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ARTICLE

Was Nazi Germany an "Accommodating Dictatorship"? A Comparative Perspective on Taxation of the Rich in World War II

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Abstract

Götz Aly's book *Hitler's Beneficiaries* considers the Nazi regime an "accommodating dictatorship." According to Aly, the majority of the population benefited from the Nazis' war. He sums up Nazi tax policy under the headings "Tax Breaks for the Masses" and "Tax Rigor for the Bourgeoisie." This perspective represented progress in that, until then, tax policy had not featured in any of the major historical overviews of National Socialism. For a more in-depth assessment of Nazi tax policy, however, it must be compared against the tax policies of Germany's wartime enemies. I compare tax policies in Germany, Britain, and the United States and show that Aly's theories do not hold. They are neither consistent with the declared intentions of those who imposed these policies nor with the results as reflected in the relevant statistics.

Keywords: Nazi Germany; taxation; social inequality; World War II

Götz Aly's book *Hitler's Beneficiaries* was met with a lot of good reviews, but also critical ones, and strong sales in Germany as well as in the United States and the United Kingdom.[1] Aly makes far-reaching claims in his book. He considers the Nazi regime an "accommodating dictatorship" and references a "People's Empire" characterized by "Nazi socialism." According to Aly, the majority of the population benefited from the Nazis' war: "On average, the vast and not particularly affluent majority of Germans enjoyed more disposable income during the war than they had before it."[2] Aly considers this one of the main reasons why popular approval of National Socialism was high until shortly before the end of the war.

He attributes these high approval ratings primarily to fiscal and social policies but also to the plundering of the Jewish population and the occupied territories, which he describes in vivid detail but clearly overestimates in terms of its significance for Germany's financing of the war. He sums up Nazi tax policy under the headings "Tax Breaks for the Masses" and "Tax Rigor for the Bourgeoisie." This represents progress in that, until Aly's book appeared, tax policy had not featured in any of the major historical overviews of National Socialism, nor had it been examined at all in terms of its distributional effects. Aly thus broke new ground with his book, which devotes considerable space to the topic.

The accuracy of his chapter headings claiming "Tax Breaks for the Masses" and "Tax Rigor for the Bourgeoisie," however, remains to be examined, as does the extent to which

[1] See the review forums: *Sozial.Geschichte* 20, no. 3 (2005): 29–97; *Sehepunkte* 5, no. 7–8 (2005) (http://www.sehepunkte.de/2005/07/forum/goetz-aly-hitlers-volksstaat-raub-rassenkrieg-und-nationaler-sozialismus-frankfurt-am-2005-98/).

[2] Götz Aly, *Hitler's Beneficiaries: Plunder, Racial War, and the Nazi Welfare State* (New York: Verso Books, 2007), 293.

taxation affected individual social groups. Particularly problematic in Aly's book is his primary focus on individual measures without proper examination of the overall tax burden on different social groups. In his 2018 monograph on Nazi tax policy, Ralf Banken too broke new ground in this regard, showing for example that the tax burden also rose significantly for the lower and middle classes.[3]

For a more in-depth assessment of Nazi tax policy, however, it must be compared against the tax policies of Germany's wartime enemies so as to highlight what about German tax policy at the time was specifically National Socialist and which aspects were merely owed to the demands of financing an expensive war. Götz Aly barely makes such comparisons in his book yet puts forward grand theories on the differences in tax policies. In his view, the war policies of Britain and the United States were based on broad social consensus, which is why the lower and middle classes could be taxed much more heavily there. According to Aly, the Nazis were afraid of losing the approval of their people and so refrained from imposing a greater tax burden on the lower and middle classes, instead taxing only the economic elite at an exorbitant rate. This article will compare tax policies in Germany, Britain, and the United States and will show that Aly's theories do not hold. They are neither consistent with the declared intentions of those who imposed these policies nor with the results as reflected in the relevant tax statistics.

Hitler's Statements on Taxation and the Distributional Effects of National Socialist Policy, 1933–1939

Against the background of National Socialist slogans such as "public interest before self-interest" and the idea of a *Volksgemeinschaft* as an ethnic community, it could well be assumed that Hitler and the Nazi Party embraced and propagated the issue of tax redistribution. Götz Aly explicitly claims just that, based on the example of Fritz Reinhardt, Hitler's deputy finance minister. Aly claims that Reinhardt was "driven by a desire for greater equality" and "introduced countless tax breaks for lower- and middle-class Germans."[4] Neither Hitler nor Reinhard, however, propagated a social tax policy until 1933. The Nazi Party manifesto makes no mention of the fiscal system and neither does Hitler's *Mein Kampf*. Although Hitler often took up the subject in his speeches and writing before 1933, he did not link it to the social issue and possible redistributive effects, mainly lamenting the excessive burden on trade and industry instead. There is plenty to suggest that Hitler felt that calls for tax redistribution would sound too much like class struggle and would place too much emphasis on the material differences among the German people, whereas he was focused on creating a socially harmonious *Volksgemeinschaft* in order to be able to realize his racist and militaristic goals more easily. Tax redistribution would have also conflicted with his hierarchical ideas of society. What is more, the overemphasis on a collective national identity provided an opportunity to abandon the postulate of tax equity because where individuals are seen as mere parts in service of the whole, any claims for equality of individual groups can be more easily dismissed as incompatible with the goals of the collective.[5]

After assuming power, the Nazi government implemented some tax increases and made the overall tax system more progressive, which did not offset its otherwise very business-friendly policies, however. The wage freeze in particular meant that any gains for blue-collar and white-collar workers fell short of the potential wage increases that could have been possible in light of full employment having been achieved in 1936. At the same time, trade and industry were reaping ever-increasing profits thanks to the armament boom. Available data on income distribution in Germany unfortunately cover only the years until 1938. It shows that the top 1 percent, and in particular the even smaller groups of the top 0.1 percent and 0.01 percent, stood to benefit the most from National Socialist policy.

[3] Ralf Banken, *Hitlers Steuerstaat. Die Steuerpolitik im Dritten Reich* (Berlin: De Gruyter/Oldenbourg, 2018).

[4] Aly, *Hitler's* Beneficiaries, 26.

[5] Fritz Karl Mann, *Steuerpolitische Ideale. Vergleichende Studien zur Geschichte der ökonomischen und politischen Ideen und ihres Wirkens in der öffentlichen Meinung 1600–1935* (Stuttgart: Gustav Fischer, 1978), 345.

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Table 1: Share of top incomes in the total national income in Germany, 1926–1938[6]

	Top 10	Top 5	Top 1	Top 0.1	Top 0.01
1926	32.5%	22.1%	11.3%	4.0%	1.4%
1928	32.2%	22.6%	11.2%	4.0%	1.3%
1932	38.4%	26.6%	11.4%	3.8%	1.2%
1934	36.3%	25.3%	11.3%	3.8%	1.3%
1936	37.3%	27.0%	13.7%	5.5%	2.2%
1938	—	—	16.3%	6.7%	2.6%
Change 1926–1936	+4.8%	+4.9%	+2.4%	+2.7%	+0.8%
Change 1926–1938	—	—	+5.0%	+2.7%	+1.2%

The distributional effects are thus much more indicative of the Nazi regime's favoring of elites than of representing a people's state (*Volksstaat*). Because Götz Aly has claimed that high taxation of the wealthy occurred mainly during the war years, however, the focus here too is on a comparative analysis of the developments between 1939 and 1945.

Wartime Taxation in Nazi Germany, 1939–1945

In the run-up to World War II, unlike before World War I, neither the military leadership nor the regime's financial planners assumed that hostilities would be brief. Instead, they calculated the costs for a war that would be long and very expensive throughout. They were able to draw on experiences from World War I and tried to avoid repeating the same mistakes. The Nazi regime had already raised taxes significantly prior to the war. A considerable part of the cost of rearmament was covered by taxes. In addition, representatives of the ministries involved had repeatedly met with Wehrmacht leaders since 1935 to discuss the financing of the war. Due to differing ideas about which social groups should be taxed higher, these meetings did not always lead to results that could be implemented quickly, but comprehensive concepts for financing the war were ready when the war began.

Once it did, legislative competence in tax matters was transferred to the Ministerial Council for the Defence of the Reich. On September 4, 1939, this Ministerial Council issued the Wartime Economy Ordinance, which also included sections on tax policy. On the same day, an implementing regulation on the wartime income tax surcharge was issued. Both new regulations were largely based on proposals made by the Reich Finance Ministry in the discussions on war taxes since 1935. The most important element was an income tax surcharge of 50 percent on any income beyond 2,400 Reichsmarks (RM). However, the surcharge was subject to two restrictions: it could not exceed 15 percent of income and the total income tax liability was capped at a rate of 65 percent. Excise taxes on alcohol and tobacco were also increased significantly. The Ministry of Finance expected the new regulations to generate RM 5 billion in additional tax revenue, which was equivalent to an increase by about 30 percent. Furthermore, the German states and municipalities had to pay a war contribution to the Reich. For the states this meant 15 percent of their share of income tax, corporate income tax, and turnover taxes, for the municipalities it was 2.5–10 percent of property, trade, and poll taxes. The Wartime Economy Ordinance also put an end to all extra pay

[6] Fabian Dell, "Top Incomes in Germany Throughout the Twentieth Century: 1891–1998," in *Top Incomes over the 20th Century: A Contrast Between Continental European and English-Speaking Countries*, ed. Alan B. Atkinson and Thomas Piketty (Oxford: Oxford University Press, 2007), 365–425, here 420n.

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for working overtime or nights, on Sundays or public holidays—a decision that was quickly reversed on November 27, 1939, after public outcry.[7]

Meanwhile, the Reichsbank had reviewed the Finance Ministry's estimate of an additional RM 5 billion in tax revenue. According to the Reichsbank's calculations, gross additional revenues of only RM 3.2–3.8 billion at most were possible, which would likely only come to about RM 2 billion in net additional tax revenues due to the war-related tax losses that were to be expected. At the same time, the Reichsbank expected that, because of rationing, about 12 percent of incomes could no longer be used to buy goods. From the central bank's point of view, this share of incomes constituted surplus purchasing power that had to be siphoned off in the interest of price and currency stability.[8]

As a result of the recalculation of tax revenues, the discussion on war taxes flared up once again. This quickly led back to the central question of whether the mass of taxpayers or the top earners and businesses should be the ones to bear the main burden of tax increases. Opponents of higher taxation of workers, which included the German Labour Front, the Reich Ministry of Labour, and the Wehrmacht High Command, were now backed by Hitler, Goebbels, and Bormann, who worried that ever-higher taxes could turn workers against the war and the Nazi Party. In contrast, the Reichsbank, the Reich Ministry of Economics, and the Price Commissioner argued that the burden on businesses had already reached the limit of what was acceptable. Hermann Göring, head of the Four-Year Plan Office, went even further and demanded tax relief for high incomes. This polarization made it all but impossible to build any kind of consensus. When it became apparent that victory over France would be swift, the Reich Finance Ministry abandoned its attempts to raise taxes for the time being. Until the end of 1942, there were no more fundamental discussions about tax increases.[9] The only significant tax increase in those years was a war surcharge on corporate income tax of 25 percent, which came into force in August 1941. This surcharge was possible because corporate income tax had not been considered in the Wartime Economy Ordinance, and the Finance Ministry was able to obtain the necessary approval for this subsequent adjustment from Reich Economics Minister Funk in exchange for concessions on other issues.[10]

As in World War I, senior German leaders hoped that a substantial part of the costs incurred by the German state would be borne by the defeated states at the end of a victorious war.[11] In 1940, the Ministry of Finance assumed that France, Britain, and Belgium alone would have to transfer RM 45 billion to the Reich on conclusion of peace.[12] In view of this prediction, it would have made little sense to burden the German population with further taxes, especially given there was no prospect of resolving the ongoing dispute over how to distribute that burden. This perspective was in line with Hitler's thinking that all economic questions depended on victory or defeat in the war.

Saving Instead of War Bonds: Credit Expansion in 1939–1941

As far as Hitler was concerned, using war bonds, which had been the most important means of financing in the early phase of World War I, was out of the question. He wanted to avoid the

[7] *Reich Law Gazette* (*Reichsgesetzblatt* [RGBl]), 1939, 1:1609–16; Manfred Oertel, "Die Kriegsfinanzierung," in Geschichte der Deutschen Kriegswirtschaft, vol. 3, *1943–1945*, ed. Dietrich Eichholtz (Berlin: Argument, 1996), 682–738, esp. 696n; Reimer Voß, *Steuern im Dritten Reich. Vom Recht zum Unrecht unter der Herrschaft des Nationalsozialismus* (Munich: Beck, 1995), 112n; Banken, *Hitlers Steuerstaat*, 304n; Marie-Luise Recker, *Nationalsozialistische Sozialpolitik im Zweiten Weltkrieg* (Munich: Oldenbourg, 1985), 44–52.

[8] Banken, *Hitlers Steuerstaat*, 154n.

[9] Banken, *Hitlers Steuerstaat*, 157–66.

[10] Voß, *Steuern im Dritten Reich*, 113.

[11] Jürgen Kilian, *Krieg auf Kosten anderer. Das Reichsministerium der Finanzen und die wirtschaftliche Mobilisierung Europas für den Krieg* (Berlin: De Gruyter/Oldenbourg, 2017), 66–73.

[12] Banken, *Hitlers Steuerstaat*, 168.

sale of bonds becoming a referendum on Germany's chances of victory.[13] Instead of using this transparent form of fundraising, the Nazi leadership instead opted for covert war financing as early as September 1939. In the first two years of the war, credit financing was provided without much administrative effort in an ongoing process that initially had no upper limit. The Reichsbank placed the majority of the issued securities with banks, savings banks, other credit institutions or insurance companies without the general public's awareness.[14] Due to the high financial demands of the war, short-term loans became increasingly important as it went on because the capital market was less and less able to raise the required sums.[15] The main burden of German war costs was thus borne by German savers. German financial institutions held a large part of the national debt, with the savings banks being of particular importance. Due to mass advertising campaigns and decreasing opportunities for consumption, deposits there had risen from RM 2.6 to 14.5 billion in the period of 1939 to 1941.[16]

Tax Policy after the Invasion of the Soviet Union, 1941–1945

In 1942, when doubts about a quick victory over the Soviet Union rose, so did voices in the Reich Finance Ministry and the Reichsbank questioning whether the predominant financing of the war through credit could work in the long run. They therefore called for tax increases to siphon off surplus purchasing power. At first, however, the idea was not to raise taxes but to collect high one-off commutation payments in exchange for permanently forgoing the proceeds of a tax. The Construction Debt Relief Tax, or real estate inflation tax, had been levied since 1923 and was a considerable financial burden on property owners. Property owners' associations had therefore campaigned against it for a long time. The Nazis had repeatedly held out the prospect of abolishing the tax but had never followed through. With annual revenues of RM 800 million, it was the only remaining lucrative tax collected by the federal states early 1940s. By decree issued in late July 1942, the tax was abolished as of January 1, 1943. Instead, property owners had to make a one-off payment to the Reich of ten times their annual tax due. This sum was due by the end of 1942; an additional 4.5 percent interest was levied on any late payments.[17] The approximately RM 8 billion collected were at the Reich's disposal at the beginning of 1943, though neither permanently nor exclusively. The corresponding revenue deficit had to be compensated through annual transfers to the federal states, and half of the commutation payment—spread over the next five years—was deductible when determining taxable income.[18] Nevertheless, the Reich finance minister was able to generate considerable additional short-term revenue in this way, which accounted for about one-fifth of all tax revenue in 1942–1943.

For the Finance Ministry, this move was its last notable success in the quest for higher tax revenues. In terms of tax policy, the last three years of the war are quickly summed up: the Finance Ministry, often with the support of the Reichsbank, developed proposals to generate higher tax revenues but was unable to push them through. For one thing, the dispute over which social group could be taxed higher continued to make consensus impossible, and for another, the Nazi Party leadership was increasingly averse to raising taxes as a point of principle. Goebbels in particular pointed out time and again that tax increases could affect the

[13] Harold James, "What Is Keynesian about Deficit Financing? The Case of Interwar Germany," in *The Political Power of Economic Ideas: Keynesianism across Nations*, ed. Peter Hall (Princeton, 1989), 231–62, here 248; Aly, *Hitler's Beneficiaries*, 317.

[14] Oertel, "Die Kriegsfinanzierung," 705–09.

[15] Oertel, "Die Kriegsfinanzierung," 709–13.

[16] Sheldon Garon, *Beyond our Means: Why America Spends While the World Saves* (Princeton, NJ: Princeton University Press, 2012), 195.

[17] Decree on the suspension of the Construction Debt Relief Tax of July 31, 1942, in RGBl, 1942, 1:501–03; Oertel, "Die Kriegsfinanzierung," 701n.

[18] Fritz Terhalle, "Geschichte der deutschen öffentlichen Finanzen vom Beginn des 19. Jahrhunderts bis zum Schlusse des Zweiten Weltkrieges," in *Handbuch der Finanzwissenschaft*, ed. Wilhelm Gerloff and Fritz Neumark (Tübingen: Mohr, 1952), 1:273–326, here 322.

popular mood. Hitler and Bormann were often receptive to his concerns.[19] That is why there was no further significant tax increase in the second half of the war. Toward the end of the war, tax revenues therefore covered only an ever-smaller share of its cost. The balance increasingly shifted toward credit financing and printing more money.

Table 2: Total tax revenue in relation to the Reich's expenditure (as a percentage), 1938–1944[20]

1938–39	1939–40	1940–41	1941–42	1942–43	1943–44
61.7	48.4	36.5	31.9	33.2	24.9

As far as the distribution of tax revenues between different income groups is concerned, Aly, as previously outlined, claims that Nazi Germany had a policy of tax leniency toward the masses and tax rigor toward the bourgeoisie. In support of this claim, Aly cites increases in profit taxes and surcharges on corporate taxes hitting the highest earners, whereas for the other end of the income scale, he points to some instances of regressive taxes proposed by the Finance Ministry being rejected.[21] Once again, however, he does not provide absolute figures. Even his estimates of the effect of individual taxes are off the mark in some cases. For example, the one-off payment in lieu of real estate inflation tax was by no means a one-sided burden imposed on wealthy property owners[22] because the tax had been included in the price of a house until then. It had thus reduced the value of property owners' assets. As a result of the commutation payment, the value of their real estate assets increased while their liquid financial assets decreased. For most property owners, that was probably an advantage because there was little left to buy with their cash anyway.[23]

A look at the total tax yield, however, seems to confirm Aly's claims. It was mainly progressive income and property taxes that continued to increase in terms of their share in total revenue, while the relevance of regressive sales taxes and duties declined.

Table 3: Shares of different revenue sources in total revenue (as a percentage), 1938–1944[24]

	Income & wealth taxes	Capital transactions taxes	(Import) sales taxes	Transaction taxes	Excise duties, licence fees, etc.	Duties
1938–39	49.6	2.6	18.9	2.7	16.0	10.3
1943–44	58.9	1.0	11.0	2.1	15.6	1.7

Among the most important direct taxes, the share of wage tax also increased, but the increases in assessed income tax and corporate tax were significantly higher, so that plenty of signs point toward a greater redistributive effect of the tax system.

[19] Banken, *Hitlers Steuerstaat*, 170–82.

[20] Banken, *Hitlers Steuerstaat*, 42.

[21] Aly, *Hitler's Beneficiaries*, 54–70.

[22] Aly, *Hitler's Beneficiaries*, 67.

[23] Karl Christian Führer, *Mieter, Hausbesitzer, Staat und Wohnungsmarkt. Wohnungsmangel und Wohnungszwangswirtschaft in Deutschland 1914–1960* (Stuttgart: Steiner, 1995), 226–30.

[24] Länderrat des Amerikanischen Besatzungsgebiets, ed., *Statistisches Handbuch von Deutschland 1928–1944* (Munich: Ehrenwirth, 1949), 558.

Table 4: Development of the three most important direct taxes, 1937–1944[25]

	Wage tax	Income tax	Corporate income tax
1937–38	1,760.2 (12.5%)	2,219.2 (15.8%)	1,552.8 (11.1%)
1939–40	2,645.7 (11.2%)	4,350.4 (18.5%)	3,227.5 (13.7%)
1941–42	4,223.4 (13.1%)	8,760.2 (27.1%)	5,086.8 (15.6%)
1943–44	5,001.2 (13.1%)	8,227.2 (21.6%)	6,654.8 (17.5%)

Aly refers to the increase in corporate income tax in particular as evidence of tax rigor against the bourgeoisie.[26] In fact, the tax rate increased from 30 percent (1940–1941) to 37.5 percent (1941–1942) and finally to 48.75 percent (1942–1943).[27] While the tax rate increased by about 50 percent between 1939–1940 and 1943–1944, tax receipts doubled. This suggests that pretax profits also increased, which contributed to the higher tax receipts. This is also indicated by the research that Aly chose to ignore. Dietrich Eichholtz has shown that the fixed-price system introduced by Albert Speer and his Armaments Ministry caused business profits to explode.[28] He assumes that, during the war, arms manufacturers increased their profits by another RM 70–80 billion compared with their already high profits during the rearmament phase.[29] Moreover, the government generously supported the armaments industry in particular with investment loans and subsidies. It also granted tax rebates for involvement in occupied territories.[30] Mark Spoerer therefore states that at least until 1942–1943, corporate pretax profits increased much more than could be siphoned off through higher corporate tax rates and war profits taxes.[31] This claim is also supported by the fact that the investment boom in German industry did not reach its peak until 1943.[32]

In individual cases, considerable tax rebates could also be granted. The Krupp group, which had good connections to Hitler via its management, is an excellent example of this. Because the company's patriarch, Gustav Krupp, was more than seventy years old and not in the best of health, the family feared that they would have to pay considerable inheritance tax upon his death. The corporate and private assets had amounted to RM 260 million in 1933 and had since grown to about RM 1 billion. In an inheritance tax case without deductions, about RM 400 million in taxes would have been due. The Reich Finance Ministry calculated that even if the group were converted into a sole proprietorship and all tax loopholes were used, at least RM 120 million would be due. In November 1943, Hitler signed a dedicated Reich law, the so-called *Lex Krupp*, so that the Krupp group, which the decree described as having "made an outstanding and truly unique contribution to the military strength of the German people," would be spared a tax of this magnitude.[33]

[25] Länderrat des Amerikanischen Besatzungsgebiets, ed., *Statistisches Handbuch von Deutschland 1928–1944*, 556. In brackets: share of the respective taxes in the total revenue of the German Reich.

[26] Aly, *Hitler's Beneficiaries*, 66.

[27] Dietrich Eichholtz, ed., *Geschichte der deutschen Kriegswirtschaft, vol. 2, 1941–1943* (Berlin: Argument, 1986), 568.

[28] Eichholtz, *Geschichte der deutschen Kriegswirtschaft, vol. 2, 1941–1943*, 513–31; Adam Tooze, *The Wages of Destruction: The Making and Breaking of the Nazi Economy* (London: Allen Lane, 2006), 566.

[29] Eichholtz, *Geschichte der deutschen Kriegswirtschaft, vol. 2, 1941–1943*, 569.

[30] Eichholtz, *Geschichte der deutschen Kriegswirtschaft, vol. 2, 1941–1943*, 521–29.

[31] Mark Spoerer on "G. Aly, *Hitlers Volksstaat*," in *H-Soz-Kult*, May 26, 2005 (http://hsozkult.geschichte.hu-berlin.de/rezensionen/2005-2-143.pdf). See also Mark Spoerer, *Vom Scheingewinn zum Rüstungsboom. Die Eigenkapitalrentabilität der deutschen Industrieaktiengesellschaften 1925–1941* (Stuttgart: Steiner, 1998), esp. 89–92 and 118–21, as well as the annex.

[32] Tooze, *The Wages of Destruction*, 442.

[33] *Erlass des Führers über das Familienunternehmen der Firma Fried. Krupp* (Decree of the Führer regarding the family business Friedrich Krupp) of November 12, 1943, in RGBl, 1943, 1:655; Eichholtz, *Geschichte der deutschen Kriegswirtschaft, vol. 2, 1941–1943*, 528n; Harold James, *Krupp. Deutsche Legende und globales Unternehmen* (Munich: Beck, 2011), 214–06.

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Over the course of the war, income tax rates also increased more for upper income brackets than for lower ones.

Table 5: Development of the income tax rate as a percentage of taxable income, 1925–1942[34]

Income	1925	1934	1939	1942
1,000	10	6.5	6.5	5.5
5,000	10	16.6	17.6	24.9
10,000	10.5	19.8	22.3	33.0
20,000	13.5	26.9	30.2	44.0
40,000	20.8	39.9	44.9	59.8
60,000	25	46.6	52.4	64.9
100,000	30	50.0	55.0	65.4
500,000	38	50.0	55.0	65.9
3,000,000	39.7	50.0	55.0	66.0
Maximum rate	40	50.0	55.0	66.0

Aly emphasizes that this is one of the reasons why Germans "enjoyed more disposable income during the war than they had before it."[35] However, the crucial question is whether that disposable income could be used to buy anything or whether people were forced to save.[36] The data show that consumption had declined significantly since the beginning of the war and by 1944 had dropped by almost one-third compared to 1938.

Table 6: Real per capita consumption in the German Reich (1938 = 100)[37]

1939	1940	1941	1942	1943	1944
95.0	88.4	81.9	75.3	75.3	70.0

Despite extensive appropriation of goods in the occupied territories, the standard of living in the German Reich declined. With regard to the war period, Richard Overy describes an attempt by the regime to limit opportunities for consumption of as large a part of the population as possible to a level just above subsistence.[38]

Although this description already casts considerable doubt on Aly's emphasis on the socio-political achievements of the Nazi regime, the validity of Aly's conclusions must ultimately be determined on the basis of international comparison. Were the developments previously described specific aspects that can be explained by the Nazi ideology of the *Volksgemeinschaft* or were similar measures taken in other warring parties with an entirely different ideological orientation? How should the redistributive effects of German tax policy be assessed in international comparison?

[34] Dietmar Petzina, Werner Abelshauser, and Anselm Faust, *Sozialgeschichtliches Arbeitsbuch III. Materialien zur Statistik des Deutschen Reiches 1914–1945* (Munich: Beck, 1978), 153.

[35] Aly, *Hitler's Beneficiaries*, 293.

[36] See also Tooze, *The Wages of Destruction*, 647.

[37] Richard Overy, *War and Economy in the Third Reich* (Oxford: Clarendon, 1995), 278.

[38] Overy, *War and Economy in the Third Reich*, 281.

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Wartime Taxation in Britain, 1939–1945

After the tax burden in Britain had fallen in the 1920s, successive governments began to increase it again in the mid-1930s when the extent of German rearmament became apparent. Conservative Prime Minister Neville Chamberlain, who took office in 1937, and his liberal-conservative Chancellor of the Exchequer, Sir John Simon, continued to raise taxes, albeit gradually. It was Simon's opinion that a strong economy was a pillar of national defense readiness that should not be damaged. Therefore, rearmament was financed more through loans than taxes.[39] Even after the invasion of rump Czechoslovakia by the Wehrmacht, Simon only moderately increased the surtax on income tax and raised numerous excise duties.[40] After Britain's entry into the war, he increased the income tax rate from 27.5 percent to 37.5 percent. Excise taxes on alcohol, petrol, and sugar were also increased. Furthermore, Simon introduced a 60 percent tax on excess profits.[41] He estimated that this would increase revenue by about £100 million, while he expected an increase in expenditure of at least £600 million. Accordingly, more than 80 percent of additional expenditures were to be covered by loans. This was met with sharp criticism from the public and especially from economists. John Maynard Keynes mocked the planned tax increases as "chicken-feed to the dragons of war," for example.[42]

Keynes considered this cost recovery to be completely insufficient and so developed his own plan for financing the war. A first version appeared in the form of two articles in the *Times* in mid-November of 1939. In these articles, Keynes emphasized that war financing must not be a mere succession of ad hoc measures but should be based on a thorough study of the national income. His central argument was that financing the war through inflation was most unfavorable to the lower class and thus a social evil. Therefore, inflation was to be avoided under all circumstances. For this purpose, national income, disposable income, and the quantity of goods available would have to be balanced against one another in order to determine the amount of surplus money that the state would have to siphon off. Rationing was another way to prevent inflationary tendencies and was already in force to some extent, but Keynes initially rejected it as an option. Because Keynes expected that about 60 percent of the additional purchasing power resulting from full employment would accrue to families with annual incomes of less than £250, he propagated extending income tax to working class wages, which had previously remained exempt from income tax due to high exemption limits. By imposing a sales tax on certain non-necessities but exempting necessary foods, additional purchasing power could be withdrawn from the market. In order not to deprive workers of the fruits of their additional labor, however, Keynes proposed not taxing away their entire additional income but instead depositing part of it as deferred pay with the Post Office Savings Bank until the end of the war. This would allow workers to earn interest on this money during the war. After the war, their savings plus interest would finally be released to them to be spent on consumption. Keynes also regarded this as a safeguard against any deflationary tendencies that could arise at the end of the war. Many economists were unable to agree with him on this last point because they believed inflationary tendencies would be much more likely at the end of the war. Apart from this, however, Keynes's program met with broad approval among his peers. Even Friedrich August von Hayek welcomed the proposals.[43]

[39] George C. Peden, *The Treasury and British Public Policy 1906–1959* (Oxford: Oxford University Press, 2000), 306; Robert Skidelsky, *John Maynard Keynes, Fighting for Freedom 1937–1946*, vol. 3 (London: Penguin Books, 2000), 52.

[40] Roy Jenkins, *The Chancellors* (London: Macmillan, 1999), 388.

[41] Jenkins, *The Chancellors*; Richard S. Sayers, *Financial Policy 1939–1945* (London: H. M. Stationery Office and Longmans, 1956), 23–30; Martin Daunton, *Just Taxes: The Politics of Taxation in Britain, 1914–1979* (Cambridge: Cambridge University Press, 2002), 177; James E. Cronin, *The Politics of State Expansion: War, State and Society in Twentieth-Century Britain* (London: Routledge, 1991), 117; Peden, *The Treasury and British Public Policy, 1906–1959*, 319.

[42] Skidelsky, *John Maynard Keynes, Fighting for Freedom 1937–1946*, 3:52.

[43] Friedrich August von Hayek, "How to Pay for the War," *Economic Journal* 50, no. 198–199 (1940): 321–26; Skidelsky, *John Maynard Keynes, Fighting for Freedom 1937–1946*, 3:52–56; Richard Toye, "Keynes, the Labour

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Keynes's plan was further geared toward winning the support of the Labour Party and the trade unions. Keynes considered his arguments against inflation so valid that he was confident the Labour Party and the trade unions would accept deferred pay and wage taxes as a lesser evil. But he was thoroughly mistaken. His proposals were roundly rejected by the leaders of both the Labour Party and the trade unions. Neither forced saving nor deferred pay or wage taxes were palatable to them. The Labour Party had already published a pamphlet outlining its own ideas for financing the war. Its authors opted for controlled inflation, a comprehensive rationing system, and voluntary saving by the working class. Although Keynes supported free choice in consumption and forced saving, the position of labor organizations was diametrically opposed to this.[44]

After many discussions with labor and trade union representatives, Keynes set about revising his program at the beginning of 1940 so that it could be acceptable to them. The new version was published as a booklet at the end of February. Keynes no longer rejected rationing entirely. He proposed income tax allowances for families with children. He also embraced the Labour Party's demand for a capital levy at the end of the war. According to Keynes, the proposed measures would amount to maintaining roughly the prewar level of consumption for annual incomes up to £250, while earners above this limit would have to reduce their consumption by about one-third. Keynes had thus adopted many of the Labour Party's demands. However, he maintained his call for forced saving and continued to emphasize the central importance of national income statistics in policymaking and his strong opposition to inflation.[45]

The budget adopted in April 1940 was relatively timid when it came to tax increases. While the excess profits tax rate was raised to 100 percent, the share of profits that remained exempt from this tax was increased to 8 percent. A central feature was the announcement of a purchase tax, which the Labour Party, however, criticized as regressive and thus highly antisocial because Simon refused to limit it to non-necessities.[46] In early May 1940, Prime Minister Chamberlain resigned because he could not persuade the Labour Party to join a coalition government under his leadership. The Labour Party's refusal was due to reservations not only about Chamberlain himself but also about his Chancellor of the Exchequer. Winston Churchill was appointed the new prime minister, presiding over a broad coalition of conservatives, liberals, and the Labour Party. Churchill appointed the moderate conservative Kingsley Wood as the new Chancellor of the Exchequer. Wood held a key position in the coalition cabinet because it was his department that decided any distribution issues related to funding the war effort. The position of the Chancellor of the Exchequer had traditionally been strong.[47]

Wood's first official act in terms of taxation was to extend the excess profits tax, which had previously been limited to the armaments industry, to include all of industry. He thus heeded the calls of economists who had been arguing since 1939 that the previous limitation had created imbalances among different branches of industry. In doing so, however, the new Chancellor of the Exchequer also demonstrated that he was willing to meet the Labour Party halfway.[48] This was necessary not least because Wood wanted to push through the purchase

Movement, and 'How to Pay for the War,'" *Twentieth Century British History* 10, no. 3 (1999): 255–81, esp. 260n; Peden, *The Treasury and British Public Policy 1906–1959*, 319.

44 Toye, "Keynes, the Labour Movement, and 'How to Pay for the War,'" 262–72; Skidelsky, *John Maynard Keynes, Fighting for Freedom 1937–1946*, 3:57–61.

45 John Maynard Keynes, *How to Pay for the War: A Radical Plan for the Chancellor of the Exchequer* (London: Macmillan, 1940); Skidelsky, *John Maynard Keynes, Fighting for Freedom 1937–1946*, 3:61–68; Toye, "Keynes, the Labour Movement, and 'How to Pay for the War,'" 272–76.

46 Sayers, *Financial Policy 1939–1945*, 31–43; Cronin, *The Politics of State Expansion*, 117; Skidelsky, *John Maynard Keynes, Fighting for Freedom 1937–1946*, 3:71.

47 Robert Crowcroft, "Financial Policy, Coalition and Sir Kingsley Wood, 1940–1," *Twentieth Century British History* 26 (2015): 74–96, esp. 76n.

48 Crowcroft, "Financial Policy, Coalition and Sir Kingsley Wood, 1940–1," 80n.

tax, which was still controversial in the Labour Party. Wood reshaped the purchase tax to make it acceptable to the coalition partner. He exempted staple foods, petrol, and children's clothing from the tax. At the same time, he increased the rate for non-necessities to 33.5 percent. He also continued to increase the rates of income and property taxes. He further announced that the previous practice of collecting income tax from wage earners every six months (on January 1 and July 1) would be abandoned because more and more workers were finding it difficult to have the necessary money available on these key dates. Instead, he suggested a system in which income tax was directly withheld every week or month. By expanding direct taxes and modifying the purchase tax, Wood was able to secure the approval of the Labour Party leadership for his draft budget.[49] He had thus succeeded in getting a budget through Parliament within only two months of his appointment. He considered the hurriedly enacted previous reforms a mere first step.

Fundamentally, Wood planned to put war funding on firmer footing with the 1941 budget. From October 1940 on, he held planning sessions for this purpose. These sessions resulted in four concepts for a long-term increase in revenue that could be introduced in 1941. Gerald Canny, chairman of the board of Inland Revenue, proposed increasing the majority of existing direct taxes. Keynes's idea was to impose another surtax on top of the income tax and its already existing surtax. He argued that another surtax would have the advantage of recognizably being a pure war measure, which would definitely be repealed at the end of the war. He wanted to link this surtax to forced saving, which he continued to propagate. On February 1, 1941, Chancellor of the Exchequer Wood decided against the surtax proposed by Keynes. He reasoned that a third income tax would have made the tax system too complicated, that the burden on top earners in Keynes's proposals would be too small, while the additional administrative effort involved would be too great and that it would have created only 750,000 additional income tax payers. Canny's proposal increased the number of income tax payers much more. It also provided for harsher taxation of the highest earners. Wood chose Canny's tax program but decided to also adopt Keynes's proposal for a tax-based forced saving scheme. This was now linked to income tax. However, the share of forced savings in tax revenues fell far short of what Keynes had envisioned. As a concession to the business community, which protested against the excess profits tax, it was decided to also treat 20 percent of that tax as a loan to be disbursed after the end of the war.[50]

Now the extent of the increase in tax rates still had to be determined. Keynes had always argued that the rates should be based on the current estimate of the national income as well as on the excess money supply determined on the basis of that estimate. In the spring of 1941, Keynes therefore submitted papers presenting the necessary calculations on the basis of the latest scientific findings. He calculated an excess money supply of £500 million. Because the Department of the Treasury had arrived at a similar sum with its traditional methods, Keynes's result was accepted as a starting point for determining appropriate tax rates, that is tax rates that would skim off the expected surplus.[51] Keynes's method thus initially did not make much difference in practice. It made national income the central indicator of tax policy, however, which is why Keynes called the 1941–1942 budget "a revolution in public finance."[52] The method was also a significant factor in improving national income statistics during the war.[53]

[49] Crowcroft, "Financial Policy, Coalition and Sir Kingsley Wood, 1940–1," 85n; Peden, *The Treasury and British Public Policy 1906–1959*, 322.

[50] Skidelsky, *John Maynard Keynes, Fighting for Freedom 1937–1946*, 3:81–83; Crowcroft, "Financial Policy, Coalition and Sir Kingsley Wood, 1940–1," 88–92; Daunton, *Just Taxes*, 184.

[51] Skidelsky, *John Maynard Keynes, Fighting for Freedom 1937–1946*, 3:83n.

[52] As quoted in Peden, *The Treasury and British Public Policy 1906–1959*, 322.

[53] Richard A. Musgrave, "White Paper on British War Finance, 1938–41," *Journal of Political Economy* l (1942): 920–33; Sayers, *Financial Policy 1939–1945*, 69; Peden, *The Treasury and British Public Policy 1906–1959*, 318; Cronin, *The Politics of State Expansion*, 118.

Wood estimated that about £200–300 million of the population's income could not be used for the time being because of the reduced quantity of available goods. Therefore, income tax rates were decided that would help generate an additional £255 million in tax revenue. At least some of this sum was to be paid by the about 3 million new income tax payers. The standard income tax rate increased to 50 percent. Together with the surtax, the top income tax rate for single high earners could reach 97.5 percent.[54]

The press praised the reform almost unanimously because it promised to raise taxes to a level that could help sustain the war effort.[55] And it actually did. Due to full employment and rising profits, revenues increased even more than expected. Although this did not reduce the high deficit, it at least kept it at a stable level until the end of the war.

Table 7: Total revenue and expenditure in the United Kingdom (in millions of £), 1939–1945[56]

Financial year	Revenue	Total expenditure	Military expenditure	Deficit
1939–40	1,132.2	1,904.1	1,141 (60%)	–771.9
1940–41	1,495.3	3,970.7	3,220 (81%)	–2,475.4
1941–42	2,174.6	4,888.5	4,085 (84%)	–2,713.9
1942–43	2,922.4	5,740.1	4,840 (84%)	–2,817.7
1943–44	3,149.2	5,914.5	4,950 (84%)	–2,765.3
1944–45	3,354.7	6,190.4	5,125 (83%)	–2,835.7

Table 8: Tax revenue in relation to expenditure (as a percentage), 1938–1945[57]

1938	1939	1940	1941	1942	1943	1944	1945
86.3%	69.2%	43.5%	48.3%	51.9%	56.1%	57.8%	64.2%

From 1942 onward, taxes again covered more than half of Britain's total expenditure. Consequently, there were no further dramatic tax increases until the end of the war.

Because of the considerable importance of the income tax increase, the share of direct taxes in the revenue total rose by 13 percentage points between 1939 and 1945, while excise taxes increased by only 4 percentage points. At the same time, the share of duties fell by 6 percentage points and that of other revenue by 11 percentage points.

The development of the British tax system previously described significantly increased the burden across all social groups. The overall burden on a married top earner with three children increased by more than 30 percentage points to 90.7 percent between 1937–1938 and 1941–1942. The burden on someone in a lower income group with the same family status doubled, while that on someone from a middle income group even tripled.

[54] Crowcroft, "Financial Policy, Coalition and Sir Kingsley Wood, 1940–1," 92; Skidelsky, *John Maynard Keynes, Fighting for Freedom 1937–1946*, 3:85; Peden, *The Treasury and British Public Policy 1906–1959*, 323n.

[55] Crowcroft, "Financial Policy, Coalition and Sir Kingsley Wood, 1940–1," 94.

[56] *Statistical Year-Book of the League of Nations 1942–44* (Geneva: League of Nations, 1945), 257.

[57] Charles Feinstein, *National Income, Expenditure and Output of the United Kingdom, 1855–1965* (Cambridge: Cambridge University Press, 1972), Table 12.

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Table 9: Total revenue by revenue groups (in millions of £), 1939–1945[58]

	Total	Duties	Excise taxes	Direct taxes
1939	1,132	262 (23%)	138 (12%)	487 (43%)
1940	1,495	305 (20%)	224 (15%)	696 (47%)
1941	2,175	378 (17%)	326 (15%)	1,114 (51%)
1942	2,922	460 (16%)	425 (15%)	1,460 (50%)
1943	3,149	561 (18%)	482 (15%)	1,760 (56%)
1944	3,355	579 (17%)	497 (15%)	1,901 (57%)
1945	3,401	570 (17%)	541 (16%)	1,897 (56%)

Table 10: Overall tax burden (in %) by income groups (in £) for a British family with three children younger than 16 years of age, 1930–1942[59]

	100	200	500	1,000	5,000	10,000	20,000	50,000
1930–31	11.0	9.6	4.5	9.7	26.3	35.8	43.5	51.4
1937–38	10.4	8.4	5.6	11.8	29.2	39.1	47.9	56.7
1941–42	19.1	14.8	18.4	32.2	56.1	68.3	80.7	90.7

A study from 1950 concluded that between 1938 and 1949 about £700 million were redistributed by the government. Top earners, most of them owners of relevant assets, paid £450 million of this sum, while well-paid white-collar workers and self-employed workers paid £150 million. The remaining £100 million are attributable to the increase in total income. These £700 million were used to increase the income of farmers by £50 million and that of blue-collar workers by £650 million, mainly through social benefits. The income of an average blue-collar worker's household could thus be increased by about 25 percent.[60]

From "Soak the Rich" to Expanding Income and Excise Taxes: War Financing in the United States

It was not until Japanese flying units attacked the US Pacific Fleet at Pearl Harbor on December 7, 1941 that the door was thrown wide open for radical changes in tax policy. The United States was now at war with Japan and would soon be with Germany too. Popular sentiment had been mostly isolationist until then, but in the wake of the attack, which was widely perceived as devious, the American people were now ready and determined to go to war. Through his passionate appeals to the willingness of ordinary Americans to make financial sacrifices for the benefit of their soldiers, President Franklin D. Roosevelt was able to raise unheard-of sums. Whereas a year earlier he had expected a military budget of just over $10 billion for 1942, he now called for defense spending in the realm of $50–$60 billion.[61] In a speech before Congress, he used soak-the-rich rhetoric

[58] Brian Mitchell, *European Historical Statistics 1750–1970* (London: Palgrave, 1975), 726.

[59] Findlay Shirras, "Methods of Estimating the Burden of Taxation," *Journal of the Royal Statistical Society* 106 (1943): 214–49, here 231.

[60] Dudley Seers, "The Levelling of Incomes," *Bulletin of the Institute of Statistics Oxford* 12 (1950): 271–98.

[61] Randolph E. Paul, *Taxation for Prosperity* (New York: Bobbs-Merrill, 1947), 81n; Roy G. Blakey and Gladys C. Blakey, "The Federal Revenue Act of 1942," *American Economic Review* 36 (1942): 1069–82, esp. 1069n.

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in calling for tax increases that would leave no American with an annual net income of more than $25,000.[62]

In the run-up to the Revenue Act of 1942, Keynes's gap analysis, which regarded the difference between disposable income and the supply of goods as the decisive benchmark, finally gained acceptance in the United States as well. A team of experts led by Carl Shoup and Milton Friedman calculated the gap in order to use the result as a basis for adjusting the extent and focus of necessary tax increases. Shoup and Friedman advocated a strictly Keynesian approach, in which monetary policy played no role in fighting inflation but focused almost exclusively on fiscal policy.[63] The calculated gap of $40 billion was too large to be closed by taxation alone, however.[64] Nevertheless, the pressure to adopt extensive tax increases increased considerably.

In March 1942, Morgenthau submitted his proposals to the Ways and Means Committee. These proposals provided for tax increases totaling $7.6 billion. The main focus was on income tax. In keeping with Keynes's proposal for forced saving, part of the increased income tax would be set aside only temporarily. Roosevelt insisted that marginal tax rates be raised to tax away 100 percent of all after-tax income of more than $25,000. Many tax allowances would be scrapped, such as those for interest on state and local bonds or tax breaks for capital gains. At the same time, new relief provisions would benefit the lower and middle classes because their income tax contributions would increase significantly. Social security contributions would be increased by $1 billion.[65] The US administration rejected calls for a national sales tax because it was considered too regressive.[66]

Given that the House of Representatives had always curtailed tax bills submitted by the administration, it is not surprising that Roosevelt's demand for an income limit of $25,000 met with fierce opposition in the House. There was no chance of it being realized.[67] Neither was there for the proposal for compulsory saving. The suggested increase in social security contributions did not pass the House either. Instead, the House of Representatives opted for higher excise taxes than proposed by Morgenthau.[68] The top rate of income tax was to increase from 77 to 82 percent, that of excess profits tax from 60 to 90 percent.[69] In June, the additional tax receipts as envisaged by the House of Representatives were still about $3 billion short of what Morgenthau had asked for.[70]

Because Roosevelt and Morgenthau rejected a significant increase in excise taxes, the US Department of the Treasury developed an alternative concept in the form of a spendings tax in the summer of 1942. This tax was similar in approach to a sales tax but had the advantage that it could be levied at progressive rates.[71] Harry D. White, a senior official at the Department of the Treasury and one of Morgenthau's closest advisers, again combined this

[62] Elliot Brownlee, *Federal Taxation in America* (Cambridge: Cambridge University Press, 2016), 141; Bartholomew Sparrow, *From the Outside In: World War II and the American State* (Princeton, NJ: Princeton University Press, 1996), 104; Paul, *Taxation for Prosperity*, 100n.

[63] Carl S. Shoup, Milton Friedman, and Ruth P. Mack, *Taxing to Prevent Inflation: Techniques for Estimating Revenue Requirements* (New York: Columbia University Press, 1943); Milton Friedman and Rose D. Friedman, *Two Lucky People: Memoirs* (Chicago, IL: University of Chicago Press, 1998), 111–17.

[64] Paul, *Taxation for Prosperity*, 88n.

[65] John Witte, *The Politics and Development of the Federal Income Tax* (Madison: University of Wisconsin Press, 1985), 114n; Paul, *Taxation for Prosperity*, 97n.

[66] Monica Prasad, *Land of Too Much: American Abundance and the Paradox of Poverty* (Cambridge, MA: Harvard University Press, 2012), 114–119; Witte, *The Politics and Development of the Federal Income Tax*, 115.

[67] Mark Leff, "The Politics of Sacrifice on the American Home Front in World War II," *Journal of American History* 76 (1991): 1296–318, esp. 1298–306.

[68] Blakey and Blakey, "The Federal Revenue Act of 1942," 1075; Paul, *Taxation for Prosperity*, 98n.

[69] Witte, *The Politics and Development of the Federal Income Tax*, 116; Paul, *Taxation for Prosperity*, 109.

[70] Paul, *Taxation for Prosperity*, 101.

[71] Milton Friedman, "The Spendings Tax as a Wartime Fiscal Measure," *American Economic Review*, 33, no. 1 (1943): 50–62; Paul, *Taxation for Prosperity*, 92–95; Brownlee, *Federal Taxation in America*, 142; Witte, *The Politics and Development of the Federal Income Tax*, 117.

proposal with Keynes's idea of compulsory saving, albeit against the advice of those experts who had conceived the tax. According to Milton Friedman, it was this decision that contributed significantly to the proposal's failure in the political arena.[72] More importantly, maybe, the proposal was simply deemed too complicated; Congress eventually did adopt forced saving for both individual and corporate income tax.[73] The US Senate introduced some exemptions to the excess profits tax after Congress returned from its August recess. Health care spending for salaried employees and wage-earners was exempted, for example, which led to an expansion of preventive health care in many businesses.[74] The Senate also reduced the top corporate income tax rate from 45 to 40 percent. In order to compensate for the revenue losses, the Senate decided to introduce a victory tax. Any US citizen with an income of at least $642 had to pay this proportional tax of 5 percent.[75] The victory tax was significant insofar as that its introduction presumably prevented a federal sales tax. This sales tax, which was rejected by the Department of the Treasury, had vocal supporters in both chambers of Congress. They wanted the main burden of the war to be shouldered more by the lower and middle classes. Corporations and the wealthy, on the other hand, were to be relieved. Because the victory tax already meant that the lower and middle classes were much more involved, however, it was no longer possible to push through the sales tax.[76]

The victory tax was to be withheld directly from the wages and salaries of about 35 million blue-collar and white-collar workers, the first experiment of its kind in the United States.[77] This approach was pushed through by economic experts against the resistance of the Internal Revenue Service. Among these experts was Milton Friedman, who, together with other finance experts, had analyzed the German and British payroll deduction systems.[78] After the war, Friedman emphasized that without this system, the US government would never have been able to collect such large sums of income tax during the war. In their joint memoir published in 1998, the Friedmans regretted Milton's involvement in restructuring the tax system to provide the government with such a powerful revenue machine.[79]

The Revenue Act of 1942 fundamentally changed the tax structure. By lowering exemption limits to $1,200 for couples and to $600 for single persons, the number of income tax payers was increased from 13 to 28 million. Including the victory tax, the number rose to about 50 million taxpayers, who now made up the clear majority of the country's total of 64 million jobholders.[80] One consequence of the high tax rates was that wealthy taxpayers and businesses were increasingly seeking exemptions and persistently lobbying members of Congress for this purpose. The number of exemptions increased significantly.[81]

Although Roosevelt and Morgenthau had supported a very progressive tax system with significant increases in the burden on the wealthy and large corporations, Congress decided to significantly expand taxation mainly on the lower and middle classes. All in all, the Department of the Treasury estimated that the 1942 Revenue Act would yield tax increases of $7 billion in the first full fiscal year. Of the additional revenue, 73 percent was raised through individual income tax, 18 percent through corporate income tax, and 9 percent

[72] Friedman and Friedman, *Two Lucky People*, 117n.

[73] Prasad, *Land of Too Much*, 114n, Paul, *Taxation for Prosperity*, 103.

[74] Brady O. Bryson, "The Excess Profits Tax Provisions of the Revenue Act of 1942," *University of Pennsylvania Law Review* 91 (1943): 394–439; Prasad, *Land of Too Much*, 157.

[75] Carolyn C. Jones, "Class Tax to Mass Tax: The Role of Propaganda in the Expansion of the Income Tax during World War II," *Buffalo Law Review* 37 (1988): 685–737, here 695; Witte, *The Politics and Development of the Federal Income Tax*, 117.

[76] Paul, *Taxation for Prosperity*, 110–12.

[77] Nelson Lichtenstein, *Labor's War at the Home Front: The CIO in World War II* (Philadelphia: Temple University Press, 2003), 112; Prasad, *Land of Too Much*, 114; Blakey and Blakey, "The Federal Revenue Act of 1942," 1073.

[78] Friedman and Friedman, *Two Lucky People*, 122n.

[79] Friedman and Friedman, *Two Lucky People*, 123.

[80] Jones, "Class Tax to Mass Tax," 695; Blakey and Blakey, "The Federal Revenue Act of 1942" ; Witte, *The Politics and Development of the Federal Income Tax*, 117f.

[81] Paul, *Taxation for Prosperity*, 106; Witte, *The Politics and Development of the Federal Income Tax*, 118.

through excise taxes.[82] Although the act did not introduce the "soak-the-rich" taxation that Roosevelt and Morgenthau had called for, the fundamentally progressive aspect of taxation in the United States was maintained during World War II. In 1943, for example, revenues from excess profits tax tripled, while those from individual income tax doubled in comparison to the previous year, despite all the exemptions.

Table 11: The four major direct taxes in the United States during the war (in billions of $), 1941–1945[83]

	1941	1942	1943	1944	1945
Corporate income tax	1,852	3,069	4,521	5,284	4,879
Individual income tax	1,418	3,262	5,944	10,438	8,770
Income tax withheld	—	—	686	7,823	10,264
Excess profits tax	192	1,670	5,146	9,482	11,147

In early 1943, Roosevelt delivered his second budget speech of the war. He announced that the 1944 fiscal year would mark the first time that the budget would exceed $100 billion and spoke of the largest budget in the entire history of the world.[84] The Department of the Treasury estimated that about one-third of the increase in wages and other incomes was not matched by a supply of goods. This non-utilizable income was estimated at $45 billion.[85] Roosevelt wanted to permanently withdraw at least $16 billion of this income through taxes and other measures.[86] Resistance in Congress against drastic tax increases had clearly grown, however, and Roosevelt was granted only $4 billion in additional revenue for the 1943 fiscal year.[87]

The act was a severe defeat for Roosevelt and the Department of the Treasury. But the worst was yet to come. On October 4, 1943, the Department of the Treasury submitted another bill to the Ways and Means Committee that provided for tax increases worth $10.4 billion. Of this sum, $6.5 billion was to be raised through individual income tax, $1.1 billion through corporate taxes, $2.5 billion through excise taxes, and $400 million through higher property and inheritance taxes.[88] Both chambers of Congress roundly rejected such extensive increases. In the end, a net revenue increase of only $1.2 billion remained, which was to be raised mainly through regressive excise taxes.[89]

Roosevelt decided to veto this tax bill, which he felt contained too many exemptions and showed a clear social imbalance. He denounced the resulting tax relief bill as "not for the needy but for the greedy."[90] It was the first time in US history that a US president had vetoed a tax bill. Congress, where Roosevelt's own Democratic Party still had the majority in both chambers, was not impressed, however. It overrode the presidential veto, and the tax bill came into force. It is likely that the president's bitter defeat was largely due to the good progress that was being made in the war. After the US victory over the Japanese fleet in the Battle of Midway, the German defeats in Stalingrad and Kursk, and the Allied landings in

[82] Blakey and Blakey, "The Federal Revenue Act of 1942," 1069 and 1076. See also Paul, *Taxation for Prosperity*, 105.

[83] *Statistical Abstracts of the United States 1946* (Washington: U.S. Government Printing Office, 1946), 319.

[84] Paul, *Taxation for Prosperity*, 116.

[85] Paul, *Taxation for Prosperity*, 116.

[86] Witte, *Federal Income Tax*, 120.

[87] Paul, *Taxation for Prosperity*, 121–41; Witte, *The Politics and Development of the Federal Income Tax*, 120.

[88] Paul, *Taxation for Prosperity*, 148; Witte, *The Politics and Development of the Federal Income Tax*, 121.

[89] Mabel Newcomer, "Congressional Tax Policies in 1943," *American Economic Review* 34 (1944): 734–56, esp. 740; Paul, *Taxation for Prosperity*, 148–60; Jones, "Class Tax to Mass Tax," 698; Sparrow, *From the Outside In*, 106; Witte, *The Politics and Development of the Federal Income Tax*, 121.

[90] Witte, *The Politics and Development of the Federal Income Tax*, 121; Brownlee, *Federal Taxation in America*, 144; Sven Steinmo, *Taxation & Democracy: Swedish, British, and American Approaches to Financing the Modern State* (New Haven, CT: Yale University Press, 1993), 103; Paul, *Taxation for Prosperity*, 160–62.

Sicily, all signs were pointing to victory. As a result, business leaders and the wealthy were much less willing to make sacrifices.

The only thing that Roosevelt, the Department of the Treasury, and Congress could agree on until the end of the war was to simplify the tax system, which had become overly complicated due to the many amendments and exemptions.[91]

The Department of the Treasury had constantly propagandized its plans for tax increases in order to convince the American people of the necessity of heavy taxation for victory.[92] However, propaganda proved to be even more important for another pillar of war financing: the bond policy. It turned out that folksy advertising for war bonds was remarkably effective.[93] The bonds yielded a total of $185 billion,[94] which was more than the entire federal government tax receipts from 1939 to 1945.

The general consensus is that the Department of the Treasury was extremely successful during the war with regard to both taxes and bonds. According to Carolyn C. Jones, a taxpaying culture was successfully promoted among large sections of the populace.[95] James T. Sparrow assumes that fiscal citizenship became widely established during World War II.[96] Raising the tax burden on the lower and middle classes was possible in part because increasing armaments production in the United States triggered an economic boom. This resulted in substantial wage increases, which, despite rising taxes, were also reflected in considerable increases in real wages until the end of 1944.[97]

The findings so far also indicate that 1944 and 1945 were the two years with the most progressive income tax systems in US history.[98] This was a significant factor in terms of

Table 12: Federal government revenue and expenditure in the United States (in millions of $), 1939–1945[99]

	Revenue		Expenditure		
	Total	Income and excess profits taxes	Total	War expenditure[100]	Deficit
1939	5,165	2,189 (42.4%)	8,765	—	–3,601
1940	5,387	2,125 (39.5%)	9,127	—	–3,740
1941	7,607	3,470 (45.6%)	12,775	—	–5,168
1942	12,799	7,960 (62.2%)	32,491	—	–19,692
1943	22,282	16,094 (72.2%)	78,182	72,109 (92.2%)	–55,901
1944	44,149	34,655 (78.5%)	93,744	87,039 (92.8%)	–49,595
1945	46,457	35,173 (75.7%)	100,405	90,029 (89.7%)	–53,948

[91] Paul, *Taxation for Prosperity*, 163–70; Witte, *The Politics and Development of the Federal Income Tax*, 123; Sparrow, *From the Outside In*, 106n.

[92] Carolyn C. Jones, "Mass-Based Income Taxation: Creating a Taxpaying Culture, 1940–1952," in *Funding the Modern American State, 1941–1995*, ed. Elliot Brownlee (Cambridge: Woodrow Wilson Center Press and Cambridge University Press, 1996), 107–47; James T. Sparrow, "'Buying Our Boys Back': The Mass Foundation of Fiscal Citizenship in World War II," *Journal of Policy History* 20x (2008): 263–86, esp. 267.

[93] Sparrow, "'Buying Our Boys Back,'" 273f.

[94] James J. Kimble, *Mobilizing the Home Front: War Bonds and Domestic Propaganda* (College Station: Texas A&M University Press, 2006), 6.

[95] Kimble, *Mobilizing the Home Front*.

[96] Sparrow, "'Buying Our Boys Back,'" 269.

[97] Lichtenstein, *Labor's War at the Home Front*, 113.

[98] Richard Abel Musgrave and Tun Thin, "Income Tax Progression, 1929–48," *Journal of Political Economy* 56 (1948): 498–514; Witte, *The Politics and Development of the Federal Income Tax*, 128.

[99] *Statistical Abstracts of the United States 1946*, 312n and 315.

[100] This expenditure is only itemized for 1943–1945.

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the overall impact of federal taxes, as income and excess profits taxes accounted for almost four-fifths of all central government revenue in 1944, the last full year of the war.

The income tax burden increased significantly from 1940 until the end of the war. Top earners, even if married with two children, effectively had to pay a tax rate of almost 90 percent. However, the percentage increase among middle income groups was much sharper.

Table 13: Effective income tax burden on married couples with two children by income group[101]

	$600	$1,000	$3,000	$5,000	$10,000	$100,000	$500,000
1940	—	—	—	1.5%	4.4%	42.9%	65.9%
1944–45	0.5%	1.5%	9.2%	15.1%	22.5%	68.6%	88.6%

The effective income tax rate almost tripled within a short period of only four years (1940–1944).

Table 14: Marginal and effective income tax rates in the United States, 1940–1946[102]

Year	Marginal tax rate	Effective tax rate
1940	14–79%	21.6%
1941	29–81%	30.1%
1942	42–88%	43.6%
1943	46–88%	43.9%
1944	50–94%	58.6%
1945	50–94%	42.1%
1946	47–91%	37.6%

A new data set compiled by Thomas Piketty et al. now makes it possible to analyze in more depth the impact of wartime tax reforms on income distribution.

Table 15: Distribution of total pretax and posttax incomes on income groups in 1940 and 1945[103]

	Bottom 90%	Top 10%	Top 5%	Top 1%	Top 0.1%	Top 0.01%
1940 pretax	52.3%	47.7%	35.7%	19.3%	7.2%	2.4%
1940 posttax	54.3%	45.7%	33.1%	16.8%	5.3%	1.6%
1940 difference	+2.0	–2.0	–2.6	–2.5	–1.9	–0.8
1945 pretax	64.2%	31.8%	26.9%	14.3%	4.8%	1.4%
1945 posttax	66.2%	33.8%	21.7%	9.5%	2.3%	0.4%
1945 difference	+2.0	–2.0	–5.2	–4.8	–2.5	–1.0

[101] *Statistical Abstracts of the United States 1950*, 319.

[102] Elliot Brownlee, "Historical Perspective on U.S. Tax Policy Toward the Rich," *Michigan Ross School of Business Working Papers* (1997): 80.

[103] Thomas Piketty, Emanuel Saez, Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," *Quarterly Journal of Economics* 133 (2018): 553–609, Appendix Table II (Distribution), Tables: PreTax TB1 and PostTax TC1.

Surprisingly, the difference in terms of pretax versus posttax incomes between the bottom 90 percent and the top 10 percent remained constant from 1940 to 1945. In both years, the highest income decile lost about 2 percentage points of its share of national income to the bottom 90 percent through taxation. This indicates that the tax burden for both groups increased by a similar percentage. In contrast, the top 5 percent and the top 1 percent lost a significantly higher share in 1945 than in 1940, which means that Roosevelt was able to implement some of his plans to "soak the rich" through taxation despite opposition from Congress.

Comparison of Government Rhetoric and Tax Policy

If we examine the rhetoric of the three governments in question, Götz Aly's claims seem counterintuitive. Hitler never talked about wanting to reduce social inequality. His hierarchical concepts of society were incompatible with supporting those in need. In the election campaigns before 1933, he constantly complained about excessive taxation of industry and agriculture. It was only during the war that he balked at further increasing the burden on the lower class for fear of a revolt. At least some in the British and American governments considered social justice a central goal. President Roosevelt and Secretary of the Treasury Morgenthau went particularly far in their calls for an increase in the tax burden on the wealthy. Roosevelt even called for incomes to be capped at $25,000 by imposing a tax rate of 100 percent on all income above that sum. In Britain, the government's main economic adviser, John Maynard Keynes, advocated a socially just redesign of the tax system and negotiated this at length with the Labour Party, which formed part of the governing coalition. If we take the governments at their word, we would not expect the tax policy of the Nazi government to be particularly redistributive compared to that of the British and American governments. But words can be deceiving, and the circumstances of war may have led Hitler to adapt his ideas to the necessities of war. For example, because Hitler, unlike Churchill and Roosevelt, could not be certain of the support of his people, he may have tried to get the majority of the population on his side by improving their financial situation, as Götz Aly argues. We must therefore examine the extent to which their words matched their actions.

In 1940, the Reich Office of Statistics compared the tax burden on earned income in seven European countries: Germany, Britain, France, Belgium, Denmark, Norway, and the Netherlands. The research showed that the income tax rate for a married blue-collar or white-collar worker with two children and a relatively high annual income of RM 3,000 would have been highest in Germany. The tax rate for the lowest income group of up to RM 1,000 was also highest in Germany. When it came to the income brackets in between, that is those earning RM 1,500–2,500, Germany did not rank at the top but still ahead of most other countries. The tax burden on middle-class incomes was highest in Denmark and Norway, followed by Germany. For top incomes, the burden in 1940 was highest in Germany.[104] At least for 1940, the German Reich thus cannot be said to have been particularly lenient in its taxation of the masses. On the contrary, the burden on workers was high by European standards, although it also was for top earners.

This changed significantly over the course of the war. After Britain and the United States had begun raising taxes once they had entered the war, the burden on the absolute top earners there in 1941 was already far greater than in the Reich, while the burden on low earners remained higher in Germany.

[104] Banken, *Hitlers Steuerstaat*, 392n.

Table 16: Income tax burden on single persons in Germany, the United Kingdom, and the United States as a percentage of assessed income in RM, 1941[105]

Income in RM	Germany	UK	US
1,000	5%	-	-
2,000	11%	11%	-
4,000	22%	21%	2%
10,000	32%	36%	7%
25,000	48%	42%	12%
50,000	63%	52%	19%
100,000	64%	63%	30%
500,000	65%	88%	58%
1,000,000	65%	93%	64%
10,000,000	65%	97%	77%

This trend would only increase further. In 1938, the average top income tax rate in eleven countries that would later mass mobilize for the war was 48 percent. At that time, Germany's top income tax rate was above that average, while in 1944 it was as much as 10 percentage points below the average rate, which had meanwhile climbed to 75 percent.[106]

Table 17: The top income tax rate, 1944[107]

Germany	Canada	Japan	Sweden	Switzerland	UK	US	Spain
65%	95%	74%	68.8%	9.75%	97.5%	94%	44%

In Britain, the United States, and Canada, the top rates rose to more than 90 percent during the war. Even in Sweden, which had no military involvement in the war, the top rate was higher than in Germany. In the United States, the effective tax rate paid on income exceeding $500,000 reached almost 90 percent for the first and only time in history. The share of income tax in federal government revenue rose from 16 to more than 50 percent.[108] Britain introduced an excess profits tax of 100 percent, of which only 20 percent was to be repaid to businesses after the end of the war. By the end of the war, income, excess profits, and estate taxes in Britain accounted for more than 60 percent of the revenues of a tax system that, as a result, was highly progressive on the whole.[109]

Heavier taxation of the wealthy was therefore not a German peculiarity, possibly attributable to the Nazi ideology of a *Volksgemeinschaft*. Instead, it was in keeping with the tax policy trend that prevailed in most of the nations that played a major role in the war. Germany established a highly progressive tax regime earlier than other countries because it began mobilizing its resources for war earlier and more comprehensively. During the war, however,

[105] My own calculation based on the tax laws.

[106] Kenneth Scheve, David Stasavage, *Taxing the Rich: A Historical of Fiscal Fairness in the United States and Europe* (Princeton, NJ: Princeton University Press, 2016), 84.

[107] Federica Genovese, Kenneth Scheve, David Stasavage, *Comparative Income Taxation Database*, 2016 (Stanford, CA: Stanford University Libraries) (http://data.stanford.edu/citd).

[108] Brownlee, *Federal Taxation in America*, 147.

[109] Daunton, *Just Taxes*, 176–95.

other countries followed suit, and soon the German tax system no longer had a particularly strong redistributive effect compared with that of other countries. The data presented here instead suggest that both the British and the American tax systems placed a heavier burden on the wealthy during the war.[110]

This is even more obvious when it comes to inheritance tax. If the intention had been to impose a particularly heavy tax burden on the wealthy, then inheritance tax would have been a suitable instrument. Throughout its rule, however, the Nazi regime made no changes to the top rate at which next of kin were taxed in the event of inheritance. In many other countries, by contrast, these rates increased significantly. Once again, the United States and Britain led the way, but even a society as conservative as Japan demanded much more from heirs than Germany did.

Table 18: Top inheritance tax rate for a sole heir (child), 1944[111]

Germany	France	Japan	Netherlands	Sweden	UK	US
15%	30%	60%	9.5%	20%	65%	77%

Keynes's apt statement that inflationary credit financing is the most socially unjust way of war financing further supports the conclusion of this analysis: in 1944, Germany funded about three-fourths of its war costs through credit financing, whereas the United States and Britain relied on it to cover only half of their respective costs.

So the words of the various leaders did indeed match their actions. Not only did Hitler not talk about redistribution and social justice, he also did not establish a tax regime that was particularly redistributive by international comparison. The Nazi regime was neither an "accommodating dictatorship" nor was it characterized by "Nazi socialism." In contrast, the democratic governments in Britain and the United States not only talked of social justice, but they also oversaw comprehensive restructuring of their respective tax systems to that end, thus creating an important model for many other governments after the end of the war.

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[110] This was already concluded shortly after the war; Horst Jecht, *Probleme der Einkommensteuerreform* (Göttingen: Vandenhoeck & Ruprecht, 1948), 36n.

[111] Arnd Plagge, Kenneth Scheve, David Stasavage, *Comparative Inheritance Taxation Database*, 2010 (http://hdl.handle.net/10079/mkkwhm7. ISPS Data Archive).

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