

BOOK V.

ON THE INFLUENCE OF GOVERNMENT.

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CHAPTER I.

OF THE FUNCTIONS OF GOVERNMENT IN GENERAL.

§ 1. ONE of the most disputed questions both in political science and in practical statesmanship at this particular period, relates to the proper limits of the functions and agency of governments. At other times it has been a subject of controversy how governments should be constituted, and according to what principles and rules they should exercise their authority; but it is now almost equally a question, to what departments of human affairs that authority should extend. And when the tide sets so strongly towards changes in government and legislation, as a means of improving the condition of mankind, this discussion is more likely to increase than to diminish in interest. On the one hand, impatient reformers, thinking it easier and shorter to get possession of the government than of the intellects and dispositions of the public, are under a constant temptation to stretch the province of government beyond due bounds: while, on the other, mankind have been so much accustomed by their rulers to interference for purposes other than the

public good, or under an erroneous conception of what that good requires, and so many rash propositions are made by sincere lovers of improvement, for attempting, by compulsory regulation, the attainment of objects which can only be effectually or only usefully compassed by opinion and discussion, that there has grown up a spirit of resistance *in limine* to the interference of government, merely as such, and a disposition to restrict its sphere of action within the narrowest bounds. From differences in the historical development of different nations, not necessary to be here dwelt upon, the former excess, that of exaggerating the province of government, prevails most, both in theory and in practice, among the Continental nations, while in England the contrary spirit is decidedly predominant.

The general principles of the question, in so far as it is a question of principle, I shall make an attempt to determine in a later chapter of this Book; after first considering the effects produced by the conduct of government in the exercise of the functions universally acknowledged to belong to it. For this purpose, there must be a specification of the functions which are either inseparable from the idea of a government, or are exercised habitually and without objection by all governments; as distinguished from those respecting which it has been considered questionable whether governments should exercise them or not. The former may be termed the *necessary*, the latter the *optional*, functions of government.

§ 2. In attempting to enumerate the necessary functions of government, we find them to be considerably more multifarious than most people are at first aware of, and not capable of being circumscribed by those very definite lines of demarcation, which, in the inconsiderateness of popular discussion, it is often attempted to draw round them. We sometimes, for example, hear it said that governments ought to confine themselves to affording protection against force and fraud:

that, these two things apart, people should be free agents, able to take care of themselves, and that so long as a person practises no violence or deception, to the injury of others in person or property, he has a claim to do as he likes, without being molested or restricted by judges and legislators. But why should people be protected by their government, that is, by their own collective strength, against violence and fraud, and not against other evils, except that the expediency is more obvious? If nothing, but what people cannot possibly do for themselves, can be fit to be done for them by government, people might be required to protect themselves, by their skill and courage, even against force, or to beg or buy protection against it, as they actually do where the government is not capable of protecting them: and against fraud every one has the protection of his own wits. But without further anticipating the discussion of principles, it is sufficient on the present occasion to consider facts.

Under which of these heads, the repression of force or of fraud, are we to place the operation, for example, of the laws of inheritance? Some such laws must exist in all societies. It may be said, perhaps, that in this matter government has merely to give effect to the disposition which an individual makes of his own property by will. This, however, is at least extremely disputable; there is probably no country by whose laws the power of testamentary disposition is perfectly absolute. And suppose the very common case of there being no will: does not the law, that is, the government, decide on principles of general expediency, who shall take the succession? and in case the successor is in any manner incompetent, does it not appoint persons, frequently officers of its own, to collect the property and apply it to his benefit? There are many other cases in which the government undertakes the administration of property, because the public interest, or perhaps only that of the particular persons concerned, is thought to require it. This is often done in cases of litigated property; and in cases of judicially declared

insolvency. It has never been contended that in doing these things, a government exceeds its province.

Nor is the function of the law in defining property itself, so simple a thing as may be supposed. It may be imagined, perhaps, that the law has only to declare and protect the right of every one to what he has himself produced, or acquired by the voluntary consent, fairly obtained, of those who produced it. But is there nothing recognized as property except what has been produced? Is there not the earth itself, its forests and waters, and all other natural riches, above and below the surface? These are the inheritance of the human race, and there must be regulations for the common enjoyment of it. What rights, and under what conditions, a person shall be allowed to exercise over any portion of this common inheritance, cannot be left undecided. No function of government is less optional than the regulation of these things, or more completely involved in the idea of civilized society.

Again, the legitimacy is conceded of repressing violence or treachery; but under which of these heads are we to place the obligation imposed on people to perform their contracts? Non-performance does not necessarily imply fraud; the person who entered into the contract may have sincerely intended to fulfil it; his mind, or his circumstances, may have altered; or not even that, since the omission to perform may be a mere case of neglect. Is it no part of the duty of governments to enforce contracts? Here the doctrine of non-interference would no doubt be stretched a little, and it would be said, that enforcing contracts is not regulating the affairs of individuals at the pleasure of government, but giving effect to their own expressed desire. Let us acquiesce in this enlargement of the restrictive theory, and take it for what it is worth. But governments do not limit their concern with contracts, to a simple enforcement. They take upon themselves to determine what contracts are fit to be enforced. It is not enough that one person, not being either cheated or

compelled, makes a promise to another. There are promises by which it is not for the public good that persons should have the power of binding themselves. To say nothing of engagements to do something contrary to law, there are engagements which the law refuses to enforce, for reasons connected with the interest of the promisor, or with the general policy of the state. A contract by which a person sells himself to another as a slave, would be declared void by the tribunals of this and of most other European countries. There are few nations whose laws would enforce a contract for what was looked upon as prostitution, or any matrimonial engagement of which the conditions varied in any respect from those which the law had thought fit to prescribe. But when once it is admitted that there are any engagements which for reasons of expediency the law ought not to enforce, the same question is necessarily opened with respect to all engagements. Whether, for example, the law should enforce a contract to labour, when the wages are too low, or the hours of work too severe: whether it should enforce a contract by which a person binds himself to remain, for more than a very limited period, in the service of a given individual: whether a contract of marriage, entered into for life, should continue to be enforced against the deliberate will of the persons, or of either of the persons, who entered into it. Every question which can possibly arise as to the policy of contracts, and of the relations which they establish among human beings, is a question for the legislator; and one which he cannot escape from considering, and in some way or other deciding.

Again, the prevention and suppression of force and fraud afford appropriate employment for soldiers, policemen, and criminal judges; but there are also civil tribunals. The punishment of wrong is one business of an administration of justice, but is not the decision of disputes another? Innumerable disputes arise between persons, without *mala fides* on either side, through misconception of their legal rights, or

from not being agreed about the facts, on the proof of which those rights are legally dependent. Is it not for the general interest that the state should appoint persons to clear up these uncertainties and terminate these disputes? It cannot be said to be a case of absolute necessity. People might appoint an arbitrator, and engage to submit to his decision, and they do so where there are no courts of justice, or where the courts are not trusted, or where their delays and expenses, or the irrationality of their rules of evidence, deter people from resorting to them. Still, it is universally thought right that the state should establish civil tribunals; and if their defects often drive people to have recourse to substitutes, even then the power held in reserve of carrying the case before a legally constituted court, gives to the substitutes their principal efficacy.

Not only does the state undertake to decide disputes, it takes precautions beforehand that disputes may not arise. The laws of most countries lay down rules for determining many things, not because it is of much consequence in what way they are determined, but in order that they may be determined somehow, and there may be no question on the subject. The law prescribes forms of words for many kinds of contract, in order that no dispute or misunderstanding may arise about their meaning: it makes provision that if a dispute does arise, evidence shall be procurable for deciding it, by requiring that the document be attested by witnesses and executed with certain formalities. The law preserves authentic evidence of facts to which legal consequences are attached, by keeping a registry of such facts; as of births, deaths, and marriages, of wills and contracts, and of judicial proceedings. In doing these things, it has never been alleged that government oversteps the proper limits of its functions.

Again, however wide a scope we may allow to the doctrine that individuals are the proper guardians of their own interests, and that government owes nothing to them but to save them

from being interfered with by other people, the doctrine can never be applicable to any persons but those who are capable of acting in their own behalf. The individual may be an infant, or a lunatic, or fallen into imbecility. The law surely must look after the interests of such persons. It does not necessarily do this through officers of its own. It may devolve the trust upon some relative or connexion. But in doing so is its duty ended? Can it make over the interests of one person to the control of another, and be excused from supervision, or from holding the person thus trusted, responsible for the discharge of the trust?

There is a multitude of cases in which governments, with general approbation, assume powers and execute functions for which no reason can be assigned except the simple one, that they conduce to general convenience. We may take as an example, the power (which is a monopoly too) of coining money. This is assumed for no more recondite purpose than that of saving to individuals the trouble, delay, and expense of weighing and assaying. No one, however, even of those most jealous of state interference, has objected to this as an improper exercise of the powers of government. Prescribing a set of standard weights and measures is another instance. Paving, lighting, and cleansing the streets and thoroughfares, is another; whether done by the general government, or, as is more usual, and generally more advisable, by a municipal authority. Making or improving harbours, building lighthouses, making surveys in order to have accurate maps and charts, raising dykes to keep the sea out, and embankments to keep rivers in, are cases in point.

Examples might be indefinitely multiplied without intruding on any disputed ground. But enough has been said to shew that the admitted functions of government embrace a much wider field than can easily be included within the ring-fence of any restrictive definition, and that it is hardly possible to find any ground of justification common to them

all, except the comprehensive one of general expediency; nor to limit the interference of government by any universal rule, save the simple and vague one that it should never be admitted but when the case of expediency is strong.

§ 3. Some observations, however, may be usefully bestowed on the nature of the considerations on which the question of government interference is most likely to turn, and on the mode of estimating the comparative magnitude of the expediencies involved. This will form the last of the three parts into which our discussion of the principles and effects of government interference may conveniently be divided. The following will be our division of the subject.

We shall first consider the economical effects arising from the manner in which governments perform their necessary and acknowledged functions.

We shall then pass to certain governmental interferences of what I have termed the optional kind (*i.e.* overstepping the boundaries of the universally acknowledged functions) which have heretofore taken place, and in some cases still take place, under the influence of false general theories.

It will lastly remain to inquire whether, independently of any false theory, and consistently with a correct view of the laws which regulate human affairs, there be any cases of the optional class in which governmental interference is really advisable, and what are those cases.

The first of these divisions is of an extremely miscellaneous character: since the necessary functions of government, and those which are so manifestly expedient that they have never or very rarely been objected to, are, as already pointed out, too various to be brought under any very simple classification. Those, however, which are of principal importance, which alone it is necessary here to consider, may be reduced to the following general heads.

First, the means adopted by governments to raise the revenue which is the condition of their existence.

Secondly, the nature of the laws which they prescribe on the two great subjects of Property and Contracts.

Thirdly, the excellences or defects of the system of means by which they enforce generally the execution of their laws, namely, their judicature and police.

We commence with the first head, that is with the theory of Taxation.

CHAPTER II.

OF THE GENERAL PRINCIPLES OF TAXATION.

§ 1. THE qualities desirable, economically speaking, in a system of taxation, have been embodied by Adam Smith in four maxims or principles, which having been generally concurred in by subsequent writers, may be said to have become classical, and this chapter cannot be better commenced than by quoting them*.

“1. The subjects of every state ought to contribute to the support of the government, as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation.

“2. The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person. Where it is otherwise, every person subject to the tax is put more or less in the power of the taxgatherer, who can either aggravate the tax upon any obnoxious contributor, or extort by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages the insolence and favours the corruption of an order of men who are naturally unpopular, even when they are neither insolent nor corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, it appears, I

* *Wealth of Nations*, book v. ch. ii.

believe, from the experience of all nations, is not near so great an evil as a very small degree of uncertainty.

“3. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same term at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay; or when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury, are all finally paid by the consumer, and generally in a manner that is very convenient to him. He pays them by little and little, as he has occasion to buy the goods. As he is at liberty, too; either to buy or not to buy, as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes.

“4. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state. A tax may either take out or keep out of the pockets of the people a great deal more than it brings into the public treasury, in the four following ways. First, the levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose perquisites may impose another additional tax upon the people.” Secondly, it may divert a portion of the labour and capital of the community from a more to a less productive employment. “Thirdly, by the forfeitures and other penalties which those unfortunate individuals incur who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have derived from the employment of their capitals. An injudicious tax offers a great temptation to smuggling. Fourthly, by subjecting the people to the frequent visits and the odious examination of the taxgatherers, it may expose them to much unnecessary

trouble, vexation, and oppression;" to which may be added, that the restrictive regulations to which trades and manufactures are often subjected to prevent evasion of a tax, are not only in themselves troublesome and expensive, but often oppose insuperable obstacles to making any improvement in the process.

The last three of these four maxims require little other explanation or illustration than is contained in the passage itself. How far any given tax conforms to, or conflicts with them, is a matter to be considered in the discussion of particular taxes. But the first of the four points, equality of taxation, requires to be more fully examined, being a thing often imperfectly understood, and on which many false notions have become to a certain degree accredited, through the absence of any definite principles of judgment in the popular mind.

§ 2. For what reason ought equality to be the rule in matters of taxation? For the reason, that it ought to be so in all affairs of government. As a government ought to make no distinction of persons or classes in the strength of their claims on it, whatever sacrifices it requires from them should be made to bear as nearly as possible with the same pressure upon all, which, it must be observed, is the mode by which least sacrifice is occasioned on the whole. If any one bears less than his fair share of the burthen, some other person must suffer more than his share, and the alleviation to the one is not, *ceteris paribus*, so great a good to him, as the increased pressure upon the other is an evil. Equality of taxation, therefore, as a maxim of politics, means equality of sacrifice. It means, apportioning the contribution of each person towards the expenses of government, so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his. This standard, like other standards of perfection, cannot be completely realized; but the first object in every practical discussion should be, to know what perfection is.

There are persons, however, who are not content with the general principles of justice as a basis to ground a rule of finance upon, but must have something, as they think, more specifically appropriate to the subject. What best pleases them is, to regard the taxes paid by each member of the community as an equivalent for value received, in the shape of service to himself; and they prefer to rest the justice of making each contribute in proportion to his means, upon the ground, that he who has twice as much property to be protected, receives, on an accurate calculation, twice as much protection, and ought, on the principles of bargain and sale, to pay twice as much for it. Since, however, the assumption that government exists solely for the protection of property, is not one to be deliberately adhered to; some consistent adherents of the *quid pro quo* principle go on to observe, that protection being required for person as well as property, and everybody's person receiving the same amount of protection, a poll-tax of a fixed sum per head is a proper equivalent for this part of the benefits of government, while the remaining part, protection to property, should be paid for in proportion to property. There is in this adjustment a false air of nice adaptation, very acceptable to some minds. But in the first place, it is not admissible that the protection of person and property are the sole purposes of government. The ends of government are as comprehensive as those of the social union. They consist of all the good, and all the immunity from evil, which the existence of government can be made either directly or indirectly to bestow. In the second place, the practice of setting definite values on things essentially indefinite, and making them a ground of practical conclusions, is peculiarly fertile in false views of social questions. It cannot be admitted, that to be protected in the ownership of ten times as much property, is to be ten times as much protected. Whether the labour and expense of the protection, or the feelings of the protected person, or any other definite thing be made the standard, there is no

such proportion as the one supposed, nor any other definable proportion. If we wanted to estimate the degrees of benefit which different persons derive from the protection of government, we should have to consider who would suffer most if that protection were withdrawn: to which question if any answer could be made, it must be, that those would suffer most who were weakest in mind or body, either by nature or by position. Indeed, such persons would almost infallibly be slaves. If there were any justice, therefore, in the theory of justice now under consideration, those who are least capable of helping or defending themselves, being those to whom the protection of government is the most indispensable, ought to pay the greatest share of its price: the reverse of the true idea of distributive justice, which consists not in imitating but in redressing the inequalities and wrongs of nature.

Government must be regarded as so pre-eminently a concern of all, that to determine who is most interested in it is of no real importance. If a person or class of persons receive so small a share of the benefit as makes it necessary to raise the question, there is something else than taxation which is amiss, and the thing to be done is to remedy the defect, not to recognize it and make it a ground for demanding less taxes. As, in a case of voluntary subscription for a purpose in which all are interested, all are thought to have done their part fairly when each has contributed according to his means, that is, has made an equal sacrifice for the common object; in like manner should this be the principle of compulsory contributions, and it is superfluous to look for a more ingenious or recondite ground to rest the principle upon.

§ 3. Setting out, then, from the maxim that equal sacrifices ought to be demanded from all, we have next to inquire whether this is in fact done, by making each contribute the same percentage on his pecuniary means. Many persons maintain the negative, saying that a tenth part taken from a

small income is a heavier burthen than the same fraction deducted from one much larger: and on this is grounded the very popular scheme of what is called a graduated property tax, viz., an income tax in which the percentage rises with the amount of the income.

On the best consideration I am able to give to this question, it appears to me that the portion of truth which the doctrine contains, arises principally from the difference between a tax which can be saved from luxuries, and one which trenches, in ever so small a degree, upon the necessaries of life. To take a thousand a year from the possessor of ten thousand, would not deprive him of anything really conducive either to the support or to the comfort of existence; and if such *would* be the effect of taking five pounds from one whose income is fifty, the sacrifice required from the last is not only greater than, but entirely incommensurable with, that imposed upon the first. The mode of adjusting these inequalities of pressure which seems to be the most equitable, is that recommended by Bentham, of leaving a certain minimum of income, sufficient to provide the necessaries of life, untaxed. Suppose 50*l.* a year to be an income ordinarily sufficient to provide a moderately numerous labouring family with the requisites of life and health, and with protection against habitual bodily suffering, but not with any indulgences. This then should be made the minimum, and incomes exceeding it should pay taxes not upon their whole amount, but upon the surplus. If the tax be ten per cent, an income of 60*l.* should be considered as a net income of 10*l.*, and charged with 1*l.* a year, while an income of 1000*l.* should be charged as one of 950*l.* Each would then pay a fixed proportion, not of his whole means, but of his superfluities. An income not exceeding 50*l.* should not be taxed at all, either directly or by taxes on necessaries: for as by supposition this is the smallest income which a labouring family ought to have, the government ought not to be a party to making it smaller. This arrangement however would

constitute a reason, in addition to others which might be stated, for maintaining indirect taxes on articles of luxury consumed by the poor. The immunity extended to the income required for necessaries, should depend on its being actually expended for that purpose; and the poor who, not having more than enough for necessaries, divert any part of it to indulgences, should like other people contribute their quota out of those indulgences to the expenses of the state.

The exemption in favour of the smaller incomes should not, I think, be stretched further than to the amount of income needful for life, health, and immunity from bodily pain. An income of 100*l.* a year would, as it seems to me, obtain all the relief it is entitled to, compared with one of 1000*l.*, by being taxed only on 50*l.* of its amount. It may be said, indeed, that to take 100*l.* from 1000*l.* (even giving back five pounds) is a heavier impost than 1000*l.* taken from 10,000*l.* (giving back the same five pounds). But this doctrine seems to me too disputable altogether, and even if true at all, not true to a sufficient extent, to be made the foundation of any rule of taxation. To tax all *incomes* in an equal ratio, would be unjust to those, the greater part of whose income is required for necessaries; but I can see no fairer standard of real equality than to take from all persons, whatever may be their amount of fortune, the same arithmetical proportion of their superfluities.

Some indeed contend that this rule of taxation bears harder upon the moderate than upon the large incomes, because the same proportional payment has more tendency in the former case than in the latter, to reduce the payer to a lower grade of social rank. The fact appears to me more than questionable. But even admitting it, I object to its being considered incumbent on government to shape its course by such considerations, or to recognize the notion that social importance is or can be determined by amount of expenditure. Government ought to set an example of

rating all things at their true value, and riches, therefore, at the worth, for comfort or pleasure, of the things which they will buy: and ought not to sanction the vulgarity of prizing them for the pitiful vanity of being known to possess them, or the still more paltry shame of being suspected to be without them, the presiding motives of three-fourths of the expenditure of the middle classes. The sacrifices of real comfort or indulgence which government requires, it is bound to apportion among all persons with as much equality as possible; but their sacrifices of the imaginary dignity dependent on expense, it may spare itself the trouble of estimating.

Both in England and on the Continent a graduated property-tax (*l'impôt progressif*) has been advocated, on the avowed ground that the state should use the instrument of taxation as a means of mitigating the inequalities of wealth. I am as desirous as any one, that means should be taken to diminish those inequalities, but not so as to impair the motives on which society depends for keeping up (not to say increasing) the produce of its labour and capital. To tax the larger incomes at a higher percentage than the smaller, is to lay a tax on industry and economy; to impose a penalty on people for having worked harder and saved more than their neighbours. It is partial taxation, which is a mild form of robbery. A just and wise legislation would scrupulously abstain from opposing obstacles to the acquisition of even the largest fortune by honest exertion. Its impartiality between competitors would consist in endeavouring that they should all start fair, and not that, whether they were swift or slow, all should reach the goal at once. Many, indeed, fail with greater efforts than those with which others succeed, not from difference of merits, but difference of opportunities; and it is the part of a good government to provide, that, as far as more paramount considerations permit, the inequality of opportunities shall be remedied. When all kinds of useful instruction shall be as accessible

as they might be made, and when the cultivated intelligence of the poorer classes, aided so far as necessary by the guidance and co-operation of the state, shall obviate, as it might so well do, the major part of the disabilities attendant on poverty, the inequalities of fortune arising from people's own earnings could not justly give umbrage. With respect to the large fortunes acquired by gift or inheritance, the power of bequeathing is as much a part of the right of property as the power of using: that is not in the fullest sense a person's own, which he is not free to bestow on others. But this is one of those privileges of property which are fit subjects for regulation on grounds of general expediency; and I have already suggested*, as the most eligible mode of restraining the accumulation of large fortunes in the hands of those who have not earned them by exertion, a limitation of the amount which any one person should be permitted to acquire by gift, bequest, or inheritance. Apart from this, and from the proposal of Bentham (also discussed in a former chapter) that collateral inheritance *ab intestato* should cease, and the property escheat to the state, I conceive that inheritances and legacies, exceeding a certain amount, are highly proper subjects for taxation; and that the revenue from them should be as great as it can be made without giving rise to evasions, by donation *inter vivos* or concealment of property, such as it would be impossible adequately to check. The principle of graduation (as it is called), that is, of levying a larger percentage on a larger sum, though its application to general taxation would be a violation of first principles, is quite unobjectionable as applied to legacy and inheritance duties.

The objection to a graduated property tax applies in an aggravated degree to the proposition of an exclusive tax on what is called "realized property," that is, property not forming a part of any capital engaged in business, or (it should

* *Supra*, book ii. ch. 1.

rather be said) in business on the owner's account: as land, the public funds, money lent on mortgage, and shares (I presume) in joint-stock companies. Except the proposal of applying a sponge to the national debt, no such palpable violation of common honesty has found sufficient support in this country during the present generation, to be regarded as within the domain of discussion. It has not the palliation of a graduated property tax, that of laying the burthen on those best able to bear it; for "realized property" includes almost every provision made for those who are unable to work, and consists, in great part, of extremely small fractions. I can hardly conceive a more shameless pretension, than that the major part of the property of the country, that of merchants, manufacturers, farmers, and shopkeepers, should be exempted from its share of taxation; that these classes should only begin to pay their proportion after retiring from business, and if they never retire should be excused from it altogether. But even this does not give an adequate idea of the injustice of the proposition. The burthen thus exclusively thrown on the owners of the smaller portion of the wealth of the community, would not even be a burthen on that *class* of persons in perpetual succession, but would fall exclusively on those who happened to compose it when the tax was laid on. As land and those particular securities would yield a smaller net income, relatively to the general interest of capital and to the profits of trade; the balance would rectify itself by a permanent depreciation of those kinds of property. Future buyers would acquire land and securities at a reduction of price, equivalent to the peculiar tax, which tax they would, therefore, escape from paying, while the original possessors would remain burthened with it even after parting with the property, since they would have sold their land or securities at a loss of value equivalent to the fee-simple of the tax. Its imposition would thus be tantamount to the confiscation for public uses of a percentage of their property, equal to the percentage laid on their income by the tax. That such

a proposition should find any favour, is a striking instance of the want of conscience in matters of taxation, resulting from the absence of any fixed principles in the public mind, and of any indication of a sense of justice on the subject in the general conduct of governments. Should the scheme ever enlist a large party in its support, the fact would indicate a laxity of pecuniary integrity in national affairs, scarcely inferior to American repudiation.

§ 4. Whether the profits of trade may not rightfully be taxed at a somewhat lower rate than incomes derived from interest or rent, is part of the more comprehensive question, so often mooted on the occasion of the present income tax, whether life incomes should be subjected to the same rate of taxation as perpetual incomes: whether salaries, for example, or annuities, or the gains of professions, should pay the same percentage as the income from inheritable property.

The existing tax treats all kinds of incomes exactly alike, taking sevenpence in the pound as well from the person whose income dies with him, as from the landowner, stockholder, or mortgagee, who can transmit his fortune undiminished to his descendants. This is a visible injustice; yet it does not arithmetically violate the rule that taxation ought to be in proportion to means. When it is said that a temporary income ought to be taxed less than a permanent one, the reply is irresistible, that it is taxed less; for the income which lasts only ten years pays the tax only ten years, while that which lasts for ever pays for ever. But almost every one feels that this answer does not touch the real grievance; for in spite of the nominal equality of income, A, an annuitant of 1000*l.* a year, cannot so well afford to pay 100*l.* out of it, as B who derives the same annual sum from heritable property; A having usually a demand on his income which B has not, namely to provide by saving for children or others; to which in the case of salaries or professional gains, must generally be added a provision for his own

later years; while B may expend his whole income without injury to his old age, and still have it all to bestow on others after his death. If A, in order to meet these exigencies, must lay by 300*l.* of his income, to take 100*l.* from him as income tax is taking 100*l.* from 700*l.*, since it must be retrenched from that part only of his means which he can afford to spend on his own consumption. Were he to throw it rateably on what he spends and on what he saves, abating 70*l.* from his consumption and 30*l.* from his annual saving, then indeed his immediate sacrifice would be proportionally the same as B's: but then his children or his old age would be worse provided for in consequence of the tax: and the plea ordinarily urged in vindication of its justice, that when the income ceases the tax ceases, would no longer be maintainable.

The principle, therefore, of equality of taxation, interpreted in its only just sense, equality of sacrifice, requires that a person who has no means of providing for old age, or for those in whom he is interested, except by saving from his income, should have the tax remitted on all that part of his income which is really and *bond fide* applied to that purpose. I say really applied, because (as before remarked in the case of an income not more than sufficient for subsistence) an exemption grounded on an assumed necessity, ought not to be claimable by any one who practically emancipates himself from the necessity. One expedient might be, that the Income-Tax Commissioners should allow, as a deduction from income, all *bond fide* payments for insurance on life. This, however, would not provide for the case which most of all deserves consideration, that of persons whose lives are not insurable; nor would it include the case of savings made as a provision for age. The latter case might, perhaps, be met by allowing as a deduction from income all payments made in the purchase of deferred annuities; and the former by remitting income-tax on sums actually settled, and on sums paid into the hands of a public officer, to be invested in

securities, and repaid only to the executor or administrator: the tax so remitted, with interest from the date of deposit, being retained (for the prevention of fraud) as a first debt chargeable on the deposit itself, before other debts could be paid out of it; but not demanded if satisfactory proof were given that all debts had been paid from other resources. I throw out these suggestions for the consideration of those whose experience renders them adequate judges of practical difficulties. It is highly probable that there may be better modes of attaining the object. If no plan be found practicable by which the exemption can be confined to the portion of income actually saved, there still remains the rough expedient of two different rates of assessment. There would be great difficulty in taking into account differences of duration between one terminable income and another; and in the most frequent case, that of incomes dependent on life, differences of age and health would constitute such extreme diversity as it would be impossible to take proper cognizance of. It would probably be necessary to be content with one uniform rate for all incomes of inheritance, and another uniform rate for all those which necessarily terminate with the life of the individual. In fixing the proportion between the two rates, there must inevitably be something arbitrary; perhaps a deduction of one-fourth in favour of life-incomes would be as little objectionable as any which could be made, it being thus assumed that one-fourth of a life-income is, on the average of all ages and states of health, a suitable proportion to be laid by as a provision for successors and for old age*.

* Several writers on the subject, including Mr. Mill in his *Elements of Political Economy*, and Mr. McCulloch in his work on *Taxation*, have contended that as much should be deducted as would be sufficient to insure the possessor's life for a sum which would give to his successors for ever an income equal to what he reserves for himself; since this is what the possessor of heritable property can do without saving at all: in other words, that temporary incomes should be converted into perpetual incomes of equal

Of the net profits of persons in business, one-half, perhaps, may be considered as interest on capital, and of a perpetual character, and the other half as remuneration for the skill and labour of superintendence; depending therefore on the life of the individual, and even on his continuance in business. For profits, therefore, an intermediate rate might be adopted, one-half of the net income being taxed on the higher scale, and the other half on the lower.

These are the chief cases, of ordinary occurrence, in which any difficulty arises in interpreting the maxim of equality of taxation. The proper sense to be put upon it, as we have seen in the preceding example, is, that people should be taxed, not in proportion to what they have, but to what they can afford to spend. It is no objection to this principle that we cannot apply it consistently to all cases. A person with a life income and precarious health, or who has many persons depending on his exertions, must, if he wishes to provide for them after his death, be more rigidly economical than one who has a life income of equal amount with a strong constitution and few claims upon him; and since taxation cannot accommodate itself to these distinc-

present value, and taxed as such. But this surely is favouring them too much. Owners of life incomes are not bound to forego the enjoyment of them for the sake of leaving to a perpetual line of successors an independent provision equal to their own temporary one; and no one ever dreams of doing so. Least of all is it to be required or expected from those whose incomes are the fruits of personal exertion, that they should leave to their posterity for ever, without any necessity for exertion, the same incomes which they allow to themselves. All they are bound to do, even for their children, independently of any expectation they may themselves have raised, is to place them in circumstances in which they will have favourable chances of earning their own living. To give, however, either to children or to others, by bequest, being a legitimate inclination, which these persons cannot indulge without laying by a part of their income, while the owners of heritable property can; this real inequality in cases where the incomes themselves are equal, should be considered, to a reasonable degree, in the adjustment of taxation, so as to require from both, as nearly as practicable, an equal sacrifice.

tions, it is argued that there is no use in attending to any distinctions, where the absolute amount of income is the same. But the impossibility of doing perfect justice, is no reason against doing as much as we can. Though it may be a hardship to an annuitant whose life is only worth five years purchase, to be allowed no greater abatement than is granted to one whose life is worth twenty, it is better for him even so, than if neither of them were allowed any abatement at all.

§ 5. Before leaving the subject of Equality of Taxation, I must remark that there are cases in which exceptions may be made to it, consistently with that equal justice which is the groundwork of the rule. Suppose that there is a kind of income which constantly tends to increase, without any exertion or sacrifice on the part of the owners: those owners constituting a class in the community, whom the natural course of things progressively enriches, consistently with complete passiveness on their own part. In such a case, it would be no violation of the principles on which private property is grounded, if the state should appropriate this increase of wealth, or part of it, as it arises. This would not properly be taking anything from anybody; it would merely be applying an accession of wealth, created by circumstances, to the benefit of society, instead of allowing it to become an unearned appendage to the riches of a particular class.

Now this is actually the case with rent. The ordinary progress of a society which increases in wealth, is at all times tending to augment the incomes of landlords; to give them both a greater amount and a greater proportion of the wealth of the community, independently of any trouble or outlay incurred by themselves. They grow richer, as it were in their sleep, without working, risking, or economizing. What claim have they, on the general principles of social justice, to this accession of riches? In what would they have been wronged if society had, from the beginning,

reserved a right of taxing the spontaneous increase of rent, to the highest amount required by financial exigencies? I admit that it would be unjust to come upon each individual estate, and lay hold of the increase which might be found to have taken place in its rental; because there would be no possibility of distinguishing in individual cases, between an increase owing solely to the general circumstances of society, and one which was the effect of skill and expenditure on the part of the proprietor. The only admissible mode of proceeding would be by a general measure. The first step should be a valuation of all the land in the country. The present value of all land should be exempt from the tax; but after an interval had elapsed, during which society had increased in population and capital, a rough estimate might be made of the spontaneous increase which had accrued to rent since the valuation was made. Of this the average price of produce would be some criterion: if that had risen, it would be certain that rent had increased, and (as already shown,) even in a greater ratio than the rise of price. On this and other data, an approximative estimate might be made, how much value had been added to the land of the country by natural causes; and in laying on a general land-tax, which for fear of miscalculation should be considerably within the amount thus indicated, there would be an assurance of not touching any increase of income which might be the result of capital expended or industry exerted by the proprietor.

But although there could be no question as to the justice of taxing the increase of rent, if society had avowedly reserved the right, has not society waived that right by not exercising it? In England, for example, have not all who bought land for the last century or more, given value not only for the existing income, but for the prospects of increase, under an implied assurance of being only taxed in the same proportion with other incomes? This objection, in so far as valid, has a different degree of validity in different countries; depending on the degree of desuetude into

which society has allowed a right to fall, which, as no one can doubt, it once fully possessed. In most countries of Europe, the right to take by taxation, as exigency might require, an indefinite portion of the rent of land, has never been allowed to slumber. In several parts of the Continent the land-tax forms a large proportion of the public revenues, and has always been confessedly liable to be raised or lowered without reference to other taxes. In these countries no one can pretend to have become the owner of land on the faith of never being called upon to pay an increased land-tax. In England the land-tax has not varied since the early part of the last century. The last act of the legislature in relation to its amount, was to diminish it: and although the subsequent increase in the rental of the country has been immense, not only from agriculture, but from the growth of towns and the increase of buildings, the ascendancy of landholders in the legislature has prevented any tax from being imposed, as it so justly might, upon the very large portion of this increase which was unearned, and, as it were, accidental. For the expectations thus raised, it appears to me that an amply sufficient allowance is made, if the whole increase of income which has accrued during this long period from a mere natural law, without exertion or sacrifice, is held sacred from any peculiar taxation. From the present date, or any subsequent time at which the legislature may think fit to assert the principle, I see no objection to declaring that the future increment of rent should be liable to special taxation; in doing which every shadow of injustice to the landlords would be obviated, if the present market-price of their land were secured to them; since that includes the present value of all future expectations. With reference to such a tax, perhaps a safer criterion than either a rise of rents or a rise of the price of corn, would be a general rise in the price of land. It would be easy to keep the tax within the amount which would reduce the market-value of land below the original valuation: and up to that point, whatever the amount

of the tax might be, no injustice would be done to the proprietors.

§ 6. But whatever may be thought of the legitimacy of making the state a sharer in all future increase of rent from natural causes, the existing land-tax (which in this country unfortunately is very small) ought not to be regarded as a tax, but as a rent-charge in favour of the public; a portion of the rent, reserved from time immemorial by the state, which has never belonged to or formed part of the income of the landlords, and should not therefore be counted to them as part of their taxation, so as to exempt them from their fair share of every other tax. As well might the tithe be regarded as a tax on the landlords: as well, in Bengal, where the state, originally entitled to the whole rent of the land, gave away one-tenth of it to individuals, retaining the other nine-tenths, might those nine-tenths be considered as an unequal and unjust tax on the grantees of the tenth. That a person owns part of the rent, does not make the rest of it his just right, injuriously withheld from him. The landlords originally held their estates subject to feudal burthens, for which the present land-tax is an exceedingly small equivalent, and for their relief from which they should have been required to pay a much higher price. All who have bought land since the tax existed have bought it subject to the tax. There is not the smallest pretence for looking upon it as a payment exacted from the existing race of landlords.

These observations are applicable to a land-tax, only in so far as it is a peculiar tax, and not when it is merely a mode of levying from the landlords the equivalent of what is taken from other classes. In France, for example, there are peculiar taxes on other kinds of property and income (the *mobilier* and the *patente*), and supposing the land-tax to be not more than equivalent to these, there would be no ground for contending that the state had reserved to itself a rent-charge on the land. But wherever and in so far as income

derived from land is prescriptively subject to a deduction for public purposes, beyond the rate of taxation levied on other incomes, the surplus is not properly taxation, but a share of the property in the soil, reserved by the state. In this country there are no peculiar taxes on other classes, corresponding to, or intended to countervail, the land-tax. The whole of it, therefore, is not taxation but a rent-charge, and is as if the state had retained, not a portion of the rent, but a portion of the land. It is no more a burden on the landlord, than the share of one joint tenant is a burden on the other. The landlords are entitled to no compensation for it, nor have they any claim to its being allowed for; as part of their taxes. Its continuance on the existing footing is no infringement of the principle of Equal Taxation.

We shall hereafter consider, in treating of Indirect Taxation, how far, and with what modifications, the rule of equality is applicable to that department.

§ 7. In addition to the preceding rules, another general rule of taxation is sometimes laid down, namely, that it should fall on income, and not on capital. That taxation should not encroach upon the amount of the national capital, is indeed of the greatest importance; but this encroachment, when it occurs, is not so much a consequence of any particular mode of taxation, as of its excessive amount. Over-taxation, carried to a sufficient extent, is quite capable of ruining the most industrious community, especially when it is in any degree arbitrary, so that the payer is never certain how much or how little he shall be allowed to keep; or when it is so laid on as to render industry and economy a bad calculation. But if these errors be avoided, and the amount of taxation be not greater than it is at present even in the most heavily taxed country of Europe, there is no danger lest it should deprive the country of a portion of its capital.

To provide that taxation shall fall entirely on income, and not at all on capital, is beyond the power of any system of

fiscal arrangements. There is no tax which is not partly paid from what would otherwise have been saved; no tax, the amount of which, if remitted, would be wholly employed in increased expenditure, and no part whatever laid by as an addition to capital. All taxes, therefore, are in some sense partly paid out of capital; and in a poor country it is impossible to impose any tax which will not impede the increase of the national wealth. But in a country where capital abounds, and the spirit of accumulation is strong, this effect of taxation is scarcely felt. Capital having reached the stage in which, were it not for a perpetual succession of improvements in production, any further increase would soon be stopped—and having so strong a tendency even to outrun those improvements, that profits are only kept above the minimum by emigration of capital, or by a periodical sweep called a commercial crisis; to take from capital by taxation what emigration would remove, or a commercial crisis destroy, is only to do what either of those causes would have done, namely, to make a clear space for further saving.

I cannot, therefore, attach any importance, in a wealthy country, to the objection made against taxes on legacies and inheritances, that they are taxes on capital. It is perfectly true that they are so. As Ricardo observes, if 100*l.* are taken from any one in a tax on houses or on wine, he will probably save it, or a part of it, by living in a cheaper house, consuming less wine, or retrenching from some other of his expenses: but if the same sum be taken from him because he has received a legacy of 1000*l.*, he considers the legacy as only 900*l.*, and feels no more inducement than at any other time (probably feels rather less inducement) to economize in his expenditure. The tax, therefore, is wholly paid out of capital; and there are countries in which this would be a serious objection. But in the first place, the argument cannot apply to any country which has a national debt, and devotes any portion of revenue to paying it off; since the produce of the tax, thus applied, still remains capital, and

is merely transferred from the tax-payer to the fundholder. But the objection is never applicable in a country which increases rapidly in wealth. The amount which would be derived, even from a very high legacy duty, in each year, is but a small fraction of the annual increase of capital in such a country; and its abstraction would but make room for saving to an equivalent amount: while the effect of not taking it, is to prevent that amount of saving, or cause the savings when made, to be sent abroad for investment. A country which, like England, accumulates capital not only for itself but for half the world, may be said to defray the whole of its public expenses from its overflowings; and its wealth is probably at this moment as great as if it had no taxes at all. What its taxes really do is, to subtract from its means, not of production but of enjoyment; since whatever any one pays in taxes, he could, if it were not taken for that purpose, employ in indulging his ease, or in gratifying some want or taste which at present remains unsatisfied.

CHAPTER III.

OF DIRECT TAXES.

§ 1. TAXES are either direct or indirect. A direct tax is one which is demanded from the very persons who, it is intended or desired, should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another: such as the excise or customs. The producer or importer of a commodity is called upon to pay a tax on it, not with the intention to levy a peculiar contribution upon him, but to tax through him the consumers of the commodity, from whom it is supposed that he will recover the amount by means of an advance in price.

Direct taxes are either on income, or on expenditure. Most taxes on expenditure are indirect, but some are direct, being imposed, not on the producer or seller of an article, but immediately on the consumer. A house tax, for example, is a direct tax on expenditure, if levied, as it usually is, on the occupier of the house. If levied on the builder or owner, it would be an indirect tax. The window tax is a direct tax on expenditure; so are the taxes on horses and carriages, and the rest of what are called the assessed taxes.

The sources of income are rent, profits, and wages. This includes every source of income, except gift or plunder. Taxes may be laid on any one of the three kinds of income, or an uniform tax on all of them. We will consider these in their order.

§ 2. A tax on rent falls wholly on the landlord. There are no means by which he can shift the burthen upon any one else. It does not affect the value or price of agricultural

produce, for this is determined by the cost of production in the most unfavourable circumstances, and in those circumstances, as we have so often demonstrated, no rent is paid. A tax on rent therefore has no effect, other than its obvious one. It merely takes so much from the landlord, and transfers it to the state.

This, however, is, in strict exactness, only true of the rent which is the result either of natural causes, or of improvements made by tenants. When the landlord makes improvements which increase the productive power of his land, he is remunerated for them by an extra payment from the tenant; and this payment, which to the landlord is properly a profit on capital, is blended and confounded with rent; which indeed it really is, to the tenant, and in respect of the economical laws which determine its amount. A tax on rent, if extending to this portion of it, would discourage landlords from making improvements: but it does not follow that it would raise the price of agricultural produce. The same improvements might be made with the tenant's capital, or even with the landlord's if lent by him to the tenant; provided he is willing to give the tenant so long a lease as will enable him to indemnify himself before it expires. But whatever hinders improvements from being made in the manner in which people prefer to make them, will often prevent them from being made at all: and on this account a tax on rent would be inexpedient, unless some means could be devised of excluding from its operation that portion of the nominal rent which may be regarded as landlord's profit. This argument, however, is not needed for the condemnation of such a tax. A peculiar tax on the income of any class, not balanced by taxes on other classes, is a violation of justice, and amounts to a partial confiscation. I have already shown grounds for excepting from this censure a tax which, sparing existing rents, should content itself with appropriating a portion of any future increase arising from the mere action of natural causes. But even this could not be justly done, without

offering as an alternative the market price of the land. In the case of a tax on rent which is not peculiar, but accompanied by an equivalent tax on other incomes, the objection grounded on its reaching the profit arising from improvements, does not apply: since, profits being taxed as well as rent, the profit which assumes the form of rent merely pays its just share.

§ 3. A tax on profits, like a tax on rent, must, at least in its immediate operation, fall wholly on the payer. All profits being alike affected, no relief can be obtained by a change of employment. If a tax were laid on the profits of any one branch of productive employment, the tax would be virtually an increase of the cost of production, and the value and price of the article would rise accordingly; by which the tax would be thrown upon the consumers of the commodity, and would not affect profits. But a general and equal tax on all profits would not affect general prices, and would fall, at least in the first instance, on capitalists alone.

There is, however, an ulterior effect, which, in a rich and prosperous country, requires to be taken into account. When the capital accumulated is so great, and the rate of annual accumulation so rapid, that the country is only kept from attaining the stationary state by the emigration of capital, or by continual improvements in production; any circumstance which virtually lowers the rate of profit, cannot be without a decided influence on these phenomena. It may operate in different ways. The curtailment of profit, and the consequent increased difficulty of making a fortune or obtaining a subsistence by the employment of capital, may act as a stimulus to inventions, and to the use of them when made. If improvements in production are much accelerated, and if these improvements cheapen, directly or indirectly, any of the things habitually consumed by the labourer, profits may rise, and rise sufficiently to make up for all that is taken from them by the tax. In that case the tax will have been

realized without loss to any one, the produce of the country being increased by an equal, or what would in that case be a far greater, amount. The tax, however, must even in this case be considered as paid from profits, because the receivers of profits are those who would be benefited if it were taken off.

But although the artificial abstraction of a portion of profits would have a real tendency to accelerate improvements in production, no considerable improvements might actually result, or only of such a kind as not to raise general profits at all, or not to raise them so much as the tax had diminished them. If so, the rate of profit would be brought closer to that practical minimum, to which it is constantly approaching: and this diminished return to capital would either give a decided check to further accumulation, or would cause a greater proportion than before of the annual increase to be sent abroad, or wasted in unprofitable speculations. At its first imposition the tax falls wholly on profits: but the amount of increase of capital, which the tax prevents, would, if it had been allowed to continue, have tended to reduce profits to the same level; and at every period of ten or twenty years there will be found less difference between profits as they are, and profits as they would in that case have been: until at last there is no difference, and the tax is thrown either upon the labourer or upon the landlord. The real effect of a tax on profits is to make the country possess, at any given period, a smaller capital and a smaller aggregate production, and to make the stationary state be attained earlier, and with a smaller sum of national wealth. It is possible that a tax on profits might even diminish the existing capital of the country. If the rate of profit is already at the practical minimum, that is, at the point at which all that portion of the annual increment which would tend to reduce profits is carried off either by exportation or by speculations; then if a tax is imposed which reduces profits still lower, the same causes which previously carried off the increase would probably

carry off a portion of the existing capital. A tax on profits is thus, in a state of capital and accumulation like that in England, extremely detrimental to the national wealth. And this effect is not confined to the case of a peculiar, and therefore intrinsically unjust, tax on profits. The mere fact that profits have to bear their share of a heavy general taxation, tends, in the same manner as a peculiar tax, to drive capital abroad, to stimulate imprudent speculations by diminishing safe gains, to discourage further accumulation, and to accelerate the attainment of the stationary state. This is thought to have been the principal cause of the decline of Holland, or rather of her having ceased to make progress.

Even in countries which do not accumulate so fast as to be always within a short interval of the stationary state, it seems impossible that, if capital is accumulating at all, its accumulation should not be in some degree retarded by the abstraction of a portion of its profit; and unless the effect in stimulating improvements be a full counterbalance, it is inevitable that a part of the burthen will be thrown off the capitalist, upon the labourer or the landlord. One or other of these is always the loser by a diminished rate of accumulation. If population continues to increase as before, the labourer suffers: if not, cultivation is checked in its advance, and the landlords lose the accession of rent which would have accrued to them. The only countries in which a tax on profits seems likely to be permanently a burthen on capitalists exclusively, are those in which capital is stationary, because there is no new accumulation. In such countries the tax might not prevent the old capital from being kept up, through habit, or from unwillingness to submit to impoverishment, and so the capitalist might continue to bear the whole of the tax. It is seen from these considerations that the effects of a tax on profits are much more complex, more various, and in some points more uncertain than writers on the subject have commonly supposed.

§ 4. We turn now to Taxes on Wages. The incidence of these is very different, according as the wages taxed are those of ordinary unskilled labour, or are the remuneration of such skilled or privileged employments, whether manual or intellectual, as are taken out of the sphere of competition by a natural or a conferred monopoly.

I have already remarked, that in the present low state of popular education, all the higher grades of mental or educated labour are at a monopoly price; exceeding the wages of common workmen in a degree very far beyond that which is due to the expense, trouble, and loss of time required in qualifying for the employment. Any tax levied on these gains, which still leaves them above (or not below) their just proportion, falls on those who pay it; they have no means of relieving themselves at the expense of any other class. The same thing is true of ordinary wages, in cases like that of the United States or of a new colony, where, capital increasing as rapidly as population can increase, wages are kept up by the increase of capital, and not by the adherence of the labourers to a fixed standard of comforts. In such a case, some deterioration of their condition, whether by a tax or otherwise, might possibly take place without checking the increase of population. The tax would in that case fall on the labourers themselves, and would reduce them prematurely to that lower state to which, on the same supposition with regard to their habits, they would in any case have been reduced ultimately, by the inevitable diminution in the rate of increase of capital, through the occupation of all the fertile land.

Some will object that, even in this case, a tax on wages cannot be detrimental to the labourers, since the money raised by it, being expended in the country, comes back to the labourers again through the demand for labour. The fallacy, however, of this doctrine has been so completely exhibited in the First Book*, that I need do little more than

* *Supra*, vol. i. pp. 97-103.

refer to that exposition. It was there shown that funds expended unproductively have no tendency to raise or keep up wages, unless when expended in the direct purchase of labour. If the government took a tax of a shilling a week from every labourer, and laid it all out in hiring labourers for military service, public works, or the like, it would, no doubt, indemnify the labourers as a class for all that the tax took from them. That would really be "spending the money among the people." But if it expended the whole in buying goods, or in adding to the salaries of *employés* who bought goods with it, this would not increase the demand for labour, or tend to raise wages. Without reverting to the proofs formerly given, we may rely on an obvious *reductio ad absurdum*. If to take money from the labourers and spend it in commodities is giving it back to the labourers, then, to take money from other classes, and spend it in the same manner, must be giving it to the labourers; consequently the more a government takes in taxes, the greater will be the demand for labour, and the more opulent the condition of the labourers. A proposition the absurdity of which no one can fail to see.

In the condition of most communities, wages are regulated by the habitual standard of living to which the labourers adhere, and on less than which they will not multiply. Where there exists such a standard, a tax on wages will indeed for a time be borne by the labourers themselves; but unless this temporary depression has the effect of lowering the standard itself, the increase of population will receive a check, which will raise wages, and restore the labourers to their previous condition. On whom, in this case, will the tax fall? According to Adam Smith, on the community generally, in their character of consumers; since the rise of wages, he thought, would raise general prices. We have seen, however, that general prices depend on other causes, and are never raised by any circumstance which affects all kinds of productive employment in the

same manner and degree. A rise of wages occasioned by a tax, must, like any other increase of the cost of labour, be defrayed from profits. To attempt to tax day-labourers, in an old country, is merely to impose an extra tax upon all employers of common labour; unless the tax has the much worse effect of permanently lowering the standard of comfortable subsistence in the minds of the poorest class.

We find in the preceding considerations an additional argument for the opinion already expressed, that direct taxation should stop short of the class of incomes which do not exceed what is necessary for healthful existence. Almost all these very small incomes are derived from manual labour; and, as we now see, any tax imposed on these, either permanently degrades the habits of the labouring class, or falls on profits, and burthens capitalists with an indirect tax, in addition to their share of the direct taxes; which is doubly objectionable, both as a violation of the fundamental rule of equality, and for the reasons which, as already shewn, render a peculiar tax on profits detrimental to the public wealth, and consequently to the means which society possesses of paying any taxes whatever.

§ 5. We now pass, from taxes on the separate kinds of income, to a tax attempted to be assessed fairly upon all kinds; in other words, an Income Tax. The discussion of the conditions necessary for making this tax consistent with justice, has been anticipated in the last chapter. We shall suppose, therefore, that those conditions are complied with. They are, first, that incomes below a certain amount should be altogether untaxed. This minimum should not be higher than the amount which suffices for the necessaries of a labouring family of moderate numbers. The exemption from the present income-tax, of all incomes under 150*l.* a year, is only defensible on the ground that some taxes on necessaries are still kept up, and that almost all the existing taxes on indulgences press more heavily on incomes between 50*l.* and

150*l.* than on any others whatever. The second condition is, that incomes above the limit should be taxed only in proportion to the surplus by which they exceed the limit. Thirdly, that life incomes should be less heavily taxed than inheritable incomes, in a degree as nearly as possible equivalent to the increased need of economy arising from their terminable character. Fourthly, that incomes which are jointly the result of capital and of personal exertion, should be taxed intermediately between the rate for inheritable and that for life incomes.

An income-tax, fairly assessed on these principles, would be, in point of justice, the least exceptionable of all taxes. The objection to it, which, with much regret, I cannot help regarding as insuperable, is the impossibility of ascertaining the real incomes of the contributors. The supposed hardship of compelling people to disclose the amount of their incomes, ought not, in my opinion, to count for much. One of the social evils of this country is the practice, amounting to a custom, of maintaining, or attempting to maintain, the appearance to the world of a larger income than is possessed; and it would be far better for the interests of those who yield to this weakness, if the extent of their means were universally and exactly known, and the temptation removed to expending more than they can afford, or stinting real wants in order to make a false show externally. At the same time, the reason of the case, even on this point, is not so exclusively on one side of the argument as is sometimes supposed. So long as the vulgar of any country are in the debased state of mind which this national habit presupposes—so long as their respect (if such a word can be applied to it) is proportioned to what they suppose to be each person's pecuniary means—it may be doubted whether anything which would remove all doubt as to that point, would not considerably increase the presumption and arrogance of the vulgar rich, and their insolence towards those above them in mind and character, but below them in circumstances.

Notwithstanding, too, what is called the inquisitorial nature of the tax, no amount of inquisitorial power which would be tolerated by a people the most disposed to submit to it, could enable the revenue officers to assess the tax from actual knowledge of the circumstances of contributors. Rents, salaries, annuities, and all fixed incomes, can be exactly ascertained. But the variable gains of professions, and still more the profits of business, which the person interested cannot always himself exactly ascertain, can still less be estimated with any approach to fairness by a tax-collector. The main reliance must be placed, and always has been placed, on the returns made by the person himself. No production of accounts is of much avail, except against the more flagrant cases of falsehood; and even against these the check is very imperfect, for if fraud is intended, false accounts can generally be framed which it will baffle any means of inquiry possessed by the revenue officers to detect: the easy resource of omitting entries on the credit side, being often sufficient without the aid of fictitious debts or disbursements. The tax, therefore, on whatever principles of equality it may be imposed, is in practice unequal in one of the worst ways, falling heaviest on the most conscientious. The unscrupulous succeed in evading a great proportion of what they should pay; even persons of integrity in their ordinary transactions are tempted to palter with their consciences, at least to the extent of deciding in their own favour all points on which the smallest doubt or discussion could arise: while the strictly veracious are often made to pay more than the state intended, by the powers of arbitrary assessment necessarily intrusted to the Commissioners as a last defence against the tax-payer's power of concealment.

It is to be feared, therefore, that the fairness which belongs to the principle of an income-tax, can never be made to attach to it in practice; and that this tax, while apparently the most just of all modes of raising a revenue, is in effect more unjust than many others which are *prima facie* more

objectionable. This consideration would lead us to concur in the opinion which, until of late, has usually prevailed—that direct taxes on income should be reserved as an extraordinary resource for great national emergencies, in which the necessity of a large additional revenue overrules all minor objections.

The difficulties of a fair income-tax have lately elicited a proposition for a direct tax of so much per cent, not on income but on expenditure; the aggregate amount of each person's expenditure being ascertained, as the amount of income now is, from statements furnished by the contributors themselves. The author of this suggestion, Mr. Revans, in a clever pamphlet on the subject*, contends that the returns which persons would furnish of their expenditure would be more trustworthy than those which they now make of their income, inasmuch as expenditure is in its own nature more public than income, and false representations of it more easily detected. He cannot, I think, have sufficiently considered, how few of the items in the annual expenditure of most families can be judged of with any approximation to correctness from the external signs. The only security would still be the veracity of individuals, and there is no reason for supposing that their statements would be more trustworthy on the subject of their expenses than on that of their revenues; especially as, the expenditure of most persons being composed of many more items than their income, there would be more scope for concealment and suppression in the detail of expenses than even of receipts.

The taxes on expenditure at present in force, either in this or in other countries, fall only on particular kinds of expenditure, and differ no otherwise from taxes on commodities than in being paid directly by the person who consumes or

* "A Percentage Tax on Domestic Expenditure to supply the whole of the Public Revenue." By John Revans. Published by Hatchard in 1847.

uses the article, instead of being advanced by the producer or seller, and reimbursed in the price. The taxes on horses and carriages, on dogs, on servants, are of this nature. They evidently fall on the persons from whom they are levied—those who use the commodity taxed. A tax of a similar description, and more important, is a house tax : which must be considered at somewhat greater length.

§ 6. The rent of a house consists of two parts, the ground-rent, and what Adam Smith calls the building-rent. The first is determined by the ordinary principles of rent. It is the remuneration given for the use of the portion of land occupied by the house and its appurtenances ; and varies from a mere equivalent for the rent which the ground would afford in agriculture, to the monopoly rents paid for advantageous situations in populous thoroughfares. The rent of the house itself, as distinguished from the ground, is the equivalent given for the labour and capital expended on the building. The fact of its being received in quarterly or half-yearly payments, makes no difference in the principles by which it is regulated. It comprises the ordinary profit on the builder's capital, and an annuity, sufficient at the current rate of interest, after paying for all repairs chargeable on the proprietor, to replace the original capital by the time the house is worn out, or by the expiration of the usual term of a building lease.

A tax of so much per cent on the gross rent, falls on both these portions alike. The more highly a house is rented, the more it pays to the tax, whether the quality of the situation or that of the house itself is the cause. The incidence, however, of these two portions of the tax must be considered separately.

As much of it as is a tax on building-rent, must ultimately fall on the consumer, in other words the occupier. For as the profits of building are already not above the ordinary rate, they would, if the tax fell on the owner and not on the occu-

pier; become lower than the profits of untaxed employments, and houses would not be built. It is probable however that for some time after the tax was first imposed, a great part of it would fall, not on the renter, but on the owner of the house. A large proportion of the consumers either could not afford, or would not choose, to pay their former rent with the tax in addition, but would content themselves with a lower scale of accommodation. Houses therefore would be for a time in excess of the demand. The consequence of such excess, in the case of most other articles, would be an almost immediate diminution of the supply : but so durable a commodity as houses does not rapidly diminish in amount. New buildings indeed (at least of the more expensive class) would cease to be erected, except for special reasons ; but in the meantime the temporary superfluity would lower rents, and the consumers would obtain, perhaps, nearly the same accommodation as formerly, for the same aggregate payment, rent and tax together. By degrees, however, as the existing houses wore out, or as increase of population demanded a greater supply, rents would again rise ; until it became profitable to recommence building, which would not be until the tax was wholly thrown upon the occupier. In the end, therefore, the occupier bears that portion of a tax on rent, which falls on the payment made for the house itself, exclusively of the ground it stands on.

At first sight one would be inclined to suppose the case to be different with the portion which is a tax on ground-rent. As taxes on rent, properly so called, fall on the landlord, a tax on ground-rent, one would suppose, must fall on the ground landlord, at least after the expiration of the building lease. And such would really be the case, if with the tax on ground-rent there were combined an equivalent tax on agricultural rent ; but not otherwise. The *lowest* rent of land let for building is very little above the rent which the same ground would yield in agriculture : since it is reasonable to suppose that land, unless in case of exceptional circum-

stances, is let or sold for building, as soon as it is decidedly worth more for that purpose than for agriculture. If, therefore, a tax were laid on ground-rents without being also laid on agricultural rents, it would, unless of quite trifling amount, reduce the return from the lowest ground-rents below the ordinary return from land, and would put a stop to further building quite as effectually as if it were a tax on building-rents, until either the increased demand of a growing population, or a diminution of supply by wearing out, had raised the rent by a full equivalent for the tax. But whatever raises the lowest ground-rents, raises all others, since each exceeds the lowest by precisely the market value of its peculiar advantages. There is thus no difference between the two component elements of house-rent, in respect to the incidence of the tax. Both alike fall ultimately on the occupier: while, in both alike, if the occupier in consequence reduces his demand by contenting himself with inferior accommodation, that is, if he prefers saving his tax from house-rent to saving it from other parts of his expenditure, he indirectly lowers ground-rent, or retards its increase; just as a diminished consumption of agricultural produce, by making cultivation retrograde, would lower ordinary rent.

A house-tax, if justly proportioned to the value of the house, is one of the fairest and most unobjectionable of all taxes. No part of a person's expenditure is a better criterion of his means, or bears, on the whole, more nearly the same proportion to them. A house-tax is a nearer approach to a fair income-tax, than a direct assessment on income can easily be; having the great advantage, that it makes spontaneously all the allowances which it is so difficult to make, and so impracticable to make exactly, in assessing an income-tax: for if what a person pays in house-rent is a test of anything, it is a test not of what he possesses, but of what he thinks he can afford to spend. To the equality of this tax, there are but two decided objections. The first is, that a miser may escape it. This objection applies to all taxes on expenditure:

nothing but a direct tax on income can reach a miser. But this, though a real, is not a great defect; for there are few misers; and as they do not now hoard their treasure, but invest it in employments in which it feeds productive labourers, and adds to the national wealth, and consequently to the general means of paying taxes, the inconvenience of its paying no taxes of its own is in some degree compensated for. The second objection is that a person may require a larger and more expensive house, not from having greater means, but from having a larger family. Of this, however, he is not entitled to complain; since having a large family is at a person's own choice: and, so far as concerns the public interest, is a thing rather to be discouraged than promoted*.

Though the house-tax which formerly existed in this country has been repealed, a large portion of the taxation of the country is still raised by a house-tax; the parochial taxation of the towns entirely, and of the rural districts partially, consisting of an assessment on house-rent. The window-tax is also a house-tax, but of a bad kind, operating as a tax on light, and a cause of deformity in building. It would be a most advantageous exchange to abolish the window-tax, and the present income-tax, and replace them by a house-tax of equivalent amount. In doing so, it would be necessary to avoid the unjust principle on which the old house-tax was assessed, and which contributed quite as much as the selfishness of the middle classes to produce the outcry against the

* It has been also objected that house rent in the rural districts is much lower than in towns, and lower in some towns and in some rural districts than in others: so that a tax proportioned to it would have a corresponding inequality of pressure. To this, however, it may be answered, that in places where house rent is low, persons of the same amount of income usually live in larger and better houses, and thus expend in house rent more nearly the same proportion of their incomes than might at first sight appear. Or if not, the probability will be, that many of them live in those places precisely because they are too poor to live elsewhere, and have therefore the strongest claim to be taxed lightly. In some cases, it is precisely because the people are poor, that house rent remains low.

tax in 1834. The public were justly scandalized on learning that residences like Chatsworth or Belvoir were only rated on an imaginary rent of perhaps 200*l.* a-year, under the pretext that owing to the great expense of keeping them up, they could not be let for more. Probably, indeed, they could not be let even for that, and if the argument were a fair one, they ought not to have been taxed at all. But a house-tax is not intended as a tax on incomes derived from houses, but on expenditure incurred for them. The thing which it is wished to ascertain is, what a house costs to the person who lives in it, not what it would bring in if let to some one else. When the occupier is not the owner, the rent he pays is the measure of what it costs him: when he is the owner, some other measure must be sought. A valuation should be made of the house, not at what it would sell for, but at what would be the cost of rebuilding it, and this valuation might be corrected each year by an allowance for what it had lost in value by time, or gained by repairs and improvements. The amount of the amended valuation would form a principal sum, the interest of which, at the current price of the public funds, would form the annual value at which the building should be assessed to the tax.

As incomes below a certain amount ought to be exempt from income-tax, so ought houses below a certain value, from house-tax, on the universal principle of sparing from all taxation the absolute necessities of healthful existence. In order that the occupiers of lodgings, as well as of houses, might benefit, as in justice they ought, by this exemption, it might be optional with the owners to have every portion of a house which is occupied by a separate tenant, valued and assessed separately, as is now usually the case with chambers.

CHAPTER IV.

OF TAXES ON COMMODITIES.

§ 1. By taxes on commodities are commonly meant those which are levied either on the producers, or on the carriers or dealers who intervene between them and the final purchasers for consumption. Taxes imposed directly on the consumers of particular commodities, such as a house-tax, or the tax in this country on horses and carriages, might be called taxes on commodities, but are not; the phrase being, by custom, confined to indirect taxes—those which are advanced by one person, to be, as is expected and intended, reimbursed by another. Taxes on commodities are either on production within the country, or on importation into it, or on conveyance or sale within it; and are classed respectively as excise, customs, or tolls and transit duties. To whichever class they belong, and at whatever stage in the progress of the commodity they may be imposed, they are equivalent to an increase of the cost of production; using that term in its most enlarged sense, which includes the cost of transport and distribution, or, in common phrase, of bringing the commodity to market.

When the cost of production is increased artificially by a tax, the effect is the same as when it is increased by natural causes. If only one or a few commodities are affected, their value and price rise, so as to compensate the producer or dealer for the peculiar burthen; but if there were a tax on all commodities, exactly proportioned to their value, no such compensation would be obtained: there would neither be a general rise of values, which is an absurdity, nor of prices, which depend on causes entirely different. There would, however, as Mr. M'Culloch has pointed out, be a disturb-

ance of values, some falling, others rising, owing to a circumstance, the effect of which on values and prices we formerly discussed; the different durability of the capital employed in different occupations. The gross produce of industry consists of two parts; one portion serving to replace the capital consumed, while the other portion is profit. Now equal capitals in two branches of production must have equal expectations of profit; but if a greater portion of the one than of the other is fixed capital, or if that fixed capital is more durable, there will be a less consumption of capital in the year, and less will be required to replace it, so that the profit, to be absolutely the same, must form a greater proportion of the annual returns. To derive from a capital of 1000*l.* a profit of 100*l.*, the one producer may have to sell produce to the value of 1100*l.*, the other only to the value of 500*l.* If on these two branches of industry a tax be imposed of five per cent *ad valorem*, the last will be charged only with 25*l.*, the first with 55*l.*; leaving to the one 75*l.* profit, to the other only 45*l.* To equalize, therefore, their expectation of profit, the one commodity must rise in price, or the other must fall, or both: commodities made chiefly by immediate labour must rise in value, as compared with those which are chiefly made by machinery. It is unnecessary to prosecute this branch of the inquiry any further.

§ 2. A tax on any one commodity, whether laid on its production, its importation, its carriage from place to place, or its sale, and whether the tax be a fixed sum of money for a given quantity of the commodity, or an *ad valorem* duty, will, as a general rule, raise the value and price of the commodity by at least the amount of the tax. There are few cases in which it does not raise them by more than that amount. In the first place, there are few taxes on production on account of which it is not found or deemed necessary to impose restrictive regulations on the manufacturers or dealers, in order to check evasions of the tax. These regu-

lations are always sources of trouble and annoyance, and generally of expense, for all of which, being peculiar disadvantages, the producers or dealers must have compensation in the price of their commodity. These restrictions also frequently interfere with the processes of manufacture, requiring the producer to carry on his operations in the way most convenient to the revenue, though not the cheapest, or most efficient for purposes of production. Any regulations whatever, enforced by law, make it difficult for the producer to adopt new and improved processes. Further, the necessity of advancing the tax obliges producers and dealers to carry on their business with larger capitals than would otherwise be necessary, on the whole of which they must receive the ordinary rate of profit, although a part only is employed in defraying the real expenses of production or importation. The price of the article must be such as to afford a profit on more than its natural value, instead of a profit on only its natural value. A part of the capital of the country, in short, is not employed in production, but in advances to the state, repaid in the price of goods; and the consumers must give an indemnity to the sellers, equal to the profit which they could have made on the same capital if really employed in production. Neither ought it to be forgotten, that whatever renders a larger capital necessary in any trade or business, limits the competition in that business; and by giving something like a monopoly to a few dealers, enables them either to keep up the price beyond what would afford the ordinary rate of profit, or to obtain the ordinary rate of profit with a less degree of exertion for improving and cheapening their commodity. In these several modes, taxes on commodities often cost to the consumer, through the increased price of the article, much more than they bring into the treasury of the state. There is still another consideration. The rise of price occasioned by the tax, almost always checks the demand for the commodity; and since there are many improvements in production which, to make them practi-

cable, require a certain extent of demand, such improvements are obstructed, and many of them prevented altogether. It is a well-known fact, that the branches of production in which fewest improvements are made, are those with which the revenue officer interferes; and that nothing, in general, gives a greater impulse to improvements in the production of a commodity, than taking off a tax which narrowed the market for it.

§ 3. Such are the effects of taxes on commodities, considered generally: but as there are some commodities (those composing the necessaries of the labourer) of which the values have an influence on the distribution of wealth among different classes of the community, it is requisite to trace the effects of taxes on those particular articles somewhat farther. If a tax be laid, say on corn, and the price rises in proportion to the tax, the rise of price may operate in two ways. First: it may lower the condition of the labouring classes; temporarily indeed it can scarcely fail to do so. If it diminishes their consumption of the produce of the earth, or reduces them to a food which the soil produces more abundantly, and therefore more cheaply, it to that extent contributes to throw back agriculture upon more fertile lands or less costly processes, and to lower the value and price of corn; which therefore ultimately settle at a price, increased not by the whole amount of the tax, but by only a part of its amount. Secondly, however; it may happen that the dearness of the taxed food does not lower the habitual standard of the labourer's requirements, but that wages on the contrary, through an action on population, rise, in a shorter or longer period, so as to compensate the labourers for their portion of the tax; the compensation being of course at the expense of profits. Taxes on necessaries must thus have one of two effects. Either they lower the condition of the labouring classes; or they exact from the owners of capital, in addition to the amount due to the state on their own necessaries, the

amount due on those consumed by the labourers. In the last case, the tax on necessaries, like a tax on wages, is equivalent to a peculiar tax on profits; which is, like all other partial taxation, unjust, and is specially prejudicial to the increase of the national wealth.

It remains to speak of the effect on rent. Assuming (what is usually the fact,) that the consumption of food is not diminished, the same cultivation as before will be necessary to supply the wants of the community; the margin of cultivation, to use Dr. Chalmers' expression, remains where it was; and the same land or capital which, as the least productive, already regulated the value and price of the whole produce, will continue to regulate them. The effect which a tax on agricultural produce will have on rent, depends on its affecting or not affecting the difference between the return to this least productive land or capital, and the returns to other lands and capitals. Now this depends on the manner in which the tax is imposed. If it is an *ad valorem* tax, or what is the same thing, a fixed proportion of the produce, such as tithe for example, it evidently lowers corn-rents. For it takes more corn from the better lands than from the worse; and exactly in the degree in which they are better; land of twice the fertility paying twice as much to the tithe. Whatever takes more from the greater of two quantities than from the less, diminishes the difference between them. The imposition of a tithe on corn would take a tithe also from corn-rent: for if you reduce a series of numbers by a tenth each, the differences between them are reduced one-tenth.

For example, let there be five qualities of land, which severally yield, on the same extent of ground and with the same expenditure, 100, 90, 80, 70, and 60 bushels of wheat; the last of these being the lowest quality which the demand for food renders it necessary to cultivate. The rent of these lands will be as follows:—

The land producing	100 bushels	{ will yield { a rent of }	100 - 60, or 40 bushels.
That producing	90 "	" "	90 - 60, or 30 "
"	80 "	" "	80 - 60, or 20 "
"	70 "	" "	70 - 60, or 10 "
"	60 "	" "	no rent.

Now let a tithe be imposed, which takes from these five pieces of land 10, 9, 8, 7, and 6 bushels respectively, the fifth quality still being the one which regulates the price, but returning to the farmer, after payment of tithe, no more than 54 bushels:

The land producing	100 bushels, reduced to 90,	{ will yield { a rent of }	90 - 54, or 36 bushels.
That producing	90 "	" "	81 " 81 - 54, or 27 "
"	80 "	" "	72 " 72 - 54, or 18 "
"	70 "	" "	63 " 63 - 54, or 9 "

and that producing 60 bushels, reduced to 54, will yield, as before, no rent. So that the rent of the first quality of land has lost four bushels; of the second, three; of the third, two; and of the fourth, one: that is, each has lost exactly one-tenth. A tax, therefore, of a fixed proportion of the produce, lowers, in the same proportion, corn-rent.

But it is only corn-rent that is lowered, and not rent estimated in money, or in any other commodity. For, in the same proportion as corn-rent is reduced in quantity, the corn composing it is raised in value. Under the tithe, 54 bushels will be worth in the market what 60 were before; and nine-tenths will in all cases sell for as much as the whole tenths previously sold for. The landlords will therefore be compensated in value and price for what they lose in quantity; and will suffer only so far as they consume their rent in kind, or, after receiving it in money, expend it in agricultural produce: that is, they only suffer as consumers of agricultural produce, and in common with all other consumers. Considered as landlords, they have the same income as before; the tithe, therefore, falls on the consumer and not on the landlord.

The same effect would be produced on rent, if the tax, instead of being a fixed proportion of the produce, were a fixed sum per quarter or per bushel. A tax which takes a shilling for every bushel, takes more shillings from one field than from another just in proportion as it produces more bushels; and operates exactly like tithe, except that tithe is not only the same proportion on all lands, but is also the same proportion at all times, while a fixed sum of money per bushel will amount to a greater or less proportion, according as corn is cheap or dear.

There are other modes of taxing agriculture, which would affect rent differently. A tax proportioned to the rent would fall wholly on the rent, and would not at all raise the price of corn, which is regulated by the portion of the produce that pays no rent. A fixed tax of so much per cultivated acre, without distinction of value, would have effects directly the reverse. Taking no more from the best qualities of land than from the worst, it would leave the differences the same as before, and consequently the same corn-rents, and the landlords would profit to the full extent of the rise of price. To put the thing in another manner; the price must rise, to enable the worst land to pay the tax: thus enabling all lands which produce more than the worst, to pay not only the tax, but also an increased rent to the landlords. These, however, are not so much taxes on the produce of land, as taxes on the land itself. Taxes on the produce, properly so called, whether fixed or *ad valorem*, do not affect rent, but fall on the consumer: profits, however, generally bearing either the whole or the greatest part of the portion which is levied on the consumption of the labouring classes.

§ 4. The preceding is, I apprehend, a correct statement of the manner in which taxes on agricultural produce operate when first laid on. When, however, they are of old standing, their effect may be different, as was first pointed out, I believe, by Mr. Senior. It is, as we have seen, an almost

infallible consequence of any reduction of profits, to retard the rate of accumulation. Now the effect of accumulation, when attended by its usual accompaniment, an increase of population, is to increase the value and price of food, to raise rent, and to lower profits: that is, to do precisely what is done by a tax on agricultural produce, except that this does not raise rent. The tax, therefore, merely anticipates the rise of price, and fall of profits, which would have taken place ultimately through the mere progress of accumulation; while it at the same time prevents, or at least retards, that progress. If the rate of profit was such, previous to the imposition of a tithe, that the effect of the tithe reduces it to the practical minimum, the tithe will put a stop to all further accumulation, or cause it to take place out of the country; and the only effect which the tithe will then have had on the consumer, is to make him pay earlier the price which he would have had to pay somewhat later—part of which, indeed, in the gradual progress of wealth and population, he would have almost immediately begun to pay. After a lapse of time which would have admitted of a rise of one-tenth from the natural progress of wealth, the consumer will be paying no more than he would have paid if the tithe had never existed; he will have ceased to pay any portion of it, and the person who will really pay it is the landlord, whom it deprives of the increase of rent which would by that time have accrued to him. At every successive point in this interval of time, less of the burden will rest on the consumer, and more of it on the landlord: and in the ultimate result, the minimum of profits will be reached with a smaller capital and population, and a lower rental, than if the course of things had not been disturbed by the imposition of the tax. If, on the other hand, the tithe, or other tax on agricultural produce, does not reduce profits to the minimum, but to something above the minimum, accumulation will not be stopped, but only slackened: and if population also increases, the two-fold increase will continue to produce its

effects—a rise of the price of corn, and an increase of rent. These consequences, however, will not take place with the same rapidity as if the higher rate of profit had continued. At the end of twenty years the country will have a smaller population and capital, than, but for the tax, it would by that time have had; the landlords will have a smaller rent; and the price of corn, having increased less rapidly than it would otherwise have done, will no longer be a tenth higher than what, if there had been no tax, it would by that time have risen to. A part of the tax, therefore, will already have ceased to fall on the consumer, and devolved upon the landlord; and the proportion will become greater and greater by lapse of time.

Mr. Senior illustrates his view of the subject by likening the effects of tithes, or other taxes on agricultural produce, to those of natural sterility of soil. If the land of a country were suddenly smitten with a permanent deterioration of quality, to an extent which would make a tenth more labour necessary to raise the existing produce, the price of corn would undoubtedly rise one-tenth. But it cannot hence be inferred that if the soil of the country had from the beginning been one-tenth worse than it is, corn would at present have been one-tenth dearer than we find it. It is far more probable, that the smaller return to labour and capital, ever since the first settlement of the country, would have caused in each successive generation a less rapid increase than has taken place; that the country would now have contained less capital, and maintained a smaller population, so that notwithstanding the inferiority of the soil, the price of corn would not have been higher, nor profits lower, than at present; rent alone would certainly have been lower. We may suppose two islands, which, being alike in extent, in natural fertility, and industrial advancement, have up to a certain time been equal in population and capital, and have had equal rentals, and the same price of corn. Let us imagine a tithe imposed in one of these islands, but not in the

other. There will be immediately a difference in the price of corn, and therefore probably in profits. While profits are not tending downwards in either country, that is, while improvements in the production of necessaries fully keep pace with the increase of population, this difference of prices and profits between the islands may continue. But if, in the untithed island, capital increases, and population along with it, more than enough to counterbalance any improvements which take place, the price of corn will gradually rise, profits fall, and rent will increase; while in the tithed island capital and population will either not increase, (beyond what is balanced by the improvements,) or if they do, will increase in a less degree; so that rent and the price of corn will either not rise at all, or rise more slowly. Rent, therefore, will soon be higher in the untithed, than in the tithed island, and profits not so much higher, nor corn so much cheaper, as they were on the first imposition of the tithe. These effects will be progressive. At the end of every ten years there will be a greater difference between the rentals and between the aggregate wealth and population of the two islands, and a less difference in profits and in the price of corn.

At what point will these last differences entirely cease, and the temporary effect of taxes on agricultural produce, in raising the price, have entirely given place to their ultimate effect, that of limiting the total produce of the country? Although the untithed island is always verging towards the point at which the price of food would overtake that in the tithed island, its progress towards that point naturally slackens as it draws nearer to attaining it; since—the difference between the two islands in the rapidity of accumulation, depending upon the difference in the rates of profit—in proportion as these approximate, the movement which draws them closer together, abates of its force. The one may not actually overtake the other; until both islands reach the minimum of profits: up to that point, the tithed island may continue more or less ahead of the untithed island in the price of corn: considerably ahead if it

is far from the minimum, and is therefore accumulating rapidly; very little ahead if it is near the minimum, and accumulating slowly.

But whatever is true of the tithed and untithed islands in our hypothetical case, is true of any country having a tithe, compared with the same country if it had never had a tithe.

In England the great emigration of capital, and the almost periodical occurrence of commercial crises through the speculations occasioned by the habitually low rate of profit, are indications that profit has attained the practical, though not the ultimate, minimum, and that all the savings which take place (beyond what improvements, tending to the cheapening of necessaries, make room for) are either sent abroad for investment, or periodically swept away. There can therefore, I think, be little doubt that if England had never had a tithe, or any tax on agricultural produce, the price of corn would have been by this time as high, and the rate of profits as low, as at present. Independently of the more rapid accumulation which would have taken place if profits had not been prematurely lowered by these imposts, the mere saving of a part of the capital which has been wasted in unsuccessful speculations, and the keeping at home a part of that which has been sent abroad, would have been quite sufficient to produce the effect. I think, therefore, with Mr. Senior, that the tithe, even before its commutation, had ceased to be a cause of high prices or low profits, and had become a mere deduction from rent; its other effects being, that it caused the country to have no greater capital, no larger production, and no more numerous population than if it had been one-tenth less fertile than it is; or let us rather say one twentieth, (considering how great a portion of the land of Great Britain was tithe-free.)

But although tithes and other taxes on agricultural produce, when of long standing, do not raise the price of food or lower profits at all, or if at all, not in proportion to the

tax, yet the abrogation of such taxes, when they exist, does not the less diminish price, and, in general, raise the rate of profit. The abolition of a tithe takes one-tenth from the cost of production and consequently from the price of all agricultural produce; and unless it permanently raises the labourer's requirements, it lowers the cost of labour, and raises profits. Rent, estimated in money or in commodities, generally remains as before; estimated in agricultural produce, it is raised. The country adds as much by the repeal of a tithe, to the margin which intervenes between it and the stationary state, as was cut off from that margin by the tithe when first imposed. Accumulation is greatly accelerated; and if population also increases, the price of corn immediately begins to recover itself, and rent to rise; thus gradually transferring the benefit of the remission, from the consumer to the landlord.

The effects which thus result from abolishing tithe, result equally from what has been done by the arrangements under the late Commutation Act for converting it into a rent charge. When the tax, instead of being levied on the whole produce of the soil, is levied only from the portions which pay rent, and does not touch any fresh extension of cultivation, the tax no longer forms any part of the cost of production of the portion of the produce which regulates the price of all the rest. The land or capital which pays no rent, can now send its produce to market one-tenth cheaper. The commutation of tithe ought therefore to have produced a considerable fall in the average price of corn. If it had not come so gradually into operation, and if the price of corn had not during the same period been under the influence of several other causes of change, the effect would probably have been markedly conspicuous. As it is, there can be no doubt that this circumstance has had its share in the fall which has taken place in the cost of production, and in the price, of home-grown produce; though the effects of the great agricultural improvements which have been simul-

aneously advancing, have masked those of the other cause. This fall of price would not in itself have any tendency injurious to the landlord, since corn-rents are increased in the same ratio in which the price of corn is diminished. But neither does it in any way tend to increase his income. The rent-charge, therefore, which is substituted for tithe, is a dead loss to him; and the commutation of tithe was not a mere alteration in the mode in which the landlord bore an existing burthen, but the imposition of a new one; relief being afforded to the consumer at the expense of the landlord, who however, begins immediately to receive progressive indemnification at the consumer's expense, by the impulse given to accumulation and population.

§ 5. We have hitherto inquired into the effects of taxes on commodities, on the assumption that they are levied impartially on every mode in which the commodity can be produced or brought to market. Another class of considerations is opened, if we suppose that this impartiality is not maintained, and that the tax is imposed, not on the commodity, but on some particular mode of obtaining it.

Suppose that a commodity is capable of being made by two different processes; as a manufactured commodity may be produced either by hand or by steam-power; sugar may be made either from the sugar-cane or from beetroot, cattle fattened either on hay and green crops, or on oil-cake and the refuse of breweries. It is the interest of the community, that of the two methods, producers should adopt that which produces the best article at the lowest price. This being also the interest of the producers, unless protected against competition, and shielded from the penalties of indolence; the process most advantageous to the community is that which if left to themselves, they generally find it to their advantage to adopt. Suppose however that a tax is laid on one of the processes, and no tax at all, or one of smaller amount, on the other. If the taxed process is the one which the producers

would not have adopted, the measure is simply nugatory. But if the tax falls, as it is of course intended to do, upon the one which they would have adopted, it creates an artificial motive for preferring the untaxed process, although the inferior of the two. If, therefore, it has any effect at all, it causes the commodity to be produced of worse quality, or at a greater expense of labour; it causes so much of the labour of the community to be wasted, and the capital employed in supporting and remunerating that labour to be expended as uselessly, as if it were spent in hiring men to dig holes and fill them up again. This waste of labour and capital constitutes an addition to the cost of production of the commodity, which raises its value and price in a corresponding ratio, and thus the owners of the capital are indemnified. The loss falls on the consumers; though the capital of the country is also eventually diminished, by the diminution of their means of saving, and in some degree, of their inducements to save.

The kind of tax, therefore, which comes under the general denomination of a discriminating duty, transgresses the rule that taxes should take as little as possible from the tax-payer beyond what they bring into the treasury of the state. A discriminating duty makes the consumer pay two distinct taxes, only one of which is paid to the government, and that frequently the less onerous of the two. If a tax were laid on sugar produced from the cane, leaving the sugar from beet-root untaxed, then in so far as cane sugar continued to be used, the tax on it would be paid to the treasury, and might be as unobjectionable as any other tax; but if cane sugar, having previously been cheaper than beet-root sugar, was now dearer, and beet-root sugar was to any considerable amount substituted for it, and fields laid out and manufactories established in consequence, the government would gain no revenue from the beet-root sugar, while the consumers of it would pay a real tax. They would pay for beet-root sugar more than they had previously paid for cane sugar, and

the difference would go to indemnify producers for a portion of the labour of the country actually thrown away, in producing by the labour of (say) three hundred men, what could be obtained by the other process with the labour of two hundred.

One of the commonest cases of discriminating duties, is that of a tax on the importation of a commodity capable of being produced at home, unaccompanied by an equivalent tax on the home production. A commodity is never permanently imported, unless it can be obtained from abroad at a smaller cost of labour and capital on the whole, than is necessary for producing it. If, therefore, by a duty on the importation, it is rendered cheaper to produce the article than to import it, an extra quantity of labour and capital is expended, without any extra result. The labour is useless, and the capital is spent in paying people for laboriously doing nothing. All custom-duties which operate as an encouragement to the home production of the taxed article, are thus an eminently wasteful mode of raising a revenue.

This character belongs in a peculiar degree to custom-duties on the produce of land, unless countervailed by excise duties on the home production. Such taxes bring less into the public treasury, compared with what they take from the consumers, than any other imposts to which civilized nations are accustomed to submit. If the wheat produced in a country is twenty millions of quarters, and the consumption twenty-one millions, a million being annually imported, and if on this million a duty is laid which raises the price ten shillings per quarter, the price which is raised is not that of the million only, but of the whole twenty-one millions. Taking the most favourable, but extremely improbable supposition, that the importation is not at all checked, nor the home production enlarged, the state gains a revenue of only half a million, while the consumers are taxed ten millions and a half: the ten millions being a contribution to the home growers, who are forced by competition to resign it all

to the landlords. The consumer thus pays to the owners of land an additional tax, equal to twenty times that which he pays to the state. Let us now suppose that the tax really checks importation. Suppose importation stopped altogether in ordinary years; it being found that the million of quarters can be obtained, by a more elaborate cultivation, or by breaking up inferior land, at a less advance than ten shillings upon the previous price—say, for instance, five shillings a quarter. The revenue now obtains nothing, except from the extraordinary imports which may happen to take place in a season of scarcity. But the consumers pay every year a tax of five shillings on the whole twenty-one millions of quarters, amounting to $5\frac{1}{4}$ millions sterling. Of this, the odd 250,000*l.* goes to compensate the growers of the last million of quarters for the labour and capital wasted under the compulsion of the law. The remaining five millions go to enrich the landlords as before.

Such is the operation of what are technically termed Corn Laws, when first laid on; and such continues to be their operation, so long as they have any effect at all in raising the price of corn. But I am by no means of opinion that in the long run they keep up either prices or rents in the degree which these considerations might lead us to suppose. What we have said respecting the effect of tithes and other taxes on agricultural produce, applies in a great degree to corn laws: they anticipate artificially a rise of price and of rent, which would at all events have taken place through the increase of population and of production. The difference between a country without corn laws, and a country which has long had corn laws, is not so much that the last has a higher price or a larger rental, but that it has the same price and the same rental with a smaller aggregate capital and a smaller population. The imposition of corn laws raises rents, but retards that progress of accumulation which would in no long period have raised them fully as much. The repeal of corn laws tends to lower rents, but it unchains

a force which, in a progressive state of capital and population, restores and even increases the former amount. There is every reason to expect that under the virtually free importation of agricultural produce, recently extorted from the ruling powers of this country, the price of food, if population goes on increasing at its present rate, will gradually but steadily rise; though this effect may for a time be postponed by the strong current which in this country has set in (and the impulse may extend itself to other countries) towards the extension of agricultural science, and its increased application to practice.

What we have said of duties on importation generally, is equally applicable to discriminating duties which favour importation from one place or in one particular manner, in contradistinction to others: such as the preference given to the produce of a colony, or of a country with which there is a commercial treaty: or the higher duties imposed by our navigation laws on goods imported in other than British shipping. Whatever else may be alleged in favour of such distinctions, whenever they are not nugatory, they are economically wasteful. They induce a resort to a more costly mode of obtaining a commodity, in lieu of one less costly, and thus cause a portion of the labour which the country employs in providing itself with foreign commodities, to be sacrificed without return.

§ 6. There is one more point, relating to the operation of taxes on commodities conveyed from one country to another, which requires notice: the influence which they exert on international exchanges. Every tax on a commodity tends to raise its price, and consequently to lessen the demand for it in the market in which it is sold. All taxes on international trade tend, therefore, to produce a disturbance and a re-adjustment of what we have termed the Equation of International Demand. This consideration leads to some rather curious consequences, which have been pointed

out in the separate essay on International Commerce, already several times referred to in this treatise.

Taxes on foreign trade are of two kinds—taxes on imports, and on exports. On the first aspect of the matter it would seem that both these taxes are paid by the consumers of the commodity; that taxes on exports consequently fall entirely on foreigners, taxes on imports wholly on the home consumer. The true state of the case, however, is much more complicated.

“By taxing exports we may, in certain circumstances, produce a division of the advantage of the trade more favourable to ourselves. In some cases we may draw into our coffers, at the expense of foreigners, not only the whole tax, but more than the tax: in other cases, we should gain exactly the tax; in others, less than the tax. In this last case, a part of the tax is borne by ourselves: possibly the whole, possibly even, as we shall show, more than the whole.”

Reverting to the supposititious case employed in the Essay, of a trade between Germany and England in broad cloth and linen, “suppose that England taxes her export of cloth, the tax not being supposed high enough to induce Germany to produce cloth for herself. The price at which cloth can be sold in Germany is augmented by the tax. This will probably diminish the quantity consumed. It may diminish it so much that, even at the increased price, there will not be required so great a money-value as before. Or it may not diminish it at all, or so little, that in consequence of the higher price, a greater money-value will be purchased than before. In this last case, England will gain, at the expense of Germany, not only the whole amount of the duty, but more; for, the money-value of her exports to Germany being increased, while her imports remain the same, money will flow into England from Germany. The price of cloth will rise in England, and consequently in Germany; but the price of linen will fall in Germany, and consequently in England. We shall export less cloth, and import more linen, till

the equilibrium is restored. It thus appears (what is at first sight somewhat remarkable) that by taxing her exports, England would, in some conceivable circumstances, not only gain from her foreign customers the whole amount of the tax, but would also get her imports cheaper. She would get them cheaper in two ways; for she would obtain them for less money, and would have more money to purchase them with. Germany, on the other hand, would suffer doubly: she would have to pay for her cloth a price increased not only by the duty, but by the influx of money into England, while the same change in the distribution of the circulating medium would leave her less money to purchase it with.

“This, however, is only one of three possible cases. If, after the imposition of the duty, Germany requires so diminished a quantity of cloth, that its total value is exactly the same as before, the balance of trade will be undisturbed; England will gain the duty, Germany will lose it, and nothing more. If, again, the imposition of the duty occasions such a falling off in the demand that Germany requires a less pecuniary value than before, our exports will no longer pay for our imports; money must pass from England into Germany; and Germany’s share of the advantage of the trade will be increased. By the change in the distribution of money, cloth will fall in England; and therefore it will, of course, fall in Germany. Thus Germany will not pay the whole of the tax. From the same cause, linen will rise in Germany, and consequently in England. When this alteration of prices has so adjusted the demand, that the cloth and the linen again pay for one another, the result is, that Germany has paid only a part of the tax, and the remainder of what has been received into our treasury has come indirectly out of the pockets of our own consumers of linen, who pay a higher price for that imported commodity in consequence of the tax on our exports, while at the same time they, in consequence of the efflux of money and the fall of prices, have

smaller money-incomes wherewith to pay for the linen at that advanced price.

“It is not an impossible supposition that by taxing our exports we might not only gain nothing from the foreigner, the tax being paid out of our own pockets, but might even compel our own people to pay a second tax to the foreigner. Suppose, as before, that the demand of Germany for cloth falls off so much on the imposition of the duty, that she requires a smaller money value than before, but that the case is so different with linen in England, that when the price rises the demand either does not fall off at all, or so little that the money value required is greater than before. The first effect of laying on the duty is, as before, that the cloth exported will no longer pay for the linen imported. Money will therefore flow out of England into Germany. One effect is to raise the price of linen in Germany, and consequently in England. But this, by the supposition, instead of stopping the efflux of money, only makes it greater, because the higher the price, the greater the money-value of the linen consumed. The balance, therefore, can only be restored by the other effect, which is going on at the same time, namely, the fall of cloth in the English and consequently in the German market. Even when cloth has fallen so low that its price with the duty is only equal to what its price without the duty was at first, it is not a necessary consequence that the fall will stop; for the same amount of exportation as before will not now suffice to pay the increased money value of the imports; and although the German consumers have now not only cloth at the old price, but likewise increased money incomes, it is not certain that they will be inclined to employ the increase of their incomes in increasing their purchases of cloth. The price of cloth, therefore, must perhaps fall, to restore the equilibrium, more than the whole amount of the duty; Germany may be enabled to import cloth at a lower price when it is taxed, than when it was untaxed: and this gain she will acquire at the expense of the

English consumers of linen, who, in addition, will be the real payers of the whole of what is received at their own custom-house under the name of duties on the export of cloth.”

It is almost unnecessary to remark that cloth and linen are here merely representatives of exports and imports in general; and that the effect which a tax on exports might have in increasing the cost of imports, would affect the imports from all countries, and not peculiarly the articles which might be imported from the particular country to which the taxed exports were sent.

“Such are the extremely various effects which may result to ourselves and to our customers from the imposition of taxes on our exports; and the determining circumstances are of a nature so imperfectly ascertainable, that it must be almost impossible to decide with any certainty, even after the tax has been imposed, whether we have been gainers by it or losers.” In general however there could be little doubt that a country which imposed such taxes would succeed in making foreign countries contribute something to its revenue; but unless the taxed article be one for which their demand is extremely urgent, they will seldom pay the whole of the amount which the tax brings in*. “In any case, whatever we gain is lost by somebody else, and there is the expense of the collection besides: if international morality, therefore, were rightly understood and acted upon, such taxes, as being contrary to the universal weal, would not exist.”

Thus far of duties on exports. We now proceed to the more ordinary case of duties on imports. “We have had an example of a tax on exports, that is, on foreigners, falling in

* Probably the strongest known instance of a large revenue raised from foreigners by a tax on exports, is the opium trade with China. The high price of the article under the Government monopoly (which is equivalent to a high export duty) has so little effect in discouraging its consumption, that it is said to have been occasionally sold in China for as much as its weight in silver.

part on ourselves. We shall therefore, not be surprised if we find a tax on imports, that is, on ourselves, partly falling upon foreigners.

“Instead of taxing the cloth which we export, suppose that we tax the linen which we import. The duty which we are now supposing must not be what is termed a protecting duty, that is, a duty sufficiently high to induce us to produce the article at home. If it had this effect, it would destroy entirely the trade both in cloth and in linen, and both countries would lose the whole of the advantage which they previously gained by exchanging those commodities with one another. We suppose a duty which might diminish the consumption of the article, but which would not prevent us from continuing to import, as before, whatever linen we did consume.

“The equilibrium of trade would be disturbed if the imposition of the tax diminished, in the slightest degree, the quantity of linen consumed. For, as the tax is levied at our own custom-house, the German exporter only receives the same price as formerly, though the English consumer pays a higher one. If, therefore, there be any diminution of the quantity bought, although a larger sum of money may be actually laid out in the article, a smaller one will be due from England to Germany: this sum will no longer be an equivalent for the sum due from Germany to England for cloth, the balance therefore must be paid in money. Prices will fall in Germany and rise in England; linen will fall in the German market; cloth will rise in the English. The Germans will pay a higher price for cloth, and will have smaller money incomes to buy it with; while the English will obtain linen cheaper, that is, its price will exceed what it previously was by less than the amount of the duty, while their means of purchasing it will be increased by the increase of their money incomes.

“If the imposition of the tax does not diminish the demand, it will leave the trade exactly as it was before. We

shall import as much, and export as much; the whole of the tax will be paid out of our own pockets.

“But the imposition of a tax on a commodity almost always diminishes the demand more or less; and it can never, or scarcely ever, increase the demand. It may, therefore, be laid down as a principle, that a tax on imported commodities, when it really operates as a tax, and not as a prohibition either total or partial, almost always falls in part upon the foreigners who consume our goods; and that this is a mode in which a nation may appropriate to itself, at the expense of foreigners, a larger share than would otherwise belong to it of the increase in the general productiveness of the labour and capital of the world, which results from the interchange of commodities among nations.”

Those are, therefore, in the right who maintain that taxes on imports are partly paid by foreigners; but they are mistaken when they say, that it is by the foreign producer. It is not on the person from whom we buy, but on all those who buy from us, that a portion of our custom duties spontaneously falls. It is the foreign consumer of our exported commodities, who is obliged to pay a higher price for them because we maintain revenue duties on foreign goods.

There are but two cases in which duties on commodities can in any degree, or in any manner, fall on the producer. One is, when the article is a strict monopoly, and at a scarcity price. The price in this case being only limited by the desires of the buyer; the sum obtained for the restricted supply being the utmost which the buyers would consent to give rather than go without it; if the treasury intercepts a part of this, the price cannot be further raised to compensate for the tax, and it must be paid from the monopoly profits. A tax on rare and high priced wines will fall wholly on the growers, or rather, on the owners of the vineyards. The second case in which the producer sometimes bears a portion of the tax, is more important: the case of duties on the produce of land or of mines. These might be so high as to diminish mate-

rially the demand for the produce, and compel the abandonment of some of the inferior qualities of land or mines. Supposing this to be the effect, the consumers, both in the country itself and in those which dealt with it, would obtain the produce at smaller cost; and a part only, instead of the whole, of the duty would fall on the purchaser, who would be indemnified chiefly at the expense of the landowners or mine-owners in the producing country.

Duties on importation may, then, be divided "into two classes: those which have the effect of encouraging some particular branch of domestic industry, and those which have not. The former are purely mischievous, both to the country imposing them, and to those with whom it trades. They prevent a saving of labour and capital, which, if permitted to be made, would be divided in some proportion or other between the importing country and the countries which buy what that country does or might export.

"The other class of duties are those which do not encourage one mode of procuring an article at the expense of another, but allow interchange to take place just as if the duty did not exist; and to produce the saving of labour which constitutes the motive to international, as to all other commerce. Of this kind are duties on the importation of any commodity which could not by any possibility be produced at home; and duties not sufficiently high to counterbalance the difference of expense between the production of the article at home and its importation. Of the money which is brought into the treasury of any country by taxes of this last description, a part only is paid by the people of that country; the remainder by the foreign consumers of their goods.

"Nevertheless, this latter kind of taxes are in principle as ineligible as the former, although not precisely on the same ground. A protecting duty can never be a cause of gain, but always and necessarily of loss, to the country imposing it, just so far as it is efficacious to its end. A non-

protecting duty, on the contrary, would in most cases be a source of gain to the country imposing it, in so far as throwing part of the weight of its taxes upon other people is a gain; but it would be a means which it could seldom be advisable to adopt, being so easily counteracted by a precisely similar proceeding on the other side.

"If England, in the case already supposed, sought to obtain for herself more than her natural share of the advantage of the trade with Germany, by imposing a duty upon linen, Germany would only have to impose a duty upon cloth, sufficient to diminish the demand for that article about as much as the demand for linen had been diminished in England by the tax. Things would then be as before, and each country would pay its own tax. Unless, indeed, the sum of the two duties exceeded the entire advantage of the trade; for in that case the trade, and its advantage, would cease entirely.

"There would be no advantage, therefore, in imposing duties of this kind, with a view to gain by them in the manner which has been pointed out. But when any part of the revenue is derived from taxes on commodities, these may often be as little objectionable as the rest. It is evident, too, that considerations of reciprocity, which are quite unessential when the matter in debate is a protecting duty, are of material importance when the repeal of duties of this other description is discussed. A country cannot be expected to renounce the power of taxing foreigners, unless foreigners will in return practise towards itself the same forbearance. The only mode in which a country can save itself from being a loser by the revenue duties imposed by other countries on its commodities, is to impose corresponding revenue duties on theirs. Only it must take care that those duties be not so high as to exceed all that remains of the advantage of the trade, and put an end to importation altogether, causing the article to be either produced at home, or imported from another and a dearer market."

CHAPTER V.

OF SOME OTHER TAXES.

§ 1. BESIDES direct taxes on income, and taxes on consumption, the financial systems of most countries comprise a variety of miscellaneous imposts, not strictly included in either class. The modern European systems retain many such taxes, though in much less number and variety than those semi-barbarous governments which European influence has not yet reached. In some of these, scarcely any incident of life has escaped being made an excuse for some fiscal exaction; hardly any act, not belonging to daily routine, can be performed by any one, without obtaining leave from some agent of government, which is only granted in consideration of a payment: especially when the act requires the aid or the peculiar guarantee of a public authority. In the present Treatise we may confine our attention to such taxes as lately existed, or still exist, in countries usually classed as civilized.

In almost all nations a considerable revenue is drawn from taxes on contracts. These are imposed in various forms. One expedient is that of taxing the legal instrument which serves as evidence of the contract, and which is commonly the only evidence legally admissible. In England, scarcely any contract is binding unless executed on stamped paper, which has paid a tax to government; and when the contract relates to property the tax rises, though in an irregular manner, with the pecuniary value of the property. There are also stamp duties on the legal instruments which are evidence of the fulfilment of contracts; such as acknowledgments of receipts, and deeds of release. Taxes on contracts are not always levied by means of stamps. The duty on sales by

auction, abrogated by Sir Robert Peel, was an instance in point. The taxes on transfers of landed property, in France, are another: in England these are stamp-duties. In some countries, contracts of many kinds are not valid unless registered, and their registration is made an occasion for a tax.

Of taxes on contracts, the most important are those on the transfer of property; chiefly on purchases and sales. Taxes on the sale of consumable commodities are simply taxes on those commodities. If they affect only some particular commodities, they raise the prices of those commodities, and are paid by the consumer. If the attempt were made to tax all purchases and sales, which, however absurd, was for centuries the law of Spain, the tax, if it could be enforced, would be equivalent to a tax on all commodities, and would not affect prices: if levied from the sellers, it would be a tax on profits, if from the buyers, a tax on consumption; and neither class could throw the burthen upon the other. If confined to some one mode of sale, as for example by auction, it discourages recourse to that mode, and if of any material amount, prevents it from being adopted at all, unless in a case of emergency; in which case as the seller is under a necessity to sell, but the buyer under no necessity to buy, the tax falls on the seller; and this was the strongest of the objections to the auction duty: it almost always fell on a necessitous person, and in the very crisis of his necessities.

Taxes on the purchase and sale of land are, in most countries, liable to the same objection. Landed property in old countries is seldom parted with, except from reduced circumstances, or some urgent need: the seller, therefore, must take what he can get, while the buyer, whose object is an investment, makes his calculations on the interest which he can obtain for his money in other ways, and will not buy if he is charged with a government tax on the transaction. It has indeed been objected, that this argument would not apply

if all modes of permanent investment, such as the purchase of government securities, shares in joint-stock companies, mortgages, and the like, were subject to the same tax. But even then, if paid by the buyer, it would be equivalent to a tax on interest: if sufficiently heavy to be of any importance, it would disturb the established relation between interest and profit; and the disturbance would redress itself by a rise in the rate of interest, and a fall of the price of land and of all securities. It appears to me, therefore, that the seller is the person by whom such taxes, unless under peculiar circumstances, will always be borne.

All taxes must be condemned which throw obstacles in the way of the sale of land, or other instruments of production. Such sales tend naturally to render the property more productive. The seller, whether moved by necessity or choice, is probably some one who is either without the means, or without the capacity, to make the most advantageous use of the property for productive purposes; while the buyer, on the other hand, is at any rate not needy; and is probably a person both inclined and able to improve the property, since, as it is worth more to such a person than to any other, he is likely to offer the highest price for it. All taxes, therefore, and all difficulties and expenses, annexed to such contracts, are decidedly detrimental; especially in the case of land, the source of subsistence, and the original foundation of all wealth, on the improvement of which, therefore, so much depends. Too great facilities cannot be given to enable land to pass into the hands, and assume the modes of aggregation or division, most conducive to its productiveness. If landed properties are too large, alienation should be free, in order that they may be subdivided; if too small, in order that they may be united. All taxes on the transfer of landed property should be abolished; but, as the landlords have no claim to be relieved from any reservation which the state has hitherto made in its own favour from the amount

of their rent, an annual impost equivalent to the average produce of these taxes should be distributed over the land generally, in the form of a land tax*.

Some of the taxes on contracts are very pernicious, imposing a virtual penalty upon transactions which it ought to be the policy of the legislator to encourage. Of this sort is the stamp duty on leases, which in a country of large pro-

* In our own country, the taxes on contracts are the more objectionable, because, with that tendency to spare the rich which pervades our financial system, they are proportionally much heavier on the smaller transactions. Many stamp duties do not profess to be *ad valorem*, but are fixed charges, whether the amount of the transaction be great or small. With respect to those which do pretend to be *ad valorem*; "of the stamps on conveyances, the lowest, which attaches where the purchase money does not amount to 20*l.*, is 10*s.*; where the purchase money amounts to 20*l.* and not to 50*l.*, 1*l.*; where 50*l.*, and not amounting to 150*l.*, 1*l.* 10*s.*; and there are twenty-three other enumerated stamps, rising in amount by unequal steps, the highest being 1000*l.*, where the purchase money is 100,000*l.*, beyond which, however high the purchase money may rise, the tax does not increase. . . . In the case of a 20*l.* purchase of freehold, the duty is 2*l.*, or 10 per cent on the value; while on the 200,000*l.* or 300,000*l.* purchase (as on all conveyances of 150*l.* and upwards), the stamp is only 1*l.* 15*s.*, a fraction of the value too inconsiderable to deserve notice. It often happens also in conveyances of properties of small amount, that besides this conveyance, other deeds are required, as assignments or surrenders of terms, and covenants for the production of title deeds: and the stamps on these deeds are the same whether the purchase is 20*l.* or 20,000*l.*" In the stamp duties on bonds and mortgages, the inequality is still more glaring; the rate *ad valorem* being "eighty times as great on the security for 50*l.* as on that for 100,000*l.*"—*McCulloch on Taxation*, pp. 277-80. And in another place, "The stamp duties in their present form wholly want that compensating quality which has often been ascribed to them (and with which they might be endowed) of giving increased security to transactions. On the contrary, one would think they had been intended to serve as decoys with which to entrap parties, and force them into the courts. The difficulty which they create of determining what is and what is not a proper stamp, is itself a most prolific source of uncertainty, and consequently of litigation and expense." (p. 276). We may well add, with the same writer, (p. 281) "it will be curious to see how long the present system will be permitted to continue."

It is a characteristic fact, that while the sale of land is taxed, its settlement, which prevents it from being sold, is one of the few legal transactions which are not liable to any tax.

perties are an essential condition of good agriculture; and the tax on insurances, a direct discouragement to prudence and forethought. In the case of fire insurances, the tax is exactly double the amount of the premium of insurance on common risks; so that the person insuring is obliged by the government to pay for the insurance just three times the value of the risk. If this tax existed in France, we should not see, as we do in some of her provinces, the plate of an insurance company on almost every cottage or hovel. This, indeed, must be ascribed to the provident and calculating habits produced by the dissemination of property through the labouring class: but a tax of so extravagant an amount would be a heavy drag upon any habits of providence.

§ 2. Nearly allied to the taxes on contracts, are those on communication. The principal of these is the postage tax; to which may be added the tax on advertisements, and that on newspapers, which are taxes on the communication of information.

The common mode of levying a tax on the conveyance of letters, is by making the government the sole authorized carrier of them, and demanding a monopoly price. When this price is so moderate as it is in this country under the uniform penny postage, scarcely if at all exceeding what would be charged under the freest competition by any private company, it can hardly be considered as taxation, but rather as the profits of a business; whatever excess there is above the ordinary profits of stock being a fair result of the saving of expense, caused by having only one establishment and one set of arrangements for the whole country, instead of many competing ones. The business, too, being one which both can and ought to be conducted on fixed rules, is one of the very few businesses which it is not unsuitable to a government to conduct. The post office, therefore, is at present one of the best of the sources from which this country derives its revenue. But a postage much

exceeding what would be paid for the same service in a system of freedom, is not a desirable tax. Its chief weight falls on letters of business, and increases the expense of mercantile relations between distant places. It is like an attempt to raise a large revenue by heavy tolls: it obstructs all operations by which goods are conveyed from place to place, and discourages the production of commodities in one place for consumption in another; which is not only in itself one of the greatest sources of economy of labour, but is a necessary condition of almost all improvements in production, and one of the strongest stimulants to industry.

A tax on advertisements is not free from the same objection, since in whatever degree advertisements are useful to business, by facilitating the coming together of the dealer or producer and the consumer, in that same degree, if the tax be high enough to be a serious discouragement to advertising, it prolongs the period during which goods remain unsold, and capital locked up in idleness. In this country the amount of the duty is moderate, and the abuse of advertising, which is quite as conspicuous as the use, renders the abolition of the tax, though right in principle, a matter of less urgency than it might otherwise be deemed.

A tax on newspapers is objectionable, not so much where it does fall as where it does not, that is, where it prevents newspapers from being used. To the generality of those who now buy them, newspapers are a luxury, which they can as well afford to pay for as any other indulgence, and which is as unexceptionable a source of revenue. But to that large part of the community who have been taught to read, but have received little other intellectual education, newspapers are the source of nearly all the general information which they possess, and of nearly all their acquaintance with the ideas and topics current among mankind; and an interest is more easily excited in newspapers, than in books, or other more recondite sources of instruction. Newspapers do so little, and generally attempt so little, in the origination

of useful ideas, that many persons undervalue the importance of their office in disseminating those ideas; in correcting many prejudices and superstitions, and keeping up that habit of discussion, and interest in public concerns, the absence of which is a great cause of the stagnation of mind usually found in the lower and middle, if not in all, ranks, of those countries where newspapers of an important or interesting character do not exist. There ought to be no taxes which render this great diffuser of ideas, of mental excitement, and mental exercise, less accessible to that portion of the public which most needs to be carried, as it were, out of itself, into a region of ideas and interests beyond its own limited horizon.

§ 3. In the enumeration of bad taxes, a conspicuous place must be assigned to law taxes; which extract a revenue for the state from the various operations involved in an application to the tribunals. Like all needless expenses attached to law proceedings, they are a tax on redress, and therefore a premium on injury. Although such taxes have been abolished in this country as a general source of revenue, they still exist in the form of fees of court, for defraying the expense of the courts of justice; under the idea, apparently, that those may fairly be required to bear the expenses of the administration of justice, who reap the benefit of it. The fallacy of this doctrine was powerfully exposed by Bentham. As he remarked, those who are under the necessity of going to law, are those who benefit least, not most, by the law and its administration. To them the protection which the law affords has not been complete, since they have been obliged to resort to a court of justice to ascertain their rights, or maintain those rights against infringement: while the remainder of the public have enjoyed the immunity from injury conferred by the law and the tribunals, without the inconvenience of an appeal to them.

§ 4. Besides the general taxes of the State, there are in

all or most countries local taxes, to defray any expenses of a public nature which it is thought best to place under the control or management of a local authority. Some of these expenses are incurred for purposes in which the particular locality is solely or chiefly interested; as the paving, cleansing, and lighting of the streets; or the making and repairing of roads and bridges, which may be important to people from any part of the country, but only in so far as they, or goods belonging to them, pass along the roads or over the bridges. In other cases again, the expenses are of a kind as nationally important as any others, but are defrayed locally, because supposed more likely to be well administered by local bodies: as, in England, the relief of the poor and the support of gaols, and in some other countries, of schools. To decide for what public objects local superintendence is best suited, and what are those which should be kept immediately under the central government, or under a mixed system of local management and central superintendence, is a question not of political economy but of administration. It is an important principle, however, that taxes imposed by a local authority, being less amenable to publicity and discussion than the acts of the government, should always be special—laid on for some definite service, and not exceeding the expense actually incurred in rendering the service. Thus limited, it is desirable, whenever practicable, that the burthen should fall on those to whom the service is rendered; that the expense, for instance, of roads and bridges, should be defrayed by a toll on passengers and goods conveyed by them, thus dividing the cost between those who use them for pleasure or convenience, and the consumers of the goods which they enable to be brought to and from the market at a diminished expense. When, however, the tolls have repaid with interest the whole of the expenditure, the road or bridge should be thrown open free of toll, that it may be used also by those to whom, unless open gratuitously, it would be valueless; provision being made for repairs either from the funds

of the state, or by a rate levied on the localities which reap the principal benefit.

In England, almost all local taxes are direct, (the coal duty of the City of London, and a few similar imposts, being the chief exceptions,) although the greatest part of the taxation for general purposes is indirect. On the contrary, in France, Austria, and other countries where direct taxation is much more largely employed by the state, the local expenses of towns are principally defrayed by taxes levied on commodities when entering them. These indirect taxes are much more objectionable in towns than on the frontier, because the things which the country supplies to the towns are chiefly the necessaries of life and the materials of manufacture, while, of what a country imports from foreign countries, the greater part usually consists of luxuries. An octroi cannot produce a large revenue, without pressing severely upon the labouring classes of the towns; unless their wages rise proportionally, in which case the tax falls in a great measure on the consumers of town produce, whether residing in town or country, since capital will not remain in the towns if its profits fall beyond their ordinary proportion as compared with the rural districts.

CHAPTER VI.

COMPARISON BETWEEN DIRECT AND INDIRECT TAXATION.

§ 1. ARE direct or indirect taxes the most eligible? This question, at all times interesting, has of late excited a considerable amount of discussion. In England there is a popular feeling, of old standing, in favour of indirect, or it should rather be said in opposition to direct, taxation. The feeling is not grounded on the merits of the case, and is of a rather puerile kind. An Englishman detests, not so much the payment as the act of paying. He dislikes seeing the face of the tax collector, and being subjected to his peremptory demand. Perhaps, too, the money which he is required to pay directly out of his pocket is the only taxation which he is quite sure that he pays at all. That a tax of two shillings per pound on tea, or of three shillings per bottle on wine, raises the price of each pound of tea and bottle of wine which he consumes, by that and more than that amount, cannot indeed be denied; it is the fact, and is intended to be so, and he himself, at times, is perfectly aware of it; but it makes hardly any impression on his practical feelings and associations, serving to illustrate the distinction between what is merely known to be true and what is felt to be so. The "ignorant impatience" of direct taxation, contrasted with the easy manner in which the public consent to let themselves be fleeced in the prices of commodities, has generated in many friends of improvement a directly opposite mode of thinking to the foregoing. They contend that the very reason which makes direct taxation disagreeable, makes it preferable. Under it, every one knows how much he really pays; and if he votes for a war, or any other expensive

national luxury, he does so with his eyes open to what it costs him. If all taxes were direct, taxation would be much more odious than at present; and there would be a security which now there is not, for economy in the public expenditure.

Although this argument is not without force, too much stress, I cannot but think, is laid on it: for, in the first place, its weight is likely to be constantly diminishing. The real incidence of indirect taxation is every day more generally understood and more familiarly recognized: and whatever else may be said of the progressive changes which are taking place in the tendencies of the human mind, it can scarcely, I think, be denied, that things are more and more estimated according to their calculated value, and less according to their non-essential accompaniments. The mere distinction, therefore, between paying money directly to the tax-collector, and contributing the same sum through the intervention of the tea-dealer or the wine-merchant, will not continue to make the whole difference between dislike or opposition, and passive acquiescence. But further, while this infirmity of the popular mind subsists, the argument grounded on it tells partly on the other side of the question. If our present revenue of above fifty millions were all raised by direct taxes, an intense dissatisfaction would certainly arise at having to pay so much; but while men's minds are so little guided by reason, as such a change of feeling from so irrelevant a cause would imply, it may be doubted if so great an aversion to taxation would not produce more evil than good. Of the fifty millions in question, nearly thirty are pledged, under the most binding obligations, to those whose capital has been borrowed and spent by the state: and while this debt remains unredeemed, a greatly increased impatience of taxation would involve no little danger of a breach of faith, similar to that which, in the defaulting states of America, has been produced, and in some of them still continues, from the same cause. That part, indeed, of the public expenditure

which is devoted to the maintenance of civil and military establishments, is still, in many cases, unnecessarily profuse, but though many of the items will bear great reduction, others certainly require increase. There is hardly any public reform or improvement of the first rank, proposed of late years, and still remaining to be effected, which would not probably require, at least for a time, an increased instead of a diminished appropriation of public money. Whether the object be popular education; emigration and colonization; a more efficient and accessible administration of justice; a more judicious treatment of criminals; improvement in the condition of soldiers and sailors; a more effective police; reforms of any kind which, like the Slave Emancipation, require compensation to individual interests; or, finally, what is as important as any of these, the entertainment of a sufficient staff of able and highly-educated public servants, to conduct in a better than the present awkward manner the business of legislation and administration; every one of these things implies considerable expense, and many of them have again and again been prevented by the reluctance which exists to apply to Parliament for an increased grant of public money, though the cost would be repaid, often a hundred-fold, in mere pecuniary advantage to the community generally. I fear that we should have to wait long for most of these things, if taxation were as odious as it probably would be if it were exclusively direct.

There is, however, a frequent plea in support of indirect taxation, which must be altogether rejected, as grounded on a fallacy. We are often told that taxes on commodities are less burdensome than other taxes, because the contributor can escape from them by ceasing to use the taxed commodity. He certainly can, if that be his object, deprive the government of the money; but he does so by a sacrifice of his own indulgences, which (if he chose to undergo it) would equally make up to him for the same amount taken from him by direct taxation. Suppose a tax laid on wine, sufficient to

add five pounds to the price of the quantity of wine which he consumes in a year. He has only (we are told) to diminish his consumption of wine by 5*l.*, and he escapes the burden. True: but if the 5*l.*, instead of being laid on wine, had been taken from him by an income-tax, he could, by expending 5*l.* less in wine, equally save the amount of the tax, so that the difference between the two cases is really illusory. If the government takes from the contributor five pounds a year, whether in one way or another, exactly that amount must be retrenched from his consumption to leave him as well off as before; and in either way the same amount of sacrifice, neither more nor less, is imposed on him.

On the other hand, it is a real advantage on the side of indirect taxes, that what they exact from the contributor is taken at a time, and in a manner, likely to be convenient to him. It is paid at a time when he has at any rate a payment to make; it causes, therefore, no additional trouble, nor any inconvenience but what is inseparable from the payment of the amount. He can also, except in the case of very perishable articles, select his own time for laying in a stock of the commodity, and consequently for payment of the tax. The producer or dealer who advances these taxes, is, indeed, sometimes subjected to inconvenience; but, in the case of imported goods, this inconvenience is reduced to a minimum by what is called the Warehousing System, under which, instead of paying the duty at the time of importation, he is only required to do so when he takes out the goods for consumption, which is seldom done until he has either actually found, or has the prospect of immediately finding, a purchaser.

The decisive objection, however, to raising the whole or the greater part of a large revenue by direct taxes, is the impossibility of assessing them fairly. In the case of an income-tax, I have pointed out that the burthen can never be apportioned with any tolerable approach to fairness upon those whose incomes are derived from a business or profession;

and this is in fact admitted by most of the advocates of direct taxation, who, I am afraid, generally get over the difficulty by leaving those classes untaxed, and confining their projected income-tax to "realized property," in which form it certainly has the merit of being a very easy form of plunder. But enough has been said in condemnation of this expedient. We have seen, however, that a house-tax is a form of direct taxation not liable to the same objections as an income-tax, and indeed liable to as few objections of any kind as perhaps any of our indirect taxes. But it would be impossible to raise, by a house-tax alone, the greatest part of the revenue of Great Britain, without producing a very objectionable over-crowding of the population, through the strong motive which all persons would have to avoid the tax by restricting their house accommodation. Besides, even a house-tax has inequalities, and consequently injustices; no tax is exempt from them, and it is neither just nor politic to make all the inequalities fall in the same places, by calling upon one tax to defray the whole or the chief part of the public expenditure. So much of the local taxation, in this country, being already in the form of a house-tax, it is probable that ten millions a year would be fully as much as could beneficially be levied, through this medium, for general purposes.

A certain amount of revenue may, as we have seen, be obtained without injustice by a peculiar tax on rent. Besides the present land-tax, and an equivalent for the revenue now derived from stamp-duties on the conveyance of land, some further taxation might, I have contended, at some future period be imposed, to enable the state to participate in the progressive increase of the incomes of landlords from natural causes. Legacies and inheritances, we have also seen, ought to be subjected to taxation sufficient to yield a considerable revenue. With these taxes, and a house-tax of suitable amount, we should, I think, have reached the prudent limits of direct taxation, save in a national emergency so urgent as to justify the government in disregarding the inequality and

unfairness inseparable from every practicable form of income-tax. The remainder of the revenue would have to be provided by taxes on consumption, and the question is, which of these are the least objectionable.

§ 2. There are some forms of indirect taxation which must be peremptorily excluded. Taxes on commodities, for revenue purposes, must not operate as protecting duties, but must be levied impartially on every mode in which the articles can be obtained, whether produced in the country itself, or imported. An exclusion must also be put upon all taxes on the necessaries of life, or on the materials or instruments employed in producing those necessaries. Such taxes are always liable to encroach on what should be left untaxed, the incomes barely sufficient for healthful existence: and on the most favourable supposition, namely, that wages rise to compensate the labourers for the tax, it operates as a peculiar tax on profits, which is at once unjust, and detrimental to national wealth*. What remain are taxes on luxuries. And these have some properties which strongly recommend them. In the first place, they can never, by any possibility, touch those whose whole income is expended on necessaries; while they do reach those by whom what is required for necessaries, is expended on indulgences. In the next place, they operate in some cases as an useful, and the only useful, kind of sumptuary law. I disclaim all asceticism, and by no means wish to see discouraged, either by law or opinion, any indul-

* Some argue that the materials and instruments of all production should be exempt from taxation; but these, when they do not enter into the production of necessaries, seem as proper subjects of taxation as the finished article. It is chiefly with reference to foreign trade, that such taxes have been considered injurious. Internationally speaking, they may be looked upon as export duties, and, unless in cases in which an export duty is advisable, they should be accompanied with an equivalent drawback on exportation. But there is no reason against taxing the materials and instruments used in the production of any thing which is itself a fit object of taxation.

gence (consistent with the means and obligations of the person using it) which is sought from a genuine inclination for, and enjoyment of, the thing itself; but a great portion of the expense of the higher and middle classes in most countries, and the greatest in this, is not incurred for the sake of the pleasure afforded by the things on which the money is spent, but from regard to opinion, and an idea that certain expenses are expected from them, as an appendage of station; and I cannot but think that expenditure of this sort is a most desirable subject of taxation. If taxation discourages it, some good is done, and if not, no harm; for in so far as taxes are levied on things which are desired and possessed from motives of this description, nobody is the worse for them. When a thing is bought not for its use but for its costliness, cheapness is no recommendation. As Sismondi remarks, the consequence of cheapening articles of vanity, is not that less is expended on such things, but that the buyers substitute for the cheapened article some other which is more costly, or a more elaborate quality of the same thing; and as the inferior quality answered the purpose of vanity equally well when it was equally expensive, a tax on the article would really be paid by nobody: it would be a creation of public revenue by which nobody would lose*.

* "Were we to suppose that diamonds could only be procured from one particular and distant country, and pearls from another, and were the produce of the mines in the former, and of the fishery in the latter, from the operation of natural causes, to become doubly difficult to procure, the effect would merely be that in time half the quantity of diamonds and pearls would be sufficient to mark a certain opulence and rank, that it had before been necessary to employ for that purpose. The same quantity of gold, or some commodity reducible at last to labour, would be required to produce the now reduced amount, as the former larger amount. Were the difficulty interposed by the regulations of legislators . . . it could make no difference to the fitness of these articles to serve the purposes of vanity." Suppose that means were discovered whereby the physiological process which generates the pearl might be induced *ad libitum*, the result being that the amount of labour expended in procuring each pearl, came to be only the five hundredth part of what it was before. "The ultimate effect of

§ 3. In order to reduce as much as possible the inconveniences, and increase the advantages, incident to taxes on commodities, the following are the practical rules which suggest themselves. 1st. To raise as large a revenue as conveniently may be, from those classes of luxuries which have most connexion with vanity, and least with positive enjoyment; such as the more costly qualities of all kinds of personal equipment and ornament. 2ndly. Whenever possible, to demand the tax, not from the producer, but directly from the consumer, since when levied on the producer it raises the price always by more, and often by much more, than the mere amount of the tax. Most of the minor assessed taxes in this country are recommended by both these considerations. But with regard to horses and carriages, as there are many persons to whom, from health or constitution, these are not so much luxuries as necessities, the tax paid by those who have but one riding horse, or but one carriage, especially of the cheaper descriptions, should be low; while taxation should rise very rapidly with the number of horses and carriages, and with their costliness. 3dly. But as the only indirect taxes which yield a large revenue are those which

such a change would depend on whether the fishery were free or not. Were it free to all, as pearls could be got simply for the labour of fishing for them, a string of them might be had for a few pence. The very poorest class of society could therefore afford to decorate their persons with them. They would thus soon become extremely vulgar and unfashionable, and so at last valueless. If however we suppose that instead of the fishery being free, the legislator owns and has complete command of the place, where alone pearls are to be procured; as the progress of discovery advanced, he might impose a duty on them equal to the diminution of labour necessary to procure them. They would then be as much esteemed as they were before. What simple beauty they have would remain unchanged. The difficulty to be surmounted in order to obtain them would be different, but equally great, and they would therefore equally serve to mark the opulence of those who possessed them." The net revenue obtained by such a tax "would not cost the society anything. If not abused in its application, it would be a clear addition of so much to the resources of the community."—Rae, *New Principles of Political Economy*, pp. 369-71.

fall on articles of universal or very general consumption, and as it is therefore necessary to have some taxes on real luxuries, that is, on things which afford pleasure in themselves, and are valued on that account rather than for their cost; these taxes should, if possible, be so adjusted as to fall with the same proportional weight on small, on moderate, and on large incomes. This is not an easy matter; since the things which are the subjects of the more productive taxes, are in proportion more largely consumed by the poorer members of the community than by the rich. Tea, coffee, sugar, tobacco, fermented drinks, can hardly be so taxed that the poor shall not bear more than their due share of the burthen. Something might be done by making the duty on the superior qualities, which are used by the richer consumers, much higher in proportion to the value, (instead of much lower, as is almost universally the practice under the present English system); but in some cases the difficulty of at all adjusting the duty to the value, so as to prevent evasion, is said, with what truth I know not, to be insuperable; so that it is thought necessary to levy the same fixed duty on all the qualities alike: a flagrant injustice to the poorer class of contributors, unless compensated by the existence of other taxes from which, as from the present income-tax, they are altogether exempt. 4thly. As far as is consistent with the preceding rules, taxation should rather be concentrated on a few articles than diffused over many, in order that the expenses of collection may be smaller, and that as few employments as possible may be burthensomely and vexatiously interfered with. 5thly. Among luxuries of general consumption, taxation should by preference attach itself to stimulants, because these, although in themselves as legitimate and as beneficial indulgences as any others, are more liable than most others to be used in excess, so that the check to consumption, naturally arising from taxation, is on the whole better applied to them than to other things. 6thly. As far as other considerations permit, taxation should be confined to imported articles,

since these can be taxed with a less degree of vexatious interference, and with fewer incidental bad effects, than when a tax is levied on the field or on the workshop. Custom duties are, *ceteris paribus*, much less objectionable than excise: but they must be laid only on things which either cannot, or at least will not, be produced in the country itself; or else their production there must be prohibited (as in England is the case with tobacco,) or subjected to an excise duty of equivalent amount. 7thly. No tax ought to be kept so high as to furnish a motive to its evasion, too strong to be counteracted by ordinary means of prevention: and especially no commodity should be taxed so highly as to raise up a class of lawless characters, smugglers, illicit distillers, and the like.

Among the excise and custom duties now existing in this country, some must, on the principles we have laid down, be altogether condemned. Among these are all duties on ordinary articles of food, whether for human beings or for cattle; those on bricks and timber, the former as being vexatious, and both as falling on the materials of lodging, which is one of the necessaries of life; all duties on the metals, and on implements made of them; the tax on soap, which is a necessary of cleanliness, and on tallow, the material both of that and of other necessaries; the tax on paper, an indispensable instrument of almost all business and of most kinds of instruction: but ornamental paper, for hangings, and similar purposes, might continue to be taxed. The duties which yield the greatest part of the customs and excise revenue, those on sugar, coffee, tea, wine, beer, spirits, and tobacco, are in themselves, where a large amount of revenue is necessary, extremely proper taxes; but at present grossly unjust, from the disproportionate weight with which they press on the poorer classes; and some of them (those on spirits and tobacco,) are so high as to cause an enormous amount of smuggling. It is probable that most of these taxes would bear a great reduction without any material loss of revenue.

In what manner the finer articles of manufacture, consumed by the rich, might most advantageously be taxed, I must leave to be decided by those who have the requisite practical knowledge. The difficulty would be, to effect it without an inadmissible degree of interference with production. In countries which, like the United States, import the principal part of the finer manufactures which they consume, there is little difficulty in the matter: and even where nothing is imported but the raw material, that may be taxed, especially the qualities of it which are exclusively employed for the fabrics used by the richer class of consumers. Thus, in England a high custom duty on raw silk would be consistent with principle; and it might perhaps be practicable to tax the finer qualities of cotton or linen yarn, whether spun in the country itself or imported.

CHAPTER VII.

OF A NATIONAL DEBT.

§ 1. THE question must now be considered, how far it is right or expedient to raise money for the purposes of government, not by laying on taxes to the amount required, but by taking a portion of the capital of the country in the form of a loan, and charging the public revenue with only the interest. Nothing needs be said about providing for temporary wants by taking up money, for instance by an issue of exchequer bills, destined to be paid off, at furthest in a year or two, from the proceeds of the existing taxes. This is a convenient expedient, and, when the government does not possess a treasure or hoard, is often a necessary one, on the occurrence of extraordinary expenses, or of a temporary failure in the ordinary sources of revenue. What we have to discuss is the propriety of contracting a national debt of a permanent character; defraying the expenses of a war, or of any season of difficulty, by loans, to be redeemed either very gradually and at a distant period, or not at all.

This question has been already touched upon in the First Book*. We there remarked, that if the capital taken in loans is abstracted from funds either engaged in production, or destined to be employed in it, their diversion from that purpose is equivalent to taking the amount from the wages of the labouring classes. Borrowing, in this case, is not a substitute for raising the supplies within the year. A government which borrows does actually take the amount within the year, and that too by a tax exclusively on the labouring classes; than which it could have done nothing worse, if it had supplied its wants by avowed taxation; and in that case

* *Supra*, vol. i. pp. 94-7.

the transaction, and its evils, would have ended with the emergency; while by the circuitous mode adopted, the value exacted from the labourers is gained, not by the state, but by the employers of labour, the state remaining charged with the debt besides, and with its interest in perpetuity. The system of public loans, in such circumstances, may be pronounced the very worst which, in the present state of civilization, is still included in the catalogue of financial expedients.

We however remarked that there are other circumstances in which loans are not chargeable with these pernicious consequences: namely, first, when what is borrowed is foreign capital, the overflowings of the general accumulation of the world; or, secondly, when it is capital which either would not have been saved at all unless this mode of investment had been open to it, or, after being saved, would have been wasted in unproductive enterprises, or sent to seek employment in foreign countries. When the progress of accumulation has reduced profits either to the ultimate or to the practical minimum,—to the rate, less than which would either put a stop to the increase of capital, or send the whole of the new accumulations abroad; government may annually intercept those new accumulations, without trenching on the employment or wages of the labouring classes in the country itself, or perhaps in any other country. To this extent, therefore, the loan system may be carried, without being liable to the utter and peremptory condemnation which is due to it when it overpasses this limit. What is wanted is an index to determine whether, in any given series of years, as during the last war for example, the limit has been exceeded or not.

Such an index exists, at once a certain and an obvious one. Did the government, by its loan operations, augment the rate of interest? If it only opened a channel for capital which would not otherwise have been accumulated, or which, if accumulated, would not have been employed within the country; this implies that the capital, which the government

took and expended, could not have found employment at the existing rate of interest. So long as the loans do no more than absorb this surplus, they prevent any tendency to a fall of the rate of interest, but they cannot occasion any rise. When they do raise the rate of interest, as they did in a most extraordinary degree during the late war, this is positive proof that the government is a competitor for capital with the ordinary channels of productive investment, and is carrying off, not merely funds which would not, but funds which would, have found productive employment within the country. To the full extent, therefore, to which the loans of government, during the last war, caused the rate of interest to exceed what it was before, and what it has been since, those loans cannot be relieved from the severest condemnation. If it be objected that interest only rose because profits rose, I reply that this does not weaken, but strengthens, the argument. If the government loans produced the rise of profits by the great amount of capital which they absorbed, by what means can they have had this effect, unless by lowering the wages of labour? It will perhaps be said, that what kept profits high during the war was not the drafts made on the national capital by the loans, but the rapid progress of industrial improvements. This, in a great measure, was the fact; and it no doubt alleviated the hardship to the labouring classes, and made the financial system which was pursued less actively mischievous, but not at all less indefensible. These very improvements in industry, made room for a larger amount of capital; and the government, by draining away a great part of the annual accumulations, did not indeed prevent that capital from existing ultimately, (for it started into existence with great rapidity after the peace,) but prevented it from existing at the time, and subtracted just so much, while the war lasted, from distribution among productive labourers. If the government had abstained from taking this capital by loan, and had allowed it to reach the labourers, but had raised the supplies which it required by a direct

tax on the labouring classes, it would have produced the very same economical effects, in every respect, which it did produce, except that we should not now have had the debt. The course it actually took was therefore worse, by the whole of that great fact, than the very worst mode which it could possibly have adopted of raising the supplies within the year.

When government loans are limited to the overflowings of the national capital, or to those accumulations which would not take place at all unless suffered to overflow, they are at least not liable to this grave condemnation: they occasion no privation to any one at the time, except by the payment of the interest, and may even be beneficial to the labouring class during the term of their expenditure, by employing in the direct purchase of labour, as of soldiers, sailors, &c., funds which might otherwise have quitted the country altogether. In this case therefore the question really is, what it is commonly supposed to be in all cases, namely, a choice between a great sacrifice at once, and a small one indefinitely prolonged. On this matter it seems rational to think, that the prudence of a nation will dictate the same conduct as the prudence of an individual; to submit to as much of the privation immediately, as can easily be borne, and only when any further burthen would distress or cripple them too much, to provide for the remainder by mortgaging their future income. It is an excellent maxim to make present resources suffice for present wants; the future will have its own wants to provide for. On the other hand, it may reasonably be taken into consideration that in an improving country the necessary expenses of government do not increase in the same ratio as capital or population; any burthen, therefore, is always less and less felt: and since those extraordinary expenses of government which are fit to be incurred at all, are mostly beneficial beyond the existing generation, there is no injustice in making posterity pay a part of the price, if the inconvenience would be extreme of defraying the whole of it by the

exertions and sacrifices of the generation which first incurred it.

§ 2. When a country, wisely or unwisely, has burthened itself with a debt, is it expedient to take steps for redeeming that debt? In principle it is impossible not to maintain the affirmative. It is true that the payment of the interest, when the creditors are members of the same community, is no national loss, but a mere transfer. The transfer, however, being compulsory, is a serious evil, and the raising a great extra revenue by any system of taxation necessitates so much expense, vexation, disturbance of the channels of industry, and other mischiefs over and above the mere payment of the money wanted by the government, that to get rid of the necessity of such taxation is at all times worth a considerable effort. The same amount of sacrifice which would have been worth incurring to avoid contracting the debt, it is worth while to incur, at any subsequent time, for the purpose of extinguishing it.

Two modes have been contemplated of paying off a national debt: either at once by a general contribution, or gradually by a surplus revenue. The first would be incomparably the best, if it were practicable; and practicable it would be, if it could justly be done by an assessment on property alone. If property bore the whole interest of the debt, property might, with great advantage to itself, pay it off; since this would be merely surrendering to a creditor the principal sum, the whole annual proceeds of which were already his by law; or would be equivalent to what a landowner does when he sells part of his estate, to free the remainder from a mortgage. But property, it needs hardly be said, does not pay, and cannot justly be required to pay, the whole interest of the debt. Some indeed affirm that it can, on the specious plea that the existing generation is only bound to pay the debts of its predecessors from the assets it has received from them, and not from the produce of its own

industry. But has no one received anything from previous generations except those who have succeeded to property? Is the whole difference between the earth as it is, with its clearings and improvements, its roads and canals, its towns and manufactories, and the earth as it was when the first human being set foot on it, of no benefit to any but those who are called the owners of the soil? Is the capital accumulated by the labour and abstinence of all former generations of no advantage to any but those who have succeeded to the legal ownership of part of it? And have we not inherited a mass of acquired knowledge, both scientific and empirical, due to the sagacity and industry of those who preceded us, the benefits of which are the common wealth of all? Those who are born to the ownership of property have, in addition to these common benefits, a separate inheritance, and to this difference it is right that advertence should be had in regulating taxation. We are at liberty to assume that the general financial system of the country takes due account of this principle, and I have indicated, as in my opinion a proper mode of taking account of it, a considerable tax on legacies and inheritances. Let it be determined directly and openly what is due from property to the state, and from the state to property, and let the institutions of the state be regulated accordingly; but let not principles, admitted in theory, be wounded mortally by a back-handed blow. Whatever is the fitting contribution from property to the general expenses of the state, in the same, and in no greater proportion should it contribute towards either the interest or the repayment of the national debt.

This, however, if admitted, is fatal to any scheme for the extinction of the debt by a general assessment on the community. Persons of property could pay their share of the amount by a sacrifice of property, and have the same net income as before; but if those who have no accumulations, but only incomes, were required to make up by a single payment the equivalent of the annual charge laid on them by

the taxes maintained to pay the interest of the debt, they could only do so by incurring a private debt equal to their share of the public debt; while, from the insufficiency, in most cases, of the security which they could give, the interest would amount to a much larger annual sum than their share of that now paid by the state. Besides, a collective debt defrayed by taxes, has over the same debt parcelled out among individuals, the immense advantage, that it is virtually a mutual insurance among the contributors. If the fortune of a contributor diminishes, his taxes diminish; if he is ruined, they cease altogether, and his portion of the debt is wholly transferred to the solvent members of the community. If it were laid on him as a private obligation, he would still be liable to it even when penniless.

When the state possesses property, in land or otherwise, which there are not strong reasons of public utility for its retaining at its disposal, this should be employed, as far as it will go, in extinguishing debt. Any casual gain, or godsend, is naturally devoted to the same purpose. Beyond this, the only mode which is both just and feasible, of extinguishing or reducing a national debt, is by means of a surplus revenue.

§ 3. The desirableness, *per se*, of maintaining a surplus for this purpose, does not, I think, admit of a doubt. We sometimes, indeed, hear it said that the amount should rather be left to "fructify in the pockets of the people." This is a good argument, as far as it goes, against levying taxes unnecessarily for purposes of unproductive expenditure, but not against paying off a national debt. For, what is meant by the word fructify? If it means anything, it means productive employment; and as an argument against taxation, we must understand it to assert, that if the amount were left with the people they would save it, and convert it into capital. It is probable, indeed, that they would save a part, but extremely improbable that they would save the whole: while, if taken by taxation, and employed in paying off debt, the

whole is saved, and made productive. To the fundholder who receives the payment it is already capital, not revenue, and he will make it "fructify," that it may continue to afford him an income. The objection, therefore, is not only groundless, but the real argument is on the other side: the amount is much more certain of fructifying if it is *not* "left in the pockets of the people."

It is not, however, advisable in all cases to maintain a surplus revenue for the extinction of debt. The advantage of paying off the national debt of Great Britain for instance, is that it would enable us to get rid of the worse half of our present taxation. But of this worse half some portions must be worse than others, and to get rid of those would be a greater benefit proportionally than to get rid of the rest. If renouncing a surplus revenue would enable us to dispense with a tax, we ought to consider the very worst of all our taxes as precisely the one which we are keeping up for the sake of ultimately abolishing taxes not so bad as itself. In a country advancing in wealth, whose increasing revenue gives it the power of ridding itself from time to time of the most inconvenient portions of its taxation, I conceive that the increase of revenue should rather be disposed of by taking off taxes, than by liquidating debt, as long as any very objectionable imposts remain. In the present state of England, therefore, I hold it to be good policy in the government, when it has a surplus of an apparently permanent character, to take off taxes, provided these are rightly selected. Even when no taxes remain but such as are not unfit to form part of a permanent system, it is wise to continue the same policy by experimental reductions of those taxes, until the point is discovered at which a given amount of revenue can be raised with the smallest pressure on the contributors. After this, such surplus revenue as might arise from any further increase of the produce of the taxes, should not, I conceive, be remitted, but applied to the redemption of debt. Eventually, it might be expedient to

appropriate the entire produce of particular taxes to this purpose; since there would be more assurance that the liquidation would be persisted in, if the fund destined to it were kept apart, and not blended with the general revenues of the state. The taxes on legacies and inheritances would be peculiarly suited to such a purpose, since taxes paid as they are, out of capital, would be better employed in reimbursing capital than in defraying current expenditure. If this separate appropriation were made, any surplus afterwards arising from the increasing produce of the other taxes, and from the saving of interest on the successive portions of debt paid off, might form a ground for remission of taxation.

It has been contended that some amount of national debt is desirable, and almost indispensable, as an investment for the savings of the poorer or more inexperienced part of the community. Its convenience in that respect is undeniable; but (besides that the progress of industry is gradually affording other modes of investment almost as safe and untroublesome, such as the shares or obligations of great public companies) the only real superiority of an investment in the funds consists in the national guarantee, and this could be afforded by other means than that of a public debt, involving compulsory taxation. One mode which would answer the purpose, would be a national bank of deposit and discount, with ramifications throughout the country; which might receive any money confided to it, and either fund it at a fixed rate of interest, or allow interest on a floating balance, like the joint-stock banks; the interest given being of course lower than the rate at which individuals can borrow, in proportion to the greater security of a government investment; and the expenses of the establishment being defrayed by the difference between the interest which the bank would pay, and that which it would obtain, by lending its deposits on mercantile, landed, or other security. There are no insuperable objections in principle, and I should think none in

practice, to an institution of this sort, as a means of supplying the same convenient mode of investment now afforded by the public funds. It would constitute the state a great insurance company, to insure that part of the community who live on the interest of their property, against the risk of losing it by the bankruptcy of those to whom they might otherwise be under the necessity of confiding it.