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**Economic ideas and economists in the Parliament in the
liberal age: The attempt to implement a tax on incomes in
Spain in 1868-1869**

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Resumen: El estudio de la presencia de ideas económicas en los debates parlamentarios se ha convertido recientemente en un objeto importante dentro de la investigación sobre el proceso de institucionalización de la economía política en Europa Occidental en la llamada *era liberal*. En este marco general, este artículo se centra en el análisis de un caso de particular interés: La relevancia del pensamiento económico y el papel jugado por los economistas en los debates parlamentarios que siguieron a la creación de un nuevo impuesto que trataba de captar la renta personal, que fue lanzado por el ministro de Hacienda Laureano Figuerola en 1868. El artículo intenta demostrar, en primer lugar, que las ideas económicas jugaron efectivamente un papel relevante en las discusiones sobre el impuesto sobre la renta y que la presencia e influencia de los economistas en el Legislativo en este tiempo fue notable. En segundo lugar, que este fue un intento serio de modernizar la estructura fiscal española llevado a cabo por el Gobierno Provisional, el cual trató de diseñar un sistema impositivo capaz de fomentar el crecimiento económico del país.

Abstract: The presence of economic ideas in parliamentary debates is a field of study that has increasingly gained attention within the wider subject of the institutionalisation of political economy in the so called *liberal age* in Western world. Within this general framework, this paper focuses on a particular case: It studies the relevance of economic ideas and the role of economists in the debates which took place in the Spanish Parliament following the bill issued by the Minister of Finances Laureano Figuerola in order to establish a tax on personal incomes in 1868. The article attempts to show, first, that economic ideas played a significant role in the design and the subsequent discussions about the income tax, and that the presence and influence of economists in the Parliament at that time was remarkable. Secondly, that this was a serious attempt to modernise the structure of taxation in Spain after the liberal revolution of 1868, seeking to devise a fiscal system capable to foster economic development.

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Introduction

The penetration and spread of economic doctrines in the political realm constitutes one of the main branches of what has been called the “institutional history of political economy”. This is a field of studies within the history of economic thought which is grounded on the idea that it is worthy to analyse the institutional framework in which political economy develops, in order to learn more about the emergence and evolution of economic ideas.¹ From this point of view, some scholars have recently studied the consolidation of political economy in the institutions and the culture of ruling elites in Western world in the second half of the 19th century and first decades of the 20th, the *liberal age*. The institutionalisation of political economy in universities, economic societies, specialised journals, handbooks and dictionaries, and the process of professionalisation of economics have been some of the target subjects. The role of economists and of economic ideas in political institutions, and particularly in parliaments, has also attracted attention of researchers, seeking to assess the influence of economic theory on the political debate. Literature on this issue is not plentiful, however. Some cases of the influence of economists and economic ideas in the British parliament are known through the works by Fetter (1975 and 1980), Gordon (1976), Grampp (1987), Harris (1997), Gambles (1999) and Schonhardt-Bailey (2003 and 2006). The Italian case is perhaps the best studied, in the collective works edited by Augello and Guidi (2002 and 2003), who also issued another volume with seminal contributions for several European countries (2005).² Ultimately, Portuguese scholars have shed light on their national case through the works by Cardoso and Almodovar (2005) and Bastien and Cardoso (2009).

This paper follows this approach. Specifically, it analyses a particular case: the influence of economic ideas in the debates that took place in the Spanish Parliament in 1869, following a bill presented by the minister of Finances Laureano Figuerola, which set up a direct tax aiming at charging personal income. I will argue that economic ideas did play a crucial role in the parliamentary debate on the personal tax, be it in the process of design of this tax, in its support or in its rejection. MPs who took part in the

¹ Augello and Guidi (2005), xiv.

² Profs. Augello and Guidi have been the main promoters of the study of the role of economists and economics in the Parliament as a part of a long-term project of analysis of the broader process institutionalisation of political economy in Western world.

discussion, which was extraordinarily controversial, had a good degree of competence in political economy, always in the framework of classical liberal economic thought. Moreover, the presence of parliamentarian economists in the Legislative at that time was extraordinary, if compared with the Restoration period. I will also try to show that this attempt to establish an income tax was a part of a long term programme devised by a group of economists with the objective of fostering the economic growth of the country.

There is scarce specific literature on the topic this paper is dealing with, but it has furnished interesting information. The importance of economic ideas in the performance of the economic team in office in the provisional government after the 1868 Revolution was already appointed by Costas (1982). The role of economic ideas in the Parliament therefore confirms this suggestion. The presence of parliamentarian economists in Spain in the *liberal age* has been studied in a seminal paper issued by Almenar (2005), which has proved useful to have a long term view of this phenomenon. Concerning the income tax itself, it has been in general ignored as a serious attempt to introduce reforms in the taxation system: Only Ballesteros (1933) and Sardà (1944) considered it as a precedent of the income tax in Spain. A few modern authors in general have pointed out its flaws.³

This paper has four parts. The first part explains the bill issued by Figuerola to establish a new personal tax. The second part deals with the debates both in the general assembly and in the public finances commissions. The third part sees to the economic thought influences that MPs had in their positions in the parliamentary process. The fourth part examines the model of the British income tax, from which Figuerola and other MPs got their inspiration. Finally, some conclusions will be delivered.

Figuerola's project of a personal tax

The Spanish liberal revolution of September 1868, which deposed Elizabeth II, opened a new political period in which a democratically elected Parliament was intended to become central in the nation's political process. Concerning public finances,

³ See Artola (1986), 329; Martín Niño (1972), 212-213; and Costas (1988), 76-77.

circumstances allowed a group of liberal economists, gathered together in a doctrinally very cohesive group known as the *Economist School*, to take control of the Ministry of Public Finances.⁴ This granted them the opportunity to put into practice their economic program, based primarily on the development of industrial capitalism and trade, mostly through liberalisation measures. It involved policies such as encouragement of freedom of trade, industry, labour and credit; restriction of government interventionism in industry; transformation of indirect taxes into direct; support the creation of credit institutions; etc.⁵ Laureano Figuerola, the founder and chief representative of the *Economist School*, was appointed Minister of Public Finances in the Provisional Government formed in October 1868.⁶ Some other fellow *economists* also entered the government, strengthening both its ideological lines and its liberalisation policies.⁷

Figuerola's ultimate objective was to foster Spanish economic growth in the long term. His strategy was a gradual reformism, thus intending to give priority to economic and fiscal structural reforms, which would improve public revenues in the long term, but implied resorting to credit in the short term, increasing current public debt temporarily. He therefore renounced to tackle immediately the problem of the budget deficit, which would cause him many troubles in the Parliament.⁸ Together with his industrialization and liberalisation policies, on the fiscal side his major measures were an essential reduction in tariffs, the abolition of consumption excises and the establishment of an income tax.

On 12 October 1868, the Provisional Government issued a decree declaring the suppression of consumption excises and their replacement with a new personal tax.⁹ The

⁴ The *Economist School* ("Escuela economista") was the Spanish version of the Manchester School or the French *Optimistic School*. Its members were followers of classical liberal economic principles, mainly in their French radical version. Their faith in political economy and their engagement to the spread of its tenets was outstanding. See Costas (2000) and Román (2003).

⁵ According to Costas, the two main political forces behind the Revolution (progressives and democrats) agreed in it. Costas (1988), 39-40 and (1982), 638-639.

⁶ The character of Laureano Figuerola has been extensively studied by many scholars; however, we lack a complete biography. Recent works are those by Costas (1982 and 1988), Cabrillo (2000), Jané Solà (2003), Román (2003), Perdices (2003) and Estapé (2006).

⁷ *Economists* Rodríguez, Sanromá, Bona and Ruiz Gómez were in office in the government. Besides, Pastor and Gimeno Agius collaborated with Figuerola. This strong presence of economists could match the high-water mark for economists' role in the government in Britain in the decade of 1830, described by Fetter, who believed that it was an exception in Europe. See Fetter (1980), 232.

⁸ Costas (1988), 60-63.

⁹ Consumption excises were set up in the tax reform of 1845. They initially charged wine, beer, cider and liquors, meat, olive oil and soap. They constituted a major source of financing for local administrations.

abolition of excises was the acknowledgement of a *de facto* situation, as they had already been abolished by the local revolutionary *juntas* formed during the revolutionary process. Although Figuerola was contrary to indirect consumption excises, no doubt he was not very fond of this radical measure, as it was against his spirit leaning to gradual reforms, and he would probably have preferred not to risk any fiscal revenue before having an actual replacement.¹⁰ However, he was conscious that, in order to ensure the financial viability of the Revolution, the gap in public revenues caused by the suppression of excises ought to be filled. It was not possible to dispense with any source of revenues without seeking for a new one to compensate the Treasury or without dramatically cutting expenses, as public finances circumstances did not allow a tax relief.

The new tax was a personal direct tax, which was called *repartimiento personal*. It charged “individual wealth” through two indirect indicators: Individual fees were fixed on the basis of the rent paid for housing and the number of members of the household. It was proportional, although a tax relief was provided to large families.¹¹ The allocation of the tax burden should be done through taxpayers’ personal statement; however, the procedure to calculate the eventual tax debt resulted quite intricate. Participation of taxpayers was sought, both to allocate the tax burden and to supervise complaints.¹² According to the project of public budget for 1869-1870, its revenues would amount to 150 million *reales* (around 7% of public revenues, and approximately 25% less than what consumption excises had yielded the previous year). It meant a noteworthy innovation in the Spanish fiscal system: the introduction of the principle of personalisation in a major tax.¹³

González de la Peña (1891), 268-270. Figuerola's decree is in the *Diario de Sesiones de las Cortes Constituyentes 1869-1871* (from now on DSCC), 12, appendix.

¹⁰ Costas set the probable hypothesis that Figuerola was forced to accept it in order to avoid popular riots. Costas (1988), 79-80. However, Figuerola rejected some further reforms that the *juntas* had made on their own concerning tariffs.

¹¹ Besides, the resulting tax fee would then be corrected by a factor accounting for the size of the taxpayer’s town, in order to reflect the effect of diverse prize levels. The actual taxpayer was the head of the family, who was responsible for the payment of the shares of all the members of his family, including servants. DSCC 12, appendix, 41 and 52.

¹² There was a system of quotas which caused distortions: The government set a quota on behalf of the personal tax to every town, which would be distributed among local taxpayers by the town council and a board of taxpayers. This favoured the extension of fiscal fraud, which politicians of the Revolution claimed to fight. Local councils, much of whose financing lay in consumption excises, were allowed to add a surcharge to the tax fee, plus another 8% for collection expenses. See DSCC 12, appendix, 40-49.

¹³ The structure of the Spanish fiscal system was grounded on the general principle of product taxation and complemented with some indirect taxes, following the French model. This tax organisation was the

It seems that Figuerola was attempting to charge individual wealth through a tax on incomes, the right index of ability to pay taxes, believing that expenditure in housing was a good indicator of income. Was he therefore in fact attempting to introduce the seeds of a general personal income tax in Spain?¹⁴ Figuerola expected his personal tax to operate as a major tool in his fiscal plans to foster economic development and to remove obstacles to economic circulation. This tax would be the main device in the transformation of the direct tax panorama. He would later state in the Parliament that he wished this tax to develop and become one of the main sources of revenues for the Spanish Treasury in the long term, and also that he ambioned to reduce all direct taxes to the personal income tax. In the decree of 12 October Figuerola carefully underlined that his tax project was “in accordance with sound financial doctrines”: It was a direct tax, general, equitable (at least more than consumption excises), certain and clear (every taxpayer knew his share), cheap in administration and collection, weightless (as average fees were low), and able to follow closely the nation’s increases in population and wealth.¹⁵ All these features matched the principles of taxation enunciated by Smith and J.B. Say and reproduced by their major Spanish followers, for instance Flórez Estrada and Canga Argüelles. Therefore, from the doctrinal point of view, the new tax was perfectly acceptable and justified. Moreover, the decree also stated that this tax would bring freedom of circulation and trade and better supplied markets, as it would not interfere with market transactions, and thus would serve to increase national welfare.¹⁶

The issues of personalisation and generality were particularly important to Figuerola, as doctrinal principles he vigorously sustained. Figuerola believed that the principle of personalisation should become one of the milestones of the renewal of the Spanish fiscal system.¹⁷ Taxes should be personal (unlike the Spanish main direct taxes –the land tax and the tax on industrial and trade returns–, which were product taxes), because

outcome of the reform of 1845, achieved by Mon and Santillán. This system had two major flaws: its limited collecting capacity and its incapability to follow GDP growth. See Fuentes Quintana (1990), 4-47, Estapé (2001) and Artola (1986).

¹⁴ According to Mateo del Peral, one of the old liberals’ aspirations was the establishment of a single direct contribution. Mateo del Peral (1974), 15-16.

¹⁵ Regarding its generality, there were some exceptions, a fact which would render a lot of criticism to Figuerola. DSCC 12, appendix, 40-41.

¹⁶ The former tax was “contrary to freedom, opposed to economics, and harmful to the maximum extent to public wealth” DSCC, 12, appendix, 39.

¹⁷ DSCC 105, 2884.

they were essentially a reciprocal exchange for the services supplied by the state to the individual, which allowed him to devote to his business freely and safely. As for generality, the decree stated that this was “the only sign of justice that we can point out in the consumption excises”.¹⁸ Therefore, all individuals should pay tributes to finance those services according to their ability and for the sake of justice.¹⁹ The principle of generality would aid in the building of a tax culture in Spain. Besides, the flexibility of this tax would allow it to follow the country economic growth, thus progressively increasing its yields to the Treasury.²⁰

The example to follow was furnished by the British income tax. Figuerola was convinced that his personal tax, by putting Spain in the path towards the income tax, would be crucial for the economic prosperity of the country, as it had happened to Britain, “one of the most cultured people in Europe”, one of whose key factors of success had been the income tax.²¹ Figuerola explicitly sustained that his personal tax was directly inspired by the British income tax, the decisive tool that allowed a “magnificent” transformation in British budget, supplying the state with enough revenues without charging taxpayers much. He also praised British fiscal culture, which was responsible for the success of the income tax.²² Figuerola assured that the regeneration of the Spanish economy depended on the gradual transformation of public revenues, as it happened in Britain thanks to the income tax.²³ Besides doctrine, this was a new source of justification for the new tax.

Actually, Figuerola stated that the key to the economic regeneration of Spain was the side of public incomes. It was necessary to change the entire system steadily in a liberalising direction and to introduce a tax on incomes. “The revolutionary moment of Spain lies in a change in the system. Public incomes have to be changed during six or eight years, because I do not think it is possible to improvise or present a new system in a period of two or three years. The economic revolution in Britain has been carried out

¹⁸ DSCC 12, appendix, 40.

¹⁹ DSCC 105, 2883-2884.

²⁰ DSCC 23, 414-415 and 105, 2883-2884. Figuerola announced in the Chamber that the revenues supplied by the personal tax would allow the abolition of the public monopoly of salt in the following fiscal year.

²¹ DSCC 12, appendix, 40.

²² Figuerola even asserted that British income tax suffered from infinitely larger flaws than his personal tax, but that they were overcome thanks to this deep fiscal culture DSCC 23, 414-415.

²³ DSCC 105, 2887.

slowly, steadily, and in order to do so a special contribution was established, the income tax”.²⁴

Figuerola shows not only in the design of his personal tax, but mainly in his long term objectives of economic development, that he followed very closely classical liberal economic principles. His aim was to develop the personal tax and turn it into one of the main fiscal resources for the Treasury. It would play a central role in the re-organization of Spanish public finances, because it should closely follow national economic growth, augmenting its revenues as population and domestic product increased, thus overcoming one of the main problems of product taxes.²⁵ In the Chamber, Figuerola several times would support the doctrine of the single tax on incomes as a fiscal ideal, and his tax the tool to achieve it: “I wish I could influence MPs’ will, and from this moment on, turn all the Spanish land taxation into a personal tax”.²⁶ The importance of the personal tax in his reform plan is shown by the fact that at the beginning of the debate, Figuerola declared that he linked his continuance in the cabinet to the passing of the personal tax.²⁷

The debate of the personal tax in the Parliament

Despite Figuerola’s efforts to publicise the advantages of his project, and his promises to mend its flaws, the new personal tax was not welcomed, mainly because public opinion had assumed that the abolition of consumption excises would not be offset by a new levy. When the new Constituent Assembly opened in February 1869, Figuerola's personal tax was included in the public budget project for the following fiscal year, which had to be discussed. Despite its meaning just quite a modest fraction of public revenues (7%), the personal tax turned out to be a very controversial matter, to which many sessions were devoted. According to the parliamentary procedures, prior to the debate in the general assembly, every item in the budget project had to be examined by the parliamentary Commission of Public Budget and the Sub-Commission of Public

²⁴ DSCC 105, 2887.

²⁵ DSCC 12, appendix, 40-41.

²⁶ DSCC 23, 414, and 105, 2883-2884.

²⁷ DSCC 105, 2854. Figuerola did this just in the issues of the income tax and of the reduction in tariffs.

Revenues. These commissions were in charge of issuing a report, which would be discussed and eventually voted in the assembly.

The discussions in these commissions on behalf of the personal tax would be extremely interesting for the purpose of this paper, as many of their members were economists, or at least not laymen. Regrettably, there are not records of these debates, just some notes on proposals and votes. However, it is possible to infer that discussions seem to have been tough. Figuerola himself felt himself constrained to take part in some of the meetings in order to convince the commissioners to pass his project. Eventually, the Budget Commission issued its report, in which the personal tax was maintained, but with substantial amendments with respect to Figuerola's original project. Actually, this was the only item of the budget in which large were introduced, which shows the disagreement in the parliamentary majority in this matter. On 19 June 1869 the Budget Commission submitted the report on the government's budget of public revenues for the fiscal year of 1869-70 to the Parliament. It contained the new proposal of personal tax, which had to be discussed and eventually passed or rejected.²⁸

Therefore, the personal tax survived, but its bases had been deeply changed. Actually, it had now become a pure tax on personal incomes, but probably impossible to implement. Every citizen over 14 years of age was liable to the tax. The settlement of the tax burden would be done in proportion to the incomes of every individual, assessed through taxpayers' individual statements of income.²⁹ The Administration would survey individual tax returns, and taxpayers would participate in the management of complaints. Theoretically, this tax was much fairer than Figuerola's model, but obviously it was nearly impossible to put into practice in an acceptable and reliable way, due to the limited resources of fiscal authorities. Individual statements of wealth were impossible to check by fiscal authorities, giving much more scope to fraud than

²⁸ According to the report, the flood of complaints from local councils had rendered the reform of the income tax absolutely necessary DSCC 104, appendix 1, 1. On the debates of the commission, see San Julián (2009), 100-105.

²⁹ Again the procedure to calculate the individual tax fee was quite complicated. The government would assign to every province its corresponding quota, which would be in turn distributed among towns by provincial councils. Local councils would allocate fees to individual taxpayers. Councils might impose surcharges in the tax fee in order to get revenues to finance their activities. Maximum surcharges allowed were 25% for local authorities, 30% for provincial, and another 6% to meet collecting expenses. As in the previous model, the head of the household was responsible for the payment of the shares of his wife and sons. DSCC 104, appendix 1, 10.

Figuerola's bases, which were questionable, but probably more practicable. The debate in the Parliament was on this new income tax, but references to the primitive project by Figuerola were constantly made.

Several features can be distinguished in this debate. All parliamentary economists³⁰ (or at least those taking part in this debate) shared a common view of fiscal principles, grounded in economic liberalism, which none of them questioned: minimum state, budget equilibrium, efficiency and equity in taxation, etc. Taking this into account, the main discussion lay in the convenience of applying these precepts, one of which was the establishment of a direct tax on incomes. The government faction supported it directly, whereas opposition believed that principles should not be applied immediately, but according to the particular characteristics of the country, which did not advise an income tax. It was also a "long term vs. short term" discussion: Figuerola justified the personal tax (and the entire budget) on the basis of a long term economic reconstruction, which required new deficits, but would render outcomes in several years. The opposition wanted an immediate restoration of Spanish public finances and credit, by the way of cutting expenses, not increasing taxes. Another issue that pervaded this debate (and many others too) was the discussion on the eventual form that the Spanish state had to have after the Revolution, which brought monarchists face to face with republicans. The latter fiercely demanded Figuerola to cut expenses, and blamed Monarchy for the budget deficit. All these lines of reasoning intertwined along the debate.

The position of the majority of economists was to support the government policy, and therefore the income tax, as an accurate tool to modernise the Spanish tax system (however, not all of them backed Figuerola's original project, as it was shown in the commissions). Others maintained a relativist position, accepting the income tax doctrine, but rejecting the tax for Spain. Most MPs economists belonged to the *Economist school*, or sympathized with it, which explains their backing the government policies. Now I will present the major lines of reasoning of the MPs who took part in the income tax debate.

³⁰ Here I will use Augello and Guidi's conception of parliamentary economist, later explained.

The defence of the new income tax was entrusted to the spokesmen of the Budget Commission, in charge of defending the report on the public budget. These MPs mainly highlighted the lines of reasoning that Figuerola had already sketched in the 12 October decree, applying them to the new version of the personal tax. Concern for the economic growth of the country was one of the main lines of reasoning. MP Herreros de Tejada, an *economist* himself, stated that the ultimate goal of the reforms proposed by the government was the increase in national production and trade, as the development of national productive forces would render larger public revenues in the long term. Supporting the core idea of the *economists*, that only a liberal framework would ensure economic growth, he also sustained that liberalism was the driving force behind the new personal tax.³¹

A second line of reasoning was technical: Two core features of sound taxes should be generality and proportionality, and the income tax fulfilled both. MP Cancio Villamil highlighted the convenience of the bases of the tax: “generality, and proportionality of quota”. On the one hand, taxpayers should pay in proportion to their income, and on the other hand, all citizens should pay as much as they could, in exchange for the services supplied by the state.³² Cancio was therefore adhering to one of Figuerola’s main ideas: everybody should contribute to the expenses of the state.

A more general argument to support the income tax lay in fiscal theory. The idea that a single tax on income was the scientific ideal to build the taxation system of a nation was very widespread among liberal economists. Many MPs mentioned this idea in the assembly, both to support the income tax and also to attack it, invoking the insurmountable difficulties to establish it. Among those who defended the income tax on behalf of this idea, Ruiz Zorrilla, the Minister of Public Works, stated that the personal income tax (either with Figuerola’s bases or with different ones) was an attempt to gradually introduce the seeds of the single tax in Spain, which was the ideal

³¹ The Commission aim was “to remove obstacles to production, in order to, instead of increasing taxes, obtain larger revenues, larger taxable bases, through the development of the living forces of the country”, because “the Commission professes liberal principles [...] and, above all, concerning ideas on public administration, it perfectly agrees with the most radical ones”. DSCC 110, 3146.

³² DSCC 108, 3156. The idea of generality caused great controversy, for many MPs, particularly republicans, did not think that the poor should be subjects of taxation.

of taxation theory.³³ Herreros de Tejada also spoke of the single tax as the “political economy *desideratum*”, and forecasted that, once stabilised and accepted, the income tax would lead the way of the Spanish fiscal system to the ideal of the single tax. MP Baeza also referred to the single tax as “the beautiful ideal of modern economic science”.³⁴

The last main line of reasoning was the British example. Defenders of the income tax project tried to highlight its similarities with the British income tax, which had been converted into a myth, as the balm that would solve the financial troubles of the country. Again Herreros de Tejada used this argument. He believed that the Commission income tax project would have the same “wonderful” effects that the *income tax* had in Britain. “What is so good in England, why should it be so bad in Spain?” However, he acknowledged that there was a lack of fiscal culture in Spain as compared to Britain.³⁵

Therefore, Figuerola found support, if not to his original project, to his idea of establishing an income tax, primarily in the cabinet (it seems that the Prime Minister general Prim backed him) and in his fellows of the *Economist School* who sat in the Parliament in 1869. Three of its most renowned representatives Echegaray, Moret and Rodríguez issued a document to the Chamber in which they stated that one of the keys for the economic regeneration of Spain was the increase in public revenues, which demanded resorting to taxation sources of incomes that so far remained untaxed, particularly incomes from financial assets. In their opinion, this called for a general tax on incomes in Spain, whose paradigmatic example was the British income tax.³⁶ In spite

³³ “I believe that the aspiration of every individual devoted to economic matters is the single tax [...] the personal tax would be a test of the single tax in our country”. In his opinion, all taxes that Spanish taxpayers were currently paying could be replaced by the new personal tax, the ideal of economic scientists. To achieve this target, it was necessary to start gradually, with limited fees. This was Figuerola's strategy. DSCC 108, 3040-3043.

³⁴ DSCC 110, 3146-3151. During the parliamentary procedure, Baeza changed his vote. He first voted against Figuerola's tax in order to open a debate which would reconcile public opinion complaints “with the principles of the economic science and the doctrines of liberalism proclaimed by the September revolution” in order to settle the bases of the income tax. He roughly calculated that current taxpayers in Spain were around three millions, and with the personal tax, taxpayers would become around nine million individuals, which explained the opposition of many persons to this project. DSCC 110, 3159.

³⁵ DSCC 108, 3150.

³⁶ DSCC 105, appendix 1, 1-3. This document, which is a dissenting vote issued after the Budget Commission passed the new bases of the income tax, is odd. In it, these MPs proposed that the government should device a new tax able to collect at least half of the budget deficit previewed, they probably referring to an income tax of a much larger scope than the projected personal tax. This is

of his defeat in the Budget Commissions, Figuerola himself also intervened ardently in the debate supporting the new bases of the tax (although mentioning its vagueness and forecasting its difficulties of implementation),³⁷ in order to keep the income tax alive in the new budget. Although Figuerola believed his proposal was far better than the new one, at least the new income tax preserved the essential principles of generality and personalisation, in his opinion crucial in the fiscal modernization of Spain.

On the other side, opponents to the new tax first of all questioned its legitimacy: Consumption excises had been abolished by the Revolution for good, and should not be replaced with any other tax. Secondly, they attributed its creation to an excess of public expenditure, inherited from pre-revolutionary cabinets, which the Provisional Government had not been able to cut out. Coming down to the tax itself, they did not question its theoretical soundness: Many MPs from the opposition, if not all, acknowledged that a single tax on income was the scientific ideal expressed by classical liberal authors. However, they considered it a chimera, impossible to establish in Spain. Republican MP Tutau, the most qualified economist in this opposition group, supported the need for an income tax in Spain, but disagreed in the bases of the projected income tax. He foresaw the immense difficulties the administration would have to collect it and was very pessimistic about its success.³⁸ MP Herrero, one of the hardest opponents to the new tax, believed that the ideal of taxation theory was the single tax, be it on capital or on income, but tax fraud and the lack of resources of the fiscal administration to control individual assessments made it not advisable for Spain.³⁹ Time would prove both of them right.

strange, as far as it seems that Moret very actively took part in the redaction of the Commission new bases of the personal tax. See San Julián (2008), 100-106.

³⁷ Nevertheless, regarding technical application, he acknowledged that the system to set the individual fees in the new bases was similar to the British income tax. In any case, Figuerola maintained that the original bases of his project were easier to manage than the new ones proposed by the Commission. DSCC 110, 3161-3162. Actually, Figuerola's first tax was criticised in the Parliament on behalf of its convenience, fairness and legitimacy. The new tax, besides, was criticised because of its impracticability.

³⁸ Tutau believed that the income tax bases should be wider, charging also yields from public debt and public officials' earnings. He considered that the true idea of the income tax was contained in the bases of Figuerola's first tax proposal, not in the Commission ones. DSCC 108, 3033-3038. Tutau defended a decentralized tax system in which the revenues of the state would be only the custom duties and the income tax. DSCC, 105, 2868. One of his arguments in favour of the income tax was that in Austria, where a tax of this kind had been set up, public debt bonds had increased their price DSCC 105, 2871.

³⁹ DSCC 107, 2997-3003.

Another line of reasoning against the new tax was to underline the differences between the British income tax and the Spanish, and between the fiscal structures of both countries. Many MPs believed that this would make the new personal tax impossible to succeed in Spain, or at least to achieve the effects that the British tax supposedly had on the economic growth of Britain. Republican MP Orense stressed the differences in fairness: there was a lack of a tax threshold for low incomes in the Spanish project, and the method of allocation through quotas prevented real proportionality. Besides, the lack of an income tax culture in Spain and the backwardness of the Spanish fiscal administration would enhance fraud. MP Garrido, a socialist republican, also pointed out the issue of the threshold, claiming that this tax should be paid just by those with ability to contribute, as was the case in Britain.⁴⁰ Tutau was an admirer of the British income tax and wished its setting up in Spain. However, he voted against the personal tax because he believed the project had numerous flaws if compared to its British model.⁴¹ The issue of the individual assessment of income that apparently was working well in Britain was the most controversial basis of the Budget Commission income tax project. The risk of massive fraud that accompanied the lack of tax culture in Spain, the administrative effective impossibility to check taxpayers' returns and the lack of reliable data on national taxable bases seemed an insurmountable problem. This was stressed by the entire opposition.

Therefore, two fiscal conceptions confronted in this debate. On the one side, the Provisional Government tried to establish a primitive income tax, a sign of a modern and developed country, with the aim (probably too ingenuously) of developing it gradually, and eventually, in the very long run, turning it into a major tax. On the other hand, the opposition had several reasons to attack it: it was illegitimate, as it betrayed the Revolution; unnecessary (if the Provisional Government really cut out expenses); impossible, as the Spanish fiscal administration would be unable to apply it efficiently and the overextended fiscal fraud would render it inoperative. However, opposition's only alternative was an immediate cut in public expenditures and balance the budget, disdaining a long term strategy.

⁴⁰ DSCC 110, 3139-3146. Garrido believed that the issue of the personal tax was a "purely political issue; not a purely economic issue": A new tax is a very difficult issue that leads to contempt and protest, and a new tax discredited governments. DSCC 110, 3154-3156.

⁴¹ DSCC 108, 3034. Nevertheless, it seems that Tutau's vote was mostly influenced by the Republican Party.

It is important to mention that behind these plans devised by Figuerola to change the Spanish economic structure there seems to be an enthusiastic confidence on the suitability of the science of political economy to guide national finances. *Economists* shared this fervour too. Figuerola, in the 12 October decree, said that the characteristics of his personal tax fitted well with the new era opened by the Revolution, the era in which scientific political economy should rule national finances, instead of the arbitrariness of public officials.⁴² In the debate, MP Ruiz Gómez, from Figuerola's team in the Ministry, also stated that the science of public finances should guide the fiscal system of the country.⁴³ Echegaray, Moret and Rodríguez, in the aforementioned document, also proclaimed an outstanding optimism on economic liberalism and parliamentary democracy as key factors for Spain's economic progress: “Spain will prove that freedom and individual initiative are the only true origin of wealth, morality and progress”.⁴⁴ *Economists* profited from the opportunity furnished by the Parliament to put across their doctrines and faith in the economic science.⁴⁵

To what extent MPs taking part in the debate on the personal tax were experts in political economy? It seems that there was a good knowledge of economic theoretical principles in the contemporary Spanish political realm (in the framework of classical liberal paradigm), and of the economic policies developed by most advanced countries, particularly Britain. There is no doubt that some of the major figures in the discussion had a high degree of competence in economic matters, be it through their educational backgrounds or professional careers. The debate on who can be considered an economist in the *liberal age* is open. Augello and Guidi have adopted two objective criteria first issued by Fetter (“profession” and “authorship”), adding three more subjective criteria: self-consciousness, behaviour in the parliament and public recognition of the status of economist.⁴⁶ Following these criteria, I believe the list of

⁴² DSCC 12, appendix, 41.

⁴³ Ruiz Gómez regretted that Spanish universities were not used to supply with training in the science of taxation, “the good application of public incomes, making public expenditure productive”, which guided the fiscal systems of the most advanced countries. In his opinion, a deeper implication of MPs in fiscal debates would cause advancements in the knowledge of these issues. DSCC 105, 2859-2860.

⁴⁴ DSCC 105, appendix 1, 1-3.

⁴⁵ *Economists'* main battlefield was the question of custom duties. Rodríguez was probably the most combative *economist* in the Parliament and the most leaned towards theoretical reasoning. He supported Figuerola in his reform strategy, although he wanted wider measures for trade liberalisation. This matter opened a fissure among *economists*. See DSCC 105, 2877.

⁴⁶ Fetter (1980), 12-13; Augello and Guidi (2003), xxii-xxvii.

MPs whose degree of expertise in political economy in Spain at that time can be considered adequate could comprise at least 16 names.⁴⁷ It is most probable that these circumstances (both concerning the number of economists in Parliament and their competence would not happen again in the Restoration.

The debate of the personal tax was the longest one concerning economic matters that the Constituent Assembly held in 1869. Eventually, and despite last minute movements of the opposition trying to block the final voting, the personal tax with the bases of the Budget Commission was passed.⁴⁸ However, those who forecasted a hard life to the income tax in Spain were right. The revenues it supplied quickly languished and it was suppressed as early as 1870. Eventually, consumption excises had to be restored, first in order to finance local and provincial councils, and then as a revenue for the national Treasury in 1874.

Influences on economists in the income tax debate

It is not easy to ascertain precisely what direct influences politicians had when defending their respective positions in the debate. However, it is true that some major economic authors stated in their works ideas that MPs followed with more or less accuracy. The underlying economic thought framework in all MPs was classical liberalism, although the difference probably lay in the degree of attachment to this body of ideas.

On the government side, it seems clear that most MPs were extremely fond of classical liberal economics. Although concerning fiscal matters liberal authors did not have a single opinion, many of them supported the income tax as an essential feature of a modern economy. Therefore, they had authorized sources to invoke. Among Spanish major contemporary authors, some of them defended the idea that a sound fiscal system

⁴⁷ Following Augello and Guidi's criteria, it is possible to consider as parliamentary economists at least Figuerola, Rodríguez, Echegaray, Moret, Herreros de Tejada, Tutau, Cantero, Ardanaz, Ruiz Gómez, Capdepón, Gimeno Agius, Cancio Villamil, Herrero. Republicans Pi i Margall, Orense and Garrido should have had acceptable knowledge in political economy too. Pastor, Sanromá and Madrazo, did not take part in the debates, but belonged to the Parliament at that time. On their background and merits, see San Julián (2008).

⁴⁸ The outcome of the poll was 91 votes for and 56 against. DSCC 110, 3165-3168.

should tax personal incomes and not capital. This was the position, for instance, of Canga Argüelles, Jaumeandreu, Del Valle, López Narváez and Pastor supported the idea of taxing personal income and not capital.⁴⁹

Figuerola's first project is particularly interesting. He openly stated that he was inspired by the British income tax, and it seems indeed that its spirit permeated his personal tax. However, this specific proposal had some precedents, which he probably knew, in other authors aware that taxing overall incomes entailed major difficulties. Smith, in the *Wealth of Nations*, conceived the capitation tax not as a simple poll tax, but on a more complex basis, as a levy on all revenues accruing to the individual.⁵⁰ However, assessment difficulties as well as dislike of indirect taxation seem to have leant him to support a tax on housing.⁵¹ In fact, Smith considered that housing rent was, among expenditure, the best index of taxpayer's wealth.⁵² In 1778 Britain adopted a tax on the housing rent, taking the annual rent as an index of ability to pay (instead of the number of windows or hearths). When establishing it, the difficulty of devising a tax equitable and able to ascertain the individual real ability to pay was admitted. McCulloch also praised a tax on housing rent, remarking its advantages in terms of assessment and difficult tax evasion, whereas J.S. Mill also believed that housing was, in general, a good index for income.⁵³ Passy, a disciple of Bastiat, is an interesting case. He was an enthusiastic supporter of the single income tax, but, in order to assess net income, he believed that the most secure index was the housing rent, as this was an expense that reflected well citizens' wealth and income.⁵⁴ Concerning Spanish contemporary authors, some of them recommended a tax on housing rent too. Alcalá Galiano, following Smith,

⁴⁹ Canga (1833), 48-52; Jaumeandreu (1816), 297-301; Valle (1842), 493; López Narváez (1856), 50-54; Pastor (1856), I, 220-225, and II, 2-15.

⁵⁰ Smith's judgement of this tax was not benevolent. Capitation taxes, when attempted to be proportional to the fortune or revenue of each contributor, became arbitrary and uncertain, because individual's fortune varied from day to day, and therefore an intolerable inquisition was required to assess the tax base with precision. Smith (1976), 867-869.

⁵¹ This was Shehab's opinion. Shehab (1953), 33.

⁵² The inequality with which it might fall on the house residents would depend on the proportion of expenditure individuals assign to housing rent, high for the wealthy and low for the poor. Smith (1976), 840-842. It is interesting that Smith considered that the tax on rent was of the same nature as a tax on any other sort of consumable commodity, a comparison that frequently appeared in the parliamentary debate.

⁵³ Mill dismissed one core argument against this tax (which appeared in the 1869 debate): the idea that large poor families were likely to rent big houses, this tax being a regressive tax on poverty. Mill said that in that case, this tax would act as a luxury tax on procreation, fostering restraint. Nevertheless, he accepted the exemption of a subsistence minimum. McCulloch (1975), 250-251; Mill (2000), 836.

⁵⁴ El estudiante de Barcelona (1869), 235-240. I have not been able to find the original quotation of Passy. In 1901 he published an article against a synthetic income tax, he preferring diverse taxes charging all single incomes, or a schedule income tax, as the British was. Passy (1901), 50-53.

supported a tax on “the rent of the houses or of any ground”, as the least inconvenient.⁵⁵ Muchada, in his handbook of 1847, proposed to replace the taxes on consumable commodities with a tax on housing rents in the form of a capitation, which actually resembles quite a lot Figuerola’s scheme of personal tax of 1868.⁵⁶ Figuerola’s tax also reminded of the *contribution personnelle-mobilière*, one of the four direct taxes created in France after the Revolution. It charged several items, the main one being housing rent. General and local councils fixed quotas for every town, whereas local assessors were in charge of allocating the individual tax burden.⁵⁷ However, an essential difference was the generality of Figuerola’s personal tax, one of its crucial characteristics. Therefore, it seems that Figuerola was attempting to solve the problem of taxing income, which he believed was the right item to grasp ability to pay, through indirect means that had already been suggested by some major economists at that time.

Detractors of the income tax had also a good amount of credited literature to sustain their positions. Leaving apart the restraint in public expenditure, a precept accepted by all liberal authors, the lines of reasoning these MPs resemble to the ideas stated by many major contemporary Spanish economic authors, who supported the doctrine of the income tax but believed it was very difficult to establish in Spain. Alcalá Galiano, for instance, highlighted the difficulty to ascertain individuals’ income. Flórez Estrada stated that a single tax on income would be the ideal tax. However, the lack of reliable information about income made it unfeasible: An efficient taxation system should be composed of a variety of taxes. Colmeiro shared this opinion too: the big problem was again assessing individual wealth, either through imperfect systems or inquisitorial enquiries. Domenech, professor of Public Finances, believed that a single tax on net income was the scientific ideal, but the impossibility of assessing the net income in many activities rendered it impracticable. Toledano defended a system formed by several direct taxes charging the different sources of income, as he believed that a tax like the British income tax would be able to supply with enough revenues so as to match public expenditure.⁵⁸

⁵⁵ Alcalá Galiano (1788), 61-62.

⁵⁶ Muchada (1847), II, 13-14.

⁵⁷ Schnerb (1973), 73; Piketty (2001), 235.

⁵⁸ Alcalá Galiano (1788), 66-67; Flórez (1828), 304-314 and 331-332; Colmeiro (1873), 464-472; El estudiante de Barcelona (1869), 235-240; Toledano (1963), 593-594 and 600-603. Other authors had more peculiar suggestions. For instance, Miranda suggested a fiscal system grounded on a direct “real-personal” single tax, which would combine two fiscal bases: the capital (for the real tax) and the

The model of the British income tax

By the time the personal tax was debated in Spain, the income tax had a long history in Britain. Many issues on it had been discussed and tested (tax bases, graduation, differentiation of incomes, collecting procedures, etc). First instituted in 1799 by William Pitt during the Napoleonic Wars, it was repealed in 1816, and re-established in 1842 by Robert Peel.⁵⁹ The quest for a durable method of fair allocation of the tax burden is to be found behind Pitt's attempt. The income tax would be a crucial feature of Victorian fiscal constitution, becoming a significant attribute in British identity and a mark of the secure relationship between state and individuals, in contrast with the continental bureaucratic or despotic states. However, O'Brien believed that "it found little enthusiastic support among the classical economists".⁶⁰ The structure of the British income tax restored by Peel was that devised by Addington in 1803. Pitt's previous model, of 1799, required assessing taxpayers' total income, which was taxed as a whole. Addington divided the tax into five different schedules corresponding to diverse types of income. Some of the schedules allowed tax collection at source, a procedure that many considered as the key factor for the success of the income tax after its reintroduction in 1842.⁶¹

Such a complex structure did not exist at all in Figuerola's project or in the Budget Commission's reformed version. Figuerola's personal tax procedures had nothing to do with the British income tax. It at most shared two of its core features: personalization and generality. Figuerola designed a tax which was direct, personal, general, and which fell on individuals' incomes assessed through a very simple external sign not difficult to

individual (for the personal tax, which would be a capitation with a low fee, on behalf of which individual acquired citizenship rights). Miranda (1869), 44-64. The idea of linking tax payment to civil rights was supported by Figuerola in 1869

⁵⁹ The debate on the assessed taxes at the end of the 18th century is behind the 1799 income tax. A fiscal system able to provide with some equilibrium between taxation on general consumers and well-off people required setting up a new fiscal tool which incorporated direct assessment of income. Shehab (1953), 35-45. As in the Spanish case, rigidity of traditional taxes, unable to charge the new activities that the economic progress was setting off was a general concern in Britain. Daunton (2001), 43.

⁶⁰ There was a wide consensus that this sort of tax was justified only in emergency circumstances. It should be proportional, never progressive. O'Brien (2004), 301.

⁶¹ This classification of incomes proved very convenient, for the yields showed great improvement. Daunton (2001), 183-185; Sabine (1966), 35. Peel's old system was that of a lump sum income tax, where individual had to make a return of his entire income. This system would be adopted later on by some continental states, as Prussia. Seligman (1913), 485-486.

check without disturbing taxpayers: the housing rent and the family unit. Fairness was one of its problems: It could be regressive for large families with low incomes. With regard to the collection procedures, the system of quotas prevented real proportionality. However, this was probably the only feasible system, as there were not reliable statistics on national, provincial and local wealth.⁶² The personal tax approved by the Budget Commission was closer to Pitt's income tax model of 1799, as it taxed individual income as a whole: the taxable base was personal income assessed through a personal declaration after payments on behalf of other direct taxes were deducted.⁶³ The system of quotas to allocate tax shares subsisted, which in fact cancelled the equality principle. An interesting point was, however, that this tax, unlike the British one, made a rough differentiation between temporary and permanent incomes on behalf of tax justice: temporary incomes would be considered as half their amount when assessing the fee.⁶⁴ A feature of both Figuerola's and the Commission's taxes which brought them closer to the British income tax was the involvement of taxpayers in the procedures to solve complaints addressed to the Treasury, an attempt to "create in our country free peoples' habits", as the 12 October decree stated. Regarding the administration of the personal tax, Figuerola's expectations that its costs would be much lower than consumption excises were well grounded: The British example showed that, in the middle years of the 19th century, the bureaucracy required by the income tax was quite reduced.

The income tax was eventually accepted in Britain, but as it happened in Spain, its establishment did not lack criticism. Pitt's bill faced tough opposition in the Commons, MPs claims being not very different from what would be heard in the Spanish Parliament 70 years later. The income tax was established as an urgent resort; hence, once the conflict was over, it was difficult to justify its perpetuation. Peel re-established it in 1842 on a temporary basis, as a tool to fight budget deficit, expecting that it would

⁶² Moreover, the classification of towns according to their population in order to establish the fees regardless of its real wealth damaged poor people living in large towns. As some MPs argued, Figuerola's personal tax could be considered not as a capitation tax, but as a tax that fell on residents, for the head of family was responsible for the payment of the share of all individuals of the household.

⁶³ The word used to define the object of taxation was "haber". Despite of its vagueness, I think it can be assimilated to "income". Nevertheless, there was not any precision on what the "haber" comprised. It would not include interest returns from public securities, as they had been excluded from taxation during the debate. From the description of the bases of the tax, it is possible to infer that it could refer to other interest returns, salaries, wages and other remuneration for working, allowances and pensions.

⁶⁴ This allowance was introduced in order to take into account the circumstances of day-labourers. Their precarious situation was denounced by opponents to the personal tax, as they believed that they would not be able to afford it.

foster industry and trade and reduce the cost of living.⁶⁵ However, criticisms were hard: radicals and free trade supporters demanded a policy of retrenchment while they watched the tax as a threat to personal liberty. There were also advocates of establishing differentiation among income origins, to overcome the unfair incidence of the tax. This latter debate lasted until the 1860s: when Spain was starting discussions on the personal tax, the British income tax was not absolutely settled. It would not be until the last quarter of the century that income tax consolidated as a permanent part of the fiscal system.

War circumstances in Britain were essential in setting up the income tax in 1799. Levi has pointed out a suggestive theory which stresses an essential factor that contributed to its establishment: a widespread “quasi-voluntary compliance” of taxpayers with the income tax, without which the transaction costs of managing the tax would have been too high. The British government successfully managed to convince citizens that, despite it was an actual new burden and a major intrusion into privacy, this tax was necessary and it would be well managed. This would not have been achieved without a contemporary evolution of representative institutions and citizens' control of the government. Besides, this process took place in a framework of a relatively highly industrialised and commercialised economy and a well-developed and trained fiscal bureaucracy.⁶⁶ In fact, a sound fiscal administration was crucial: The liberal principle of privacy excluded old inquisitorial proceedings, giving rise to a taxation system in which tax burden was assessed through external signs and privacy was respected. Tax was collected at source for some incomes, a key procedure to explain the success of the income tax from 1842 onwards and a safeguard against fraud. The rest of the revenue depended on the taxpayer's tax return and on the accuracy of control systems.⁶⁷

Circumstances in Spain in 1868 were quite different to 1799 Britain. The aforementioned “quasi-voluntary compliance” to the personal tax was absolutely absent

⁶⁵ According to Daunton, Peel's manoeuvre aimed more at removing political tensions and reinforcing the government position than at raising revenues. He tried to carry on a process of political and social stabilization through a tax system neutral to vested interests and protecting property. This would be a means to stimulate economic growth. “The income tax was therefore intended to provide a *temporary* source of income to cover the transition from a regime of high duties and low yields to a dynamic economy based on low duties and high yields”. Daunton (2001), 80.

⁶⁶ Levi (1988), 137-144.

⁶⁷ Daunton states that in 1855-56 the tax receipt under schedules A, C and E was collected at source and formed 63,5% of the net revenue from the income tax that year. Daunton (2001), 186.

in the Spanish case: Figuerola's personal tax was widely rejected by taxpayers and also by local authorities, unable and unwilling to collect it, as the reports addressed to the Parliament witnessed; mismanagement of revenues by the government were expected; there was not any trust in the collection system; and there was not a tax culture in Spain and fraud was extremely widespread. On the other hand, democratic institutions were just emerging, whereas the Spanish administration bureaucracy was very inefficient and lacked the minimum information on the wealth of the country for a true income tax to succeed. According to some authors, this was one of the key factors for Figuerola's economic reforms to fail.⁶⁸ In any case, there was a widespread admiration towards the British income tax. Figuerola's idea of promoting industrialization and trade resembled that of Peel in 1842. The British case was quite well known by some of the MPs in the debate on the personal tax. They praised British fiscal organization as the most modern in Europe and the tax culture of British citizens, which, as some of them assured, rendered a similar income tax impossible to be applied in Spain. The idea of an income tax was theoretically widely accepted; the problem was its specific application in a tax system like the Spanish one, so inappropriate to this kind of modernising features.

As it has been said, Figuerola's tax –and its subsequent reform in the Budget Commission– have been in general ignored as an attempt to set up the seeds of a personal income tax in Spain. Moreover, it seems to have been soon forgotten: Contemporary handbooks in general disregarded it or just mentioned it in passing.⁶⁹ Leaving apart the good opinions by Ballesteros and Sardà, who stated that it was a tax on income of index type, other authors have been quite unsympathetic. Artola was extremely critical to Figuerola's personal tax. Martín Niño remarked the inaccuracy of the tax base, whereas Costas believed that the crucial point was whether it would not have been more suitable to create new taxes on concrete flows of incomes, which could have been later merged in an income tax.⁷⁰

⁶⁸ For instance Comín (1988), 591 and Martín Niño (1972), 218.

⁶⁹ Miranda y Eguía was the only to mention it briefly with quite a critical judgement. He said that it was a capitation tax impossible to collect. He referred to Figuerola's tax, as it is surprising that, when dealing with the British income tax, Miranda did not mention the similarities of the new personal tax to it. Miranda y Eguía (1869), 143. Piernas Hurtado, in the most praised finances book of the century, hardly mentioned it, as a mixture of a poll tax and a tenancy tax. He again referred to Figuerola's project. Piernas Hurtado (1901), 133.

⁷⁰ Ballesteros (1933), 19; Sardà (1944), 248; Artola (1986), 329; Martín Niño (1972), 212-213; and Costas (1988), 76-77. It is symptomatic that, in the monographic of the Spanish journal *De Economía* in 1955 dedicated to the antecedents of the income tax in Spain, neither Figuerola's nor the reformed personal tax of 1869 were mentioned.

Concluding remarks

The process of the establishment of a personal income tax in Spain in 1868-69 shows that, apart from other economic and political factors, economic ideas played an important role both in the design of the tax and in the subsequent parliamentary debates. The group of *economists* were the main force behind this presence of economic thought in the political sphere. This group formed an intellectual elite with an outstanding faith in classical liberal principles of political economy. This elite believed that the implementation of these economic principles would foster economic development and lead the country into the group of advanced European nations. They enthusiastically believed that liberal economics was the easy way to growth. The 1868 Revolution gave them, commanded by Laureano Figuerola, the opportunity to put into practice these ideas.

A general tax on personal incomes was one of the features of this credo, and circumstances allowed Figuerola to establish it, somehow audaciously, as a key tool to modernise Spanish tax system overcoming the flaws of old product tax system. It was not only a matter of doctrine: Britain furnished the practical example, as she was experienced its benefits. However, the income tax raised major concern, also in the heart of the group of *economists*, who disagreed in the form it should have. In the long debates in the Parliament, two major positions confronted: On the one side, Figuerola's faction, leaning on his long term plan to foster economic development which was based on orthodox classical liberal tenets. On the other side, a varied opposition relied more on an immediate cut of public expenditure and a budget balance as the key to save the finances of Spain. Both positions shared a common economic theoretical background, and the difference lay in each party's willingness to effectively apply theory. MPs defending the income tax used economic liberal principles to support it and the British success. Detractors of the income tax acknowledged the soundness of the income tax, but considered that Spain was not ready to establish it.

The debate showed that a considerable number of MPs had an acceptable level of knowledge of fiscal liberal doctrine and of the economic policies followed by other countries, using both of them as arguments. It can be said that economic ideas featured

the debate and that its bearers had a certain degree of competence that allows qualifying them as economists. This case provides a good example of the evolution of the process of institutionalisation of political economy in Spain at that time.

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