-2015.htm; Müller & Woitek, 2012: 125).

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

effect of mass mobilization. During the *entire* war, 4.8% of the US population served (Rockoff, 2004: 19). Completely surrounded by belligerent countries, Switzerland mobilized significantly more soldiers. In 1914 *alone*, Switzerland mobilized 6.2% of its population, serving on average between 500 and 600 days (Senn, 2019). This mass mobilization without adequate compensation, the war-induced economic crisis, and rapidly increasing food prices led to a nationwide hunger crisis. In the period from 1913 to 1918, the import of food and raw materials collapsed by 68% and 49%, respectively (Fehr, 2015: 493). Whereas the economic and social crisis triggered the only general strike in Swiss political history (in 1918), the US economy, far away from the theatre of war, kept growing throughout the entire conflict (Müller & Woitek, 2012: 95).

Admittedly, the number of battle deaths is not comparable, because Switzerland was lucky not to be dragged into fighting. Yet, due to the Spanish flu, whose outbreak was directly linked to mass mobilization (Spinney, 2017) – it is sometimes called the "war disease" because soldiers were disproportionally affected (Kamradt-Scott, 2012: 92) – 0.66% of the Swiss population died, mostly men aged 20 to 39 (FSO, 2018: 1–3). In contrast, war casualties amounted to 'only' 0.12% of the US population, with diseases, most notably the Spanish flu, responsible for 57% of these war casualties (Rockoff, 2004: 19). Regarding the costs of the mobilization effort (excluding loans), Switzerland spent 29% of its GDP (Geyer, 1934: 18–19), while the USA spent 35% (Rockoff, 2004: 36). Hence, overall, the Great War's effect in terms of creating a desire for equality of sacrifice should be comparable. Nevertheless, the two countries parted ways in this critical period for modern taxation states.

EMPIRICAL ANALYSIS

This section examines our argument empirically. We first show how in the USA, a *land-labor* coalition succeeded in introducing an income tax already before the Great War, while a *land-capital* coalition was instrumental in Switzerland's turn to protectionist tariffs. We then explore how the Great War resulted in an unprecedented expansion of direct taxes in both countries. However, in Switzerland, these new taxes remained temporary, which points to the importance of support by powerful coalitions independent of the war effort. Finally, we show how in both countries, the pre-war coalitions continued to shape post-war tax and trade policies, in the USA by defending the income tax against attacks by *capital* and in Switzerland by returning to emphasize trade taxation and preventing the adoption of a permanent direct tax.

Pre-War Coalitions

The *USA* inherited a highly regressive tax system from the Civil War (1861–1865). In response to the war-induced revenue needs, the Republican Lincoln government had increased tariffs along with several new excise taxes (Brownlee, 2016: 61–62). However, given that these taxes had shifted the burden largely to low- and middle-income households, the Republicans also legislated a tax on income. The primary aim of this new tax was to supplement the other, more volatile tax measures and to gain support for the overall tax package. Yet, after the war, the income tax was abandoned, while tariffs and excise taxes remained in place (Bank et al., 2008: 44–47; Brownlee, 2016: 70). Hence, in the case of the Civil War, considered to be America's bloodiest conflict, income tax reforms had no lasting effect.

The new tax system had clear distributional consequences. Wealthy individuals and corporations benefited most from these taxes, which contributed to an increasing concentration of wealth. In addition, tariffs supported the formation of industrial monopolies by shielding the domestic market from foreign competition with equally negative consequences for consumers (Mehrotra, 2014; Irwin, 2017). In response, to maintain the legitimacy of the tax regime

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

without resorting to direct taxation, the Republicans, as the party of the New England establishment, financed several popular measures such as pensions for veterans and infrastructure programs (Brownlee, 2016: 73–76).

Yet, these measures were insufficient to prevent the politicization of the tax issue. Low-income households had to carry a disproportional share of the burden. In addition, the tax system redistributed wealth not only from low- to high-income households but also from the rural Southern and Western parts of the country to the industrialized Northeast. Tariffs shielded industrial goods that were produced for the domestic market from competition. In contrast, they increased the prices of goods produced in the export-oriented agricultural sector. In this system, corporations could extract rents from consumers, whereas farmers suffered from a loss in competitiveness due to retaliatory tariffs (Prasad, 2012; Irwin, 2017).

The Democratic Party – the political vehicle of farmers, labor, and the South – emphasized that the losers of the Civil War, i.e., the Southern States, did not benefit from spending measures such as pensions while nonetheless being subject to all taxes. By stressing the geographical and economic inequalities generated by the tax system, the Democrats tried to appeal to Southern voters, farmers, and labor (Morgan & Prasad, 2009: 1361–1367; Brownlee, 2016: 77–78). This move to support income tax was also made possible by the change of heart among trade unions. Initially divided on the tariff issue with workers in protected industries favoring tariffs, towards the end of the 19th century labor leaders came to believe that workers were bearing the costs of tariffs (Morgan & Prasad, 2009: 1362; Prasad, 2012: 126; Mehrotra, 2014).

However, while the tariff question was the central issue that divided Democrats and Republicans (Hiscox, 2001; Irwin, 2017), the alternative was far from straightforward. In this situation, the numerous local third-party platforms ('populists') that emerged in the 1880s in the West and Midwest were key. They called for a fundamental reform to abolish the starkest injustices of the tax system by means of an income tax (Prasad, 2012: 125–129; Mehrotra, 2014: 81–85). During the mid-1890s depression, the pressure generated by these groups was key to push the Democratic Party leadership to endorse income taxation (Brownlee, 2016: 80).

Even though Democrats did not support income taxation unanimously, the depression marked the first opportunity to fundamentally reform the existing system (Limberg, 2022). In 1893, Democrats controlled both Houses of Congress and the White House. Under these favorable conditions, a land-labor coalition consisting of Democrats and Populists with the support of some Republicans from rural Midwestern states was able to legislate the first income tax law against the opposition of most Republicans and the few Northeastern Democrats (Mehrotra, 2014: 124–128; Brownlee, 2016: 81). The success was short-lived, however. To the surprise of most experts, the Supreme Court struck down the income tax as unconstitutional (Mehrotra, 2014: 130–132). Given that the Democrats lost all presidential elections between 1896 and 1908, while the Republicans held both Houses of Congress until 1910, further attempts to introduce income taxation were off the table.

The next stab at legislating income taxation came a few years before the Great War. Given its growing popularity, the Democrats continued to push for an income tax, whereas Republicans from rural Midwestern states voiced opposition against their party leadership and the protectionist regime. In 1909, both groups together could gather enough votes in Congress to draft a proposal that would legalize and legislate income taxation (Mehrotra, 2014: 242–269).

However, both proponents and opponents expected that the bill would not survive the legislative process (Martin, 2013: 24–43). Even though the progression of the tax was held at rather modest levels to gather enough votes, the bill still had to be ratified by three-fourths of all states (Brownlee, 2016: 87). In line with most observers' expectations, the bill suffered several defeats in the Northeastern states. Yet, many Democrats and progressive Republicans were victorious in the elections for state legislatures and Congress in 1910 and picked up the

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

legislative process (Martin, 2013: 41). Ultimately, more states than the required three-fourths had ratified the constitutional amendment by 1913 (Prasad, 2012: 128; Brownlee, 2016: 89).

The resulting income tax, adopted in 1913, was modest in terms of progressivity. In addition, it was doubtful whether income taxation would generate substantial revenue. Democrats and progressive Republicans had hoped that the new tax could replace, at least partly, tariffs. However, they certainly did not expect that income taxation could become the main source of revenue that would finance the expanding tasks of the central government (Brownlee, 2016: 91). Yet, this was about to change with the Great War.

In *Switzerland,* the situation was strikingly different. The agrarian crisis in the late 19th century had affected farmers in profound ways. Technological advances had exposed a previously sealed economic sector to international competition. Unable to compete on world markets, the level of debt among farmers increased, while rural areas suffered from depopulation (Mani, 1928: 12–16; Junker, 1968: 9; Gruner, 1988: 1392). The farmers understood that political interventions were needed to protect their economic welfare. In 1897, they created the Swiss Farmers' Association to influence the tariff system (Mani, 1928: 75; Junker, 1968: 9–15). In parallel, discussions about the creation of a Farmers' Party started, which ultimately ran on a national platform for the first time in 1919, winning 15% of the vote.

Looking for coalition partners to advance their economic interests and featuring a strong anti-capitalist wing (Junker, 1968: 27), the farmers were at first open to a coalition with labor. For instance, both groups opposed land speculation and demanded a public credit system to buy land (Gruner, 1988: 1394). Yet, there were natural limits to such a coalition. While the farmers called for protective tariffs (Mani, 1928; Junker, 1968), the partisan wing of the workers' movement, the Social Democratic Party, clearly sided with consumer interests (Meierhans, 1921; Geyer, 1934). Aware of their own organizational weakness, labor understood that they lacked the capacity to enforce higher wages to compensate for higher prices. Instead, they favored free trade and direct taxes (Meierhans, 1921; Gruner, 1988).

Historically, Swiss industry, primarily represented by the Liberal Party (*Freisinnig-Demokratische Partei*), had favored free trade. Yet, the global economic crisis in the late 19th century had hit several key industries hard, causing many of these industries to endorse protectionism (Zitt, 1928; Gruner, 1988; Baumann & Moser, 1999). However, the situation within the Liberal Party was complicated. As the most powerful party of the time, the Liberals combined a variety of groups, from traditional free traders (financial and watch-making industries) to protectionists (textile industry, the crafts, and farmers). This heterogeneous group at first struggled to form a clear position on trade (Zitt, 1928; Humair, 2004). Yet, with the farmers' wing openly contemplating to form its own party, party leadership was willing to listen to the farmers' policy preferences (Mani, 1928; Zitt, 1928; Junker, 1968). Hence, a protectionist land-capital coalition emerged, which faced free-trading labor.

In the period before the Great War, tariffs were set by means of a general law on tariffs, which was to be renewed on a regular basis. The 1890 law on tariffs marked a first, albeit timid turn toward protectionism. It was the 1902 law on tariffs that fundamentally reshaped the Swiss trade regime toward protectionism. In both cases, a free trade coalition launched a law referendum, yet failed decisively (Linder et al., 2010a: 73–75, 100–102).

The two decisions were key in establishing the policy coalition shaping tax politics for the decades to come. In both cases, a free trade alliance led by workers, consumer groups, and the financial industry fought a protectionist coalition consisting of the farmers, the manufacturing industry, and the crafts (Meierhans, 1921: 15). In fact, for the 1902 law on tariffs, the Swiss government negotiated directly with the peak associations of farmers, crafts, and industry. Little wonder that these three key interest groups jointly defended the general tariff (Linder et al., 2010a: 101).

The 1902 law was particularly favorable for farmers, which explains why they took the lead in fighting the referendum campaign. This had two important consequences. First, the

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

political struggle over the 1902 general tariff cemented the conflict of interest between producer and consumer interests, making a coalition between land and labor all but impossible. In fact, there was a "enmity between farmers and workers" (Gruner, 1988: 1397) due to the struggle over the tariff system (Meierhans, 1921; Junker, 1968). Second, the farmers' successful campaign against the referendum demonstrated their ability to mobilize the masses and win political majorities (Mani, 1928; Geyer, 1934). The farmers' association had proven to be a political force.

What is the relevance of these developments for the origins of direct taxation in Switzerland? By 1913, revenue from trade taxation provided more than 80% of all central government revenue (Geyer, 1934: 15). This dependency on trade taxation could be reduced only by introducing direct taxes. Yet, such taxes were in the interest of neither capital nor land. Capital opposed such taxes for redistributive reasons. In contrast, farmers were unlikely to be strongly affected by such taxes (Geyer, 1934: 101–109). Instead, farmers' opposition to direct taxes was strategic. Primarily interested in high tariffs on agricultural imports, farmers opposed direct taxes to keep the state dependent on trade taxation (Meierhans, 1921: 114; Mani, 1928: 10; Geyer, 1934: 205–206). In the words of the powerful general secretary of the farmers' association, Ernst Laur, "we cannot support fiscal policies that would undermine the central state's interest in revenue from tariffs" (Bauernzeitung, December 1914, cited in Mani, 1928: 55). Hence, Swiss tax politics "can be understood only by looking at conflicts over tariffs" (Geyer, 1934: 211). Against this background, social democratic calls for direct taxes, as for instance expressed in their 1904 program (Meierhans, 1921: 17), fell on deaf ears.

Equality of Sacrifice during the Great War

With the *USA* entering the military conflict in 1917, central government spending increased substantially, from 0.2% to 3.2% of GDP between 1914 and 1919 (Mehrotra, 2014: 298). To finance the numerous war measures implemented by the Wilson administration, the government expanded the new income tax in scale and scope to unprecedented levels (next to the introduction of a temporary war profits tax). In 1913, the year of its adoption, income taxation generated about 10% of all central government revenue. Five years later, it already generated 35% (Mehrotra, 2014: 300). This rapid increase was largely driven by increasing top marginal tax rates, which skyrocketed from 7% in 1915 to 77% in 1918 (Scheve & Stasavage, 2016: 159). Although more households had to pay income tax due to decreasing exemption levels, the effective tax rate of the wealthiest households rose from 3% to 22% (Mehrotra, 2014: 300). Consequently, the income tax replaced trade taxes as the main source of revenue.

With the 1916 Revenue Act, the USA had already taken a turn to more direct taxation before war entry (Scheve & Stasavage, 2016: 156). However, the turn to direct taxation received an additional boost by arguments emphasizing equality of sacrifice after the US had entered the war. For instance, shortly after war entry, a committee of economists argued that "if conscription of men is just and right, conscription of income is the more so" (National Tax Association, 1917, cited in Scheve & Stasavage, 2016: 157) and therefore demanded a sharper progression in income tax rates. Such attitudes were held by large shares of the US population, as reflected in numerous calls for 'conscription of wealth' in local as well as leading national newspapers (Bank et al., 2008: 68–71; Mehrotra, 2014: 304; Scheve & Stasavage, 2016: 158–159).

Political developments were similar in *Switzerland*, albeit with one important difference: The Great War changed tax policies only temporarily. With the war entry of Italy in April 1915, Switzerland was surrounded by belligerent countries, which had massive effects on government revenue from trade taxation. Switzerland's immediate reaction to the worsening financial situation was to increase tariffs and the rates of excise taxes. Yet, it became immediately clear that these "meagre" measures (Geyer, 1934: 20) would not suffice. The political left was quick

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

to demand a new direct tax to finance the mobilization costs (Meierhans, 1921: 65), arguing that "the deployment of troops at the border should be followed by a deployment of taxpayers in similar unity" (Geyer, 1943: 53). Running out of alternatives, the liberal-conservative government, primarily representing industry and farmers' interests, recommended the introduction of a one-time 'war tax' on wealth and income as well as a temporary war profits tax (similar to the US one).

The proposal was well received and found *unanimous* support in both chambers of parliament. The Federal Government called the war tax a "sign of unity of the Swiss people" (Linder et al., 2010a: 119) and a "sacrifice on the altar of the fatherland in gratitude for the preservation of Switzerland from the horrors of war" (Meierhans, 1921: 66). Despite high levels of progressivity and few exemptions, the tax found broad support among all political groups, including the farmers' association, which described it as a "patriotic duty" (Mani, 1928: 10). In addition, although the government could have enacted the tax on its own due to its war-time emergency powers, it was a deliberate decision to subject it to a popular vote. With all parties calling for patriotism in this dire hour, the people did not disappoint, as a record-high 94.3% supported the tax (Linder et al., 2010a: 118).

Although events in Switzerland seem so far in line with the 'equality of sacrifice' thesis, there are important differences. Most notably, the government had deliberately designed the war tax as a one-time, non-recurring tax, because it was concerned that a permanent tax would trigger strong political opposition (Geyer, 1934: 23). Put differently, the war tax was not intended to have a lasting impact on the tax system. Rather, it was meant as an emergency tax to cover for extraordinary spending. The subsequent debate on its repetition showed that there was strong resistance to a permanent direct tax at federal level.

The additional revenue generated by the war tax soon proved to be insufficient. In October 1916, the government thus assembled all major parties and business interest groups to discuss further measures. The Social Democrats demanded a permanent direct tax but found little support among the other participants (Meierhans, 1921: 114; Zitt, 1928: 74–76). In response, the Social Democrats launched a popular initiative to demand the introduction of a permanent direct tax at federal level (Meierhans, 1921: 120). The Social Democrats hoped for better reception in the population, because they considered the farmers' association's opposition to be primarily strategic. The Social Democrats understood that a direct tax would not strongly affect most farmers. Instead, they suspected that the farmers' association's opposition to direct taxes was to keep the central state dependent on revenue from tariffs (Meierhans, 1921: 114). Yet, they doubted that such strategic considerations would affect the voting behavior of most farmers (Geyer, 1934: 108).

The Social Democrats' proposal thus had a realistic chance of being approved. It is in this context that the liberal-conservative government finally suggested the repetition of the war tax. There can be no doubt that the proposal was meant to undermine support for the social democratic initiative (Meierhans, 1921: 125; Mani, 1928: 155; Geyer, 1934: 72–73). For instance, the Liberal Party originally rejected a repetition of the war tax. Yet, confronted with the social democratic proposal, the party decided to change its position and supported the repetition of a *temporary* war tax to avoid "worse outcomes" (Zitt, 1928: 77, 95). Tellingly, this second war tax was even more progressive than the first one (Geyer, 1934: 75), which indicates that the capital-land coalition was more concerned about long-term changes to the tax system than short-term redistributive effects.[6]

The strategy to split the support for direct taxes worked. In June 1918, 54.1% of the population rejected the social democratic proposal to introduce a permanent direct tax, while in May

[6]The financial industry had not been part of the original coalition between the farmers, the manufacturing industry, and the crafts but was now brought on board. The increasing focus on asset management, supported by the 1934 Banking Act which codified banking secrecy, partially resolved the conflicts over trade taxes between the financial industry and the other economic sectors.

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

1919, 65.1% supported the repetition of the war tax (Linder et al., 2010a: 121–122, 125–126). Importantly, however, the second war tax was deliberately designed to be temporary, linking its duration to the revenue needed to cover for the war mobilization cost (Geyer, 1934: 72–76). This temporal restriction was a key condition for the second war tax to be supported by farmers, industry, and non-socialist parties (Mani, 1928: 155–156; Zitt, 1928: 79–88; Geyer, 1934: 56; Hodel, 1994: 273).

The Return of the Pre-War Coalitions

In the *USA,* the new wartime revenue acts had altered the redistributive character of government revenue. While increasing top marginal tax rates had been accompanied by calls for such 'conscription of wealth', these calls were not supported unanimously. Especially business leaders opposed the tax measures (Bank et al., 2008: 66; Martin, 2013: 45–67; Brownlee, 2016: 100). Thus, once the Republicans had assumed control of Congress and the Presidency in 1918 and 1920, they attempted to roll back many of the tax reforms of the Wilson administration.

However, even though the Republicans repealed several measures such as the war profits tax, cut top marginal tax rates, and created new tax loopholes, they did not revert the tax regime back to pre-war levels (Prasad, 2012; Martin, 2013). For instance, the effective tax rate for the wealthiest households was reduced from 22% in 1918 to 9% in 1930, but it never reached the 3% of the pre-war period. In addition, direct taxes continued to be the main revenue backbone of the central government, accounting for more than 60% of total revenue in 1929 compared to 16.4% in 1916 (Mehrotra, 2014: 350–352).

Why did high income tax rates remain, albeit reduced, in place? Part of the answer lies in the persistence of the land-labor coalition. Although their united front against tariffs had begun to crumble because of falling prices for agricultural goods after the war, they continued to oppose the introduction of alternatives to income taxation, most notably a general sales tax (Hiscox, 2001: 17–19). Clearly, the status quo is a powerful anchor, and as shown above, it had taken the land-labor coalition decades to install an income tax. Moreover, a return to a revenue system based on tariffs and excise taxes was seen as economically ineffective. After the war, revenue from trade taxation was of minor importance compared to income taxation, while there was much uncertainty about the effects of a new general sales tax. At the same time, expenditure levels remained high while wartime debt had to be paid off (Blakey & Blakey, 1940: 202). It is therefore unsurprising that despite increases in tariffs, alternative measures were debated to address spending needs and, as some business leaders hoped, replace income taxation (Bank et al., 2008: 79–80).

However, attempts to repeal the income tax were met with fierce opposition by the democratic minority and progressive Republicans, especially from rural Western and Midwestern states (Mehrotra, 2014). Given that the latter were able to tip the balance in the Senate, both groups managed to fight tax cuts and to delay the repeal of specific measures such as the war profits tax (Blakey & Blakey, 1940: 205). Most importantly, however, Republicans failed to legislate a nation-wide general sales tax as the major alternative to income taxation. The issue was repeatedly brought up by Republican senators. However, opponents of the general sales tax were clearly aware of its distributional consequences, shifting the tax burden onto consumers and thus possibly weakening domestic demands for agricultural products. Therefore, the bills were voted down in the Senate by Democrats and Midwestern Republicans on all three occasions (Prasad, 2012: 104–108; Mehrotra, 2014: 376–383).

After its defeat in 1921, the general sales tax was brought up again in 1932. With the incremental roll back of many war-related tax measures, the USA struggled to collect enough revenue to address spending needs and pay off wartime debt. The Republican Party leadership seized the opportunity to put the general sales tax back on the table as a solution

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

to tackle increasing revenue needs. However, proposals to adopt the tax were defeated in both houses. Again, the voting pattern was remarkably similar to the one in 1921. Most Democrats as well as Republicans from rural Western and Midwestern states voted against the general sales tax, while all other Republicans and Northeastern Democrats supported the proposals. After this defeat, no further attempt to introduce a fully-fledged general sales tax was made before 1985 (Prasad, 2012: 109–124). Thus, thanks to the labor-land coalition, income taxation remained the main source of central government revenue throughout the 20th century.

Switzerland emerged from the Great War without a permanent direct tax. Although concerns about equality of sacrifice had given rise to a *temporary* war tax, its revenue was linked to mobilization costs and finally ran out in 1932. Regarding the regular government budget, nothing fundamental had changed compared to the pre-war period. Yet, where should central government revenue come from?

While industry and the ever-torn Liberals were contemplating a free trade regime (Zitt, 1928: 121–132), two other groups had clear ideas. The Social Democrats and the increasingly vocal unions demanded direct taxes. Following the popular rejection of their 1918 proposal, they launched a new initiative, this time demanding a tax on wealth with rates of up to 60%. In contrast, the farmers immediately called for a return to the pre-war tariff system (Geyer, 1934: 127). Taking note of the debates among the Liberals, the farmers made it clear what they thought was at stake. At a government-led conference with all parties and the major interest groups in 1920, the farmers' association's general secretary, Laur, argued, "the simplest solution [to the central state's financial woes] would have been the direct tax. We fought it for opportunistic reasons at the time. The direct tax might have been the best solution for fiscal and social reasons, yet the proposal came from the anti-farmer Social Democrats, it was against the Federal Council, it endangered the farmer-friendly tariff system. Therefore, it had to be fought by all means" (conference protocol, cited in Mani, 1928: 141–142). Similarly, in 1921, Laur wrote that "if industry continues to sabotage our proposals, we will be forced to join those who want to solve the fiscal problems on the back of high incomes and wealth" (Bauernzeitung, January 1921, cited in Mani, 1928: 129).

It is not difficult to recognize the threat in these statements. The farmers would not hesitate to support policies against the interests of industry, most notably direct taxes, if industry did not support the farmers' interest in protectionism (Mani, 1928: 142; Geyer, 1934: 1034, 148). For the same reason, Laur did not want to reveal at the 1920 conference whether the farmers would support the Social Democrats' proposal for a wealth tax. Considering higher tariffs to be the lesser evil, the Liberal Party ultimately agreed to a new protectionist tariff in 1921 (Zitt, 1928: 129; Geyer, 1934: 207–208; Baumann & Moser, 1999: 107). This forceful return to protectionism is remarkable because only four years earlier, the government, dominated by the Liberals, had expressed concerns about relying too much on tariffs for revenue (Meierhans, 1921: 60). Yet, by 1925, 71% of central government revenue again came from tariffs. In return, the farmers' association became a forceful opponent of the social democratic proposal to introduce a wealth tax (Mani, 1928: 54, 168).

This is just one example of farmers openly threatening to support social democratic proposals to force industry and the Liberals to toe the line. Other examples in the post-war years include social democratic attacks on banking secrecy or proposals to introduce luxury taxes (Mani, 1928: 123, 159, 167). Repeatedly, farmers brought up the possibility of a land-labor coalition. In 1926, they even cooperated in fighting a government proposal to regulate the import of wheat (Linder et al., 2010a: 154–155).[7] Yet, ultimately, the old land-capital coalition prevailed,

[7]The Liberals had to take these threats seriously. In the 1928 election, the Social Democrats had become the electorally strongest party (27%). The two parties primarily representing rural interests, the Catholic People's Party and the mostly protestant Farmers' Party, had vote shares of 21% and 16%, respectively. In turn, the once dominant Liberal Party's vote share had declined to 27% (Linder et al., 2010b: 1947). Without support from the two more rural parties, the Liberals would not have been able to maintain control over the government.

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

and the farmers were rewarded for their loyalty with protectionist tariffs, public subsidies for agriculture, and, in 1929, a seat in the Federal Council, for the newly created Farmers' Party (Baumann & Moser, 1999: 41, 110–111).[8]

CONCLUSION

What can we learn from this analysis beyond the two cases examined in this paper? In line with Scheve and Stasavage (2016), we have found that concerns about equality of sacrifice made countries turn to direct taxes during the Great War. However, this literature often overlooks the important revenue-generating role of trade taxes. In 1913, across capitalist economies, trade taxes provided almost half of central government tax revenue. Facing massive mobilization costs *and* a collapse in international trade, governments had little choice but to look for alternative sources of revenue – independent of concerns about equality of sacrifice.

Moreover, contra Scheve and Stasavage (2016), these war-induced tax reforms did not necessarily have a lasting effect. The literature on the politics of taxation often argues that periods of military conflict provide policymakers with the opportunity to fundamentally change the state's fiscal capacity because military conflicts create crisis-induced shifts in the taxpayers' perceptions of what may be tolerable levels of taxation. In the Swiss case, however, the new direct taxes were deliberately designed to be temporary. After the war, Switzerland returned to indirect taxation, in particular trade taxation, as the main source of revenue. More generally, several capitalist economies installed high tariff systems in the 1920s (Frieden, 2006: 139). Some of these countries used increasing revenue from indirect taxation to reduce the role of direct taxes (e.g., France), whereas other countries (e.g., Great Britain) decided to preserve their tax systems based on direct taxes (Morgan & Prasad, 2009: 1377).

We have argued that tax reforms in this critical period for modern tax systems were conditioned by pre-war political coalitions. These coalitions had already come into existence *before* the Great War, whose main role simply was to temporarily interrupt (Switzerland) or cement (USA) the tax system's reorientation. Hence, although the paper aligns with the rich literature on how war boosts the *tax yield*, it shows that war-induced tax reforms have a lasting impact on the *tax mix* only if powerful coalitions support these reforms *independently* of the war effort. In line with this argument, we have shown that in the USA, the initial turn to direct taxation in fact predated the Great War.

Our work complements Barnes (2020) who has highlighted the role of trade considerations in tax politics in the 19th century. We demonstrate that political coalitions built on trade policy preferences also shaped tax policies in the years around the Great War. In both countries, these coalitions primarily reflected the trade policy preferences of farmers, which are often overlooked in the literature on the politics of taxation, although farmers constituted a substantial share of the population in turn of the century polities and were often politically well-organized. A notable exception is the important work of Prasad (2012) who highlights the key role of farmers in the politics of taxation. However, her arguments about uneven processes of

[8]In Switzerland, opposition to direct taxation was sometimes expressed in terms of anti-centralization preferences. However, these anti-centralization preferences, especially among the Catholic and French-speaking minorities, perfectly overlapped with the tax policy preferences of the decisive land-capital coalition, as disproportionally large shares of Catholic and French-speaking voters were in fact farmers (Zitt, 1928: 99; Geyer, 1934: 206; Hodel, 1994: 358–359). Contemporary observers thus described the argument as a smokescreen to obfuscate the farmers' real interest in keeping the state dependent on tariffs (Meierhans, 1921: 114; Mani, 1928: 51–60; Geyer, 1934: 108–109). In contrast, in the USA, the anti-centralization argument did not overlap with the trade and tax policy preferences of the land-labor coalition, which explains why rural actors, as the natural defenders of decentralization, saw little use in emphasizing it. Such references were "conspicuously absent" in the US debate (Morgan & Prasad, 2009: 1361). While there can be no doubt that anti-centralization sentiments have an independent effect on tax politics, their importance should not be exaggerated in the Swiss case. There are several examples of centralizing reforms in agricultural, tariff, and tax policies that went unopposed in this period (Mani, 1928: 138–139), which points to the need to politically activate these sentiments.

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

industrialization and low levels of state penetration cannot account for the differences in tax policies between Switzerland and the USA (Morgan & Prasad, 2009).

More generally, we argue that the literature on the politics of taxation needs to pay more attention to economic considerations other than redistribution because tax policies affect the cost of all economic activities. Consequently, different coalitions are possible because actors' interests are also shaped by their situation in the international economy. With tax policy preferences of *capital* and *labor* diametrically opposed and thus little potential for a *capital-labor* coalition, other actors become important. In the early 20th century, *land* was this actor. Yet, farmers primarily care about trade taxes. Ironically, then, farmers' flexible position on taxes other than tariffs made them the key actor in this foundational period of the modern tax state.

History repeated itself during the Second World War. Fueled by a collapse in international trade, war-induced revenue needs, and demands for equality of sacrifice, direct taxes again skyrocketed, but once the war was over, several countries, including Switzerland, returned to rely on indirect taxes. However, the new Bretton Woods regime, which favored free trade, made a return to trade taxation difficult. Instead, most West European countries turned to indirect taxes on consumption. From the late 1960s onwards, the value-added tax became the 'money machine' that funded welfare state development (Helgason, 2017), although to a lesser extent in Switzerland.

Similarly, farmers have lost some of their political influence. However, due to the importance of path dependency in tax systems, these initial differences are still visible today. Whereas income taxes are still the main source of US central government revenue, Switzerland continues to struggle with direct taxation. It was not until 1958 that the Swiss central state finally received the constitutional right to collect income taxes in non-emergency situations. Hence, although farmers and trade considerations might no longer play a critical role in tax politics, the origins of modern taxation cannot be understood without taking them into account.

ACKNOWLEDGMENTS

Earlier versions of this paper were presented at the 2020 conference of the Society for the Advancement of Socio-Economics and at the 2020 conference of the Swiss Political Science Association. We thank Per F. Andersson, Lucy Barnes, Tim Büthe, Damian Raess, Laura Seelkopf, and all other participants as well as the three anonymous reviewers for their excellent comments. All remaining errors are the authors' responsibility. Open access funding provided by Universitat St Gallen.

FUNDING INFORMATION

No funding.

DATA AVAILABILITY STATEMENT

Data sharing is not applicable to this article as no new data were created or analyzed in this study.

ORCID

Patrick Emmenegger https://orcid.org/0000-0002-5231-6272
André Walter https://orcid.org/0000-0003-1390-778X

REFERENCES

Andersson, P., & Brambor, T. (2019). *Financing the State: Government Tax Revenue from 1800 to 2012*. Lund: Lund University.

Bank, S., Stark, K., & Thorndike, J. (2008). *War and Taxes*. Washington D.C.: Urban Institute.

Barnes, L. (2020). Trade and Redistribution: Trade Politics and the Origins of Progressive Taxation. *Political Science Research and Methods 8*(2), 197–214.

Baumann, W., & Moser, P. (1999). *Bauern im Industriestaat: Agrarpolitische Konzeptionen und bäuerliche Bewegungen in der Schweiz 1918–1968*. Zürich: Orell Füssli.

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universitat St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

Beramendi, P., Dincecco, M., & Rogers, M. (2019). Intra-Elite Competition and Long-Run Fiscal Development. *Journal of Politics 81*(1), 49–65.
Bird, R., & Zolt, E. (2005). Redistribution via Taxation: The Limited Role of the Personal Income Tax in Developing Countries. *UCLA Law Review 52*(6), 1627–1695.
Blakey, R., & Blakey, G. (1940). *The Federal Income Tax*. Clark: Lawbook Exchange.
Boix, C. (2003). *Democracy and Redistribution*. Cambridge: Cambridge University Press.
Brownlee, E. (2016). *Federal Taxation in America*. Cambridge: Cambridge University Press.
Cardoso, J., & Lains, P. (2010). *Paying for the Liberal State*. Cambridge: Cambridge University Press.
Emmenegger, P., Leemann, L., & Walter, A. (2020). No Direct Taxation Without New Elite Representation: Industrialization and the Domestic Politics of Taxation. *European Journal of Political Research*, *60*(3), 648–669.
Federico, G. (2005). *Feeding the World: An Economic History of Agriculture, 1800–2000*. Princeton: Princeton University Press.
Fehr, S. (2015). Energie für den Krieg: Schweizer Unternehmen als Zulieferer und Produzenten in der deutschen Stickstoffwirtschaft während des Ersten Weltkriegs. *Jahrbuch für Wirtschaftsgeschichte 56*(2), 479–513.
Findlay, R., & O'Rourke, K. (2006). *Power and Plenty: Trade, War, and the World Economy in the Second Millennium*. Princeton: Princeton University Press.
Frieden, J. (2006). *Global Capitalism*. New York: W.W. Norton.
FSO. (2018). *Todesfälle in der Schweiz auf Rekordniveau: Die Spanische Grippe von 1918*. Neuenburg: BfS.
Geyer, E. (1934). *Charakter und Ideengehalt der veranlagten Steuern der Schweizerischen Eidgenossenschaft*. Aarau: Sauerländer.
Gruner, E. (1988). *Arbeiterschaft und Wirtschaft in der Schweiz 1880–1914*. Zürich: Chronos.
Haffert, L. (2019). War Mobilization or War Destruction? The Unequal Rise of Progressive Taxation Revisited. *Review of International Organizations 14*(1), 59–82.
Haffert, L., & Mertens, D. (2021). Between Distribution and Allocation: Growth Models, Sectoral Coalitions and the Politics of Taxation Revisited. *Socio-Economic Review 19*(2), 487–510.
Helgason, A. (2017). Unleashing the 'Money Machine': The Domestic Political Foundations of VAT Adoption. *Socio-Economic Review 15*(4), 797–813.
Hiscox, M. (2001). Class Versus Industry Cleavages: Inter-Industry Factor Mobility and the Politics of Trade. *International Organization 55*(1), 1–46.
Hodel, M. (1994). *Die Schweizerische Konservative Volkspartei, 1918–1929*. Freiburg: Universitätsverlag.
Humair, C. (2004). *Développement économique et état central (1815–1914): Un siècle de politique douanière suisse au service des élites*. Bern: Lang.
Hutson, J. (1991). *The Sister Republics: Switzerland and the United States from 1776 to the Present*. Washington D.C.: Library of Congress.
Irwin, D. (2017). *Clashing over Commerce: A History of US Trade Policy*. Chicago: University of Chicago Press.
Junker, B. (1968). *Die Bauern auf dem Wege zur Politik*. Bern: Francke.
Kamradt-Scott, A. (2012). Changing Perceptions: Of Pandemic Influenza and Public Health Responses. *American Journal of Public Health 102*(1), 90–98.
Kemmerling, A. (2014). How Labour Ended Up Taxing Itself and Why It Matters. *Journal of European Social Policy 24*(2), 150–163.
Korpi, W. (1983). *The Democratic Class Struggle*. London: Routledge & Kegan Paul.
Levi, M. (1988). *Of Rule and Revenue*. Berkeley: University of California Press.
Limberg, J. (2022). Banking Crises and the Modern Tax State. *Socio-Economic Review 20*(1), 29–54.
Linder, W., Bolliger, C., & Rielle, Y. (2010a). *Handbuch der eidgenössischen Volksabstimmungen 1848 bis 2007*. Bern: Haupt.
Linder, W., Lutz, G., Bolliger, C., & Hänny, S. (2010b). Switzerland. In: D. Nohlen & P. Stöver (Eds.). *Elections in Europe*. Mannheim: Nomos, 1879–1966.
Mani, B. (1928). *Die Bundesfinanzpolitik des schweizerischen Bauernstandes in der neuern Zeit*. Zürich: Kommissionsverlag A. Rudolf.
Mann, F. (1978). *Steuerpolitische Ideale*. Stuttgart: Fischer.
Mares, I., & Queralt, D. (2015). The Non-Democratic Origins of Income Taxation. *Comparative Political Studies 48*(14), 1974–2009.
Martin, I. (2013). *Rich People's Movements: Grassroots Campaigns to Untax the One Percent*. Oxford: Oxford University Press.
Mehrotra, A. (2014). *Making the Modern American Fiscal State: Law, Politics, and the Rise of Progressive Taxation, 1877–1929*. Cambridge: Cambridge University Press.
Meierhans, P. (1921). *Zur Steuerpolitik der schweizerischen Sozialdemokratie*. Zürich: Dissertation Universität Zürich.
Morgan, K., & Prasad, M. (2009). The Origins of Tax Systems: A French-American Comparison. *American Journal of Sociology 114*(5), 1350–1394.
Müller, M., & Woitek, U. (2012). *Wohlstand, Wachstum und Konjunktur*. In: P. Halbeisen, M. Müller, & B. Veyrasset (Eds.). Wirtschaftsgeschichte der Schweiz im 20. Jahrhundert. Basel: Schwabe (91–222).

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universität St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

North, D., & Weingast, B. (1989). Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England. *Journal of Economic History 49*(4), 803–832.
Peters, G. (1991). *The Politics of Taxation: A Comparative Perspective*. Cambridge: Blackwell.
Prasad, M. (2012). *The Land of Too Much: American Abundance and the Paradox of Poverty*. Cambridge: Harvard University Press.
Prasad, M., & Deng, Y. (2009). Taxation and the Worlds of Welfare. *Socio-Economic Review 7*(3), 431–457.
Queralt, D. (2019). War, International Finance, and Fiscal Capacity in the Long Run. *International Organization 73*(4), 713–753.
Rockoff, H. (2004). *Until It's Over, Over There: The U.S. Economy in World War I*. NBER Working Paper 10580.
Rogowski, R. (1987). Political Cleavages and Changing Exposure to Trade. *American Political Science Review 81*(4), 1121–1137.
Scheve, K., & Stasavage, D. (2016). *Taxing the Rich. A History of Fiscal Fairness in the United States and Europa*. Princeton: Princeton University Press.
Seelkopf, L., Bubek, M., Eihmanis, E., Ganderson, J., Limberg, J., Mnaili, Y., Zuluaga, P., & Genschel, P. (2019). The Rise of Modern Taxation: A Comprehensive Dataset for Tax Introductions Worldwide. *Review of International Organizations 16*(1), 239–263.
Seelkopf, L., Lierse, H., & Schmitt, C. (2016). Trade Liberalization and the Global Expansion of Modern Taxes. *Review of International Political Economy 23*(2), 208–231.
Senn, H. (2019). Aktivdienst. URL: https://hls-dhs-dss.ch/de/articles/008685/2019-04-16/
Spinney, L. (2017). *The Pale Rider: The Spanish Flu of 1918 and How It Changed the World*. New York: Public Affairs.
Steinmo, S. (1993). *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State*. New Haven: Yale University Press.
Timmons, J. (2005). The Fiscal Contract: States, Taxes, and Public Services. *World Politics 57*(4), 530–567.
Zitt, H. (1928). *Die Steuerpolitik der freisinnig-demokratischen Partei der Schweiz*. Affoltern: Weiss.

AUTHOR BIOGRAPHIES

Patrick Emmenegger is Professor of Political Science at the University of St. Gallen. His research interests include comparative political economy, democratization, and state building. E-mail: patrick.emmenegger@unisg.ch

André Walter is a senior researcher and SNSF Ambizione Fellow at the University of Zurich. His research focuses on comparative politics and quantitative methods. E-mail: andre.walter@ipz.uzh.ch

How to cite this article: Emmenegger, P., & Walter, A. (2022). International Trade, the Great War, and the Origins of Taxation: Sister Republics Parting Ways. *Swiss Political Science Review*, *28*, 585–603. https://doi.org/10.1111/spsr.12541

16626370, 2022, 4, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/spsr.12541 by Bibliothek Universität St. Gallen, Wiley Online Library on [31/03/2023]. See the Terms and Conditions (https://onlinelibrary.wiley.com/terms-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License