

## CHAPTER VII.

## TAXATION.

POLITICAL ECONOMY is the Science of Buying and Selling. It must include of course in its discussions the Motives, the Methods, the Obstacles, the Rewards, relating to Sales, which are themselves first to be defined as furnishing the sole Field of the Science. We have now gone through with painstaking all of these topics in order, but we have not yet fairly struck Taxation, which is indeed in all its forms an obstacle to Sales, and in some of them the annihilation of Sales, but which in its nature is something much more than an obstacle, namely, a Condition of something higher than itself. In the very strictest sense of the terms, Taxation is not a part of the Science of Political Economy, because it is not an essential part of any one of those natural processes by which men buy and sell and get gain. It is rather a Condition through Government of the successful ongoing of all those processes. There cannot be, therefore, a *science* of Taxes, as there is unquestionably a science of Sales. The facts of Taxes are artificial and governmental, the facts of Sales are natural and original.

All forms of Production, as we have now seen, go forward in accordance with positive natural forces and motives, which God has appointed, and which men have a natural impulse to ascertain and generalize and profit by; for it is Nature bids men work and save, buy and sell, invent and transport, navigate and grow rich; but

Nature has given no whisper anywhere, at least that we can hear, about any Taxes. That is the work of Society. That seems to be something negative, not positive, so far as Buying and Selling is concerned. Taxation is indeed something necessary to the social order, as men are; it furnishes means of defence against greater evils than itself is; but in itself considered, it is an economic evil, because it takes away from exchangers a part of the gains of their exchanges; strictly speaking, therefore, it cannot be made a part of Economic Science.

But, on the other hand, as we shall see at length in the exposition that follows, all the relations of Taxation from the beginning to the end are so ultimately connected with Exchanges, are so founded on and limited by Exchanges, its true principles are so exclusively economical, and its abuses are so instantly and constantly harmful to all the ongoings of natural and profitable Trade, that Taxation must always be treated as if it were a part of Economics. The latter is a science, the former is an art; but the art is almost exclusively dependent upon the principles of this one science; and a comprehensive treatise on the science, accordingly, must exhibit all its main bearings upon those practical rules of Taxation, which are so vital to the happiness and prosperity of any People. All scientific Economists, therefore, have considered the subject of Taxes to lie within their legitimate beat. They have, however, justified the inclusion upon very different grounds, one from another; and so far as now appears, the present writer was the first technical Economist to disclaim in the name of his Science direct jurisdiction over Taxation.

A careful discussion of a series of distinct though related Questions belonging to Taxes will exhibit the whole practical matter in the light of well-established principles of economical Science.

1. What is the fundamental GROUND of Taxes? *Government* is an essential prerequisite to any general and satisfactory Exchanges, since it contributes by direct effort to the security of person and property; and justly claims, therefore, from each citizen a compensation in return for the Services thus rendered to him. We do not mean to say that government exists solely for the protection of person and property, or that all the operations of government are to be brought down within the sphere of exchange, for government exists as well for the improvement as for the protection of society, and many of its high functions are moral, to be performed under a lofty sense of responsibility to God and to future ages; nor do we mean to say that government has not also a deep ground for its existence, in virtue of which it may on extraordinary occasions demand all the property of all, and even the lives of some, of its citizens; but we do mean to say that, whatever may be conceded as the ultimate ground of government, the matter of taxation, by which government is outwardly and ordinarily supported, and by which it takes to itself a part of the gains of every man's industry, finds a ready and solid justification in the common principles of Exchange. If, as far as the tax-payer is concerned, the exchange does not seem to be voluntary, on a closer analysis it is seen to be really voluntary; for in effect the people organize government for themselves, and voluntarily support it, and there is no government separate from the will of the people.

In a very important sense, accordingly, a tax paid is a reward for a service rendered. The service which government renders to Production by its laws, courts, and officers, by the force which it is at all times ready to exert in behalf of any citizen or the whole society when threatened with evil in person or property, is rendered somewhat on the principle of division of labor, one set of agents devoting

themselves to that work; and, notwithstanding some crying abuses of authority which no constitution or public virtue has yet been found adequate wholly to avert, is rendered on the whole economically and satisfactorily. Taxes, therefore, demanded of citizens by a lawful government which tolerably performs its functions, are legitimate and just on principles of Exchange alone.

2. What is the SOURCE out of which Taxes are actually paid? The answer is, out of the gains of Exchanges of some sort. Gifts aside, and thefts which are out of the question, no man ever did, no man ever can, pay his taxes, except out of the gains of some sales which he has already made. Even the man who lives wholly on the interest of his money must make a true exchange in lending it (a credit transaction), and must already have gotten his return-service in interest, before he can pay his taxes; personal and professional servants must receive their wages, the outcome of exchanges, before they can possibly pay their taxes; and men can realize nothing for taxes or other payments from their farms or foundries or stocks in trade except as they sell either them or their products. The more sales, the more gains, and the greater reservoir whence taxes may be drawn. Political Economy, as the vindicator of sales, as the defender of all legitimate gains whatsoever, is the best possible friend of tax-payers and tax-gatherers as such. Whatever thought or force restricts sales, makes it *pro tanto* the harder to pay and collect taxes, so much the harder for a government to keep its head above water and reach the ends of its being.

It follows from all this, by a necessary inference, that the annual Taxes of any country must come out of the annual Earnings of the people of that country, using the word "earnings" in its general and proper sense. The greater the earnings *per capita*, the easier are the taxes

paid. Sir Richard Temple read an address not long since in the Section of Economic Science and Statistics of the British Association, some of whose results are not only interesting but also astonishing. For instance, taking the whole population of the United Kingdom (England, Scotland, and Ireland), without division into classes, he demonstrates that the average of yearly earnings per head of the population is £35 4s., or \$171.28. This exceeds the average earnings in the United States by 30%, £27 4s.: £35 4s. It exceeds also the average on the Continent of Europe by 95%, £18 1s.: £35 4s. It falls below that of Australia only, £43 4s.: £35 4s., or 19% less. Canada's average earnings *per capita* are \$126.80, or 5% less than those in the United States, £27 4s.: £26 18s. According to the same unimpeachable authority in the same paper, the annual income from investments is in Great Britain and the United States as nearly as possible one-seventh of the aggregate Property in each (all kinds), or 14%. In Canada and Australia, 18% and 22% respectively. Undoubtedly the most profitable country in the world at present is Australia, and Great Britain stands next. The only apparent reason why the United States, whose natural resources of every kind are vastly superior to either, takes the third rank is, that profitable exchanges here are forcefully suppressed by law, and that to an enormous extent, neutralizing natural resources and glorious opportunities for easily acquired and widespread gains. This violent suppression of commerce by national legislation makes it just so much the harder for any man to pay his taxes, whether these be due to Nation, State, or Municipality. If the reservoir be diminished the flow from it through every pipe becomes feebler.

3. In what PROPORTION ought the individual citizens to contribute to the fund annually necessary to be raised by

Taxation? The usual answer has been, that a man should be taxed according to his *Property*. That is the radically correct answer, though most who have given it have not understood clearly the meaning of the word *property*. We have already seen that the ultimate idea of property is the power and right to render services in exchange, and defined it as *anything that can be bought and sold*. Robinson Crusoe, while solitary upon his island, did not and could not have property, in the true sense of that word. It is not the fact of appropriation that makes anything property; it is not the fact that a man has made it or transformed it, that makes anything property; it is not the fact that a man may rightfully give it away, that makes anything property; but it is the fact that a man has something, no matter what it is, for which something else may be obtained in exchange, that makes that something property, and gives government the right to tax it. In other words, property consists in Values, in a purchasing-power, and not in possession, or in appropriation, or in the esteem in which a man holds anything he has as long as it is his own.

The test of property is a sale; that which will bring something when exposed for exchange is property; that which will bring nothing, either never was, or has now ceased to be, distinctively property. This view may not seem to be as novel as it is, or it may be prejudiced by its very novelty, but at any rate it carries along with it that strongest of the criteria of truth, that it simplifies and illumines a confused section of the field of human thinking; and at the same time justifies a practice which governments have reached, as it were through instinct, the practice, namely, of taxing men who have neither real estate nor chattels, on their incomes from industry and from credits.

To the general question, then, in what proportions shall the citizens contribute in taxes to the support of govern-

ment, the general answer comes, that they ought to contribute *in proportion to the gains of their exchanges*, of whatever kind they may be. The farm, the foundry, the mill, the railroad, the real estate of every name; personal property of every kind; and personal acquirements and efforts of all descriptions, best appear, for the purposes of taxation, *through the gains realized by means of them*. If, for any reason, any of these become unproductive, taxes should cease to be derived from them; indeed, must cease to be derived from them, because their owners can no longer pay by virtue of them. It may be objected that lands, for example, presently unproductive, may be held untaxed under this principle, held for the sake of a prospective rise of price. Very well; when they are sold at a profit, let the owner be taxed on that profit: it will be time enough then, especially as men do not like to hold unproductive forms of property. It may also be objected, that, under this principle, wages, the result of personal and professional exertion, would be taxed just the same as profits and rents, the result of previously accumulated property. Very well; they ought to be so taxed. Can anybody give a solid reason why they ought not to be so taxed? One may say, that a professional man earning a large income, on which taxes are paid the same as on a similar income of a land proprietor, dying, leaves to his children no further means of earning, while the land-proprietor, dying, does leave such means. Granted; but the land income continues to pay taxes, while that professional income does not! Other members of the profession will do the business which the former one would have done had he lived, and they will pay taxes on the income from it. What a man transmits to his children, whether a great name or a great estate, has nothing to do with the amount of taxes that he ought to pay while he lives.

There is an illusion about lands and real property that needs to be dissipated before men will understand clearly the whole matter of Taxation. Without constant watchfulness and foresight, without constant efforts in improvements and repairs, almost every form of realized property will rapidly deteriorate and become unproductive. Land even in Great Britain, where land is scarce, is only worth about twenty-five years' rent; and without the exercise of intelligence and will property ceases to be. *Property has its birth in services exchanged; services exchanged give rise to gains; taxes can only be paid out of these gains; they ought to be proportioned to the amount of these gains without any reference to the class of exchanges producing them; while the right to tax on the part of the government is connected with a service rendered by government, and both grows out of and is limited by the right to exchange on the part of the citizens.* These considerations, though they may exclude the propriety of a poll-tax, are consistent with most other forms of taxation, and give unity to them.

4. Does it not follow from all the preceding, that a single and universal INCOME-TAX would prove the best form of what is in its own nature a subtraction from the gains of the governed for the maintenance of Government? If the approximate amount of Income could in all cases be ascertained, and if no other form of tax were levied upon the same persons, this would seem to be a perfectly unexceptionable mode of Taxation. The only sources of Income are three: Wages, Profits, Rents. It does not seem that gifts are legitimately taxable; they lie outside the field of exchange; they spring from sympathy, from benevolence, from duty; and while exchange must claim all that fairly belongs to it, it must be careful not to throw discouragements into the adjacent but distinct fields of

morals. Hence, it may well be questioned whether legacies, bequeathments, gifts to charitable and educational institutions, and gifts to individuals proceeding from friendship, gratitude, or other such impulse, are properly subject to taxation. The property is taxable in the hands of the donor, and may be in the hands of the recipient, but the passage from one to the other ought to be unobstructed by a tax. Gifts, then, excepted, and plunder, which is out of the question, the sources of income are few and simple, and there is no great difficulty in every man ascertaining about what his annual income is. Because this income, exactly ascertained, exactly measures the gains of his exchanges for that year, a tax upon that income is the fairest of all possible forms of taxation, and might be made with advantage, in time, to supersede all other forms.

Superficial objections may be easily raised, and are raised constantly in the United States, against any form of an income-tax. Reference is often had to our national experience with such a tax during and just after the late Civil War. The truth is, that tax was thrown on in addition to, and in no proper relations with, a large number of other national taxes of all sorts, good and bad; it was no possible experiment in Taxation, because there was no opportunity of watching its operation separate from that of other and confused forms; industry of all kinds was demoralized by the war, and still more by a depreciated and abominable paper money made legal tender for all debts; and the tax became unpopular in influential quarters for certain reasons not inherent in the nature of the tax, and was discontinued in consequence. In order to be fairly tested, an income-tax should either be exclusive, all other taxes being intermitted for the time being; or at least levied simply in itself in connection with a few other simple taxes, each of which can be watched in its incidence and results separately from the others.

Great Britain derives its national revenues almost wholly from five sources; namely, (1) Excises, say £27,000,000 annually; (2) Customs, say £20,000,000; (3) Incomes, say £12,000,000; (4) Stamps, say £12,000,000; (5) Postals, say £9,000,000. The remaining, say £10,000,000, come from miscellaneous sources. One feature of the English Income-tax is, that it is varied from time to time according to prevailing national needs, the rate having been lifted from 2*d.* to 16*d.* per pound of income, according to estimated expenditures. In 1857, it realized in our money \$80,255,000. In 1866, the largest year, our own national income-tax realized \$60,894,135. By varying the rate to the pound of income according to the prospective wants of the Exchequer, the English have found for about forty years their income-tax to be the most uniform, unfailing, expansive, and responsive to control, of all their fiscal expedients.

The Prussians, too, are applying an income-tax as a means of raising revenue with good success. There, as in England it is somewhat complicated with other kinds of taxes, and cannot exhibit itself altogether in its own nature as if it were *exclusive*, such as all scientific economists would like to see it tried somewhere on a large scale; and the Germans have a different method from the English, of making the tax more or less flexible as circumstances vary. The English change the *rate* of the tax to the unit of income: the Germans *graduate* the tax to different classes of income-receivers. For example, those persons having an income between 420 and 660 *marks* a year pay 84 pennies (*pfennige*) as income-tax; persons in the next higher class pay 164 pennies a year; those in the class, whose maximum income is 6000 marks, pay 44 marks and 80 pennies a year; and all persons whose income does not rise above 420 marks are not subject to this tax. On account of hard times a few years ago, Bismarck brought

it about, that all the classes included between 420 and 6000 marks of income should be wholly exempted from one-quarter's taxes. A *mark* is 23.82 of our cents; and a *pfennig* is one-hundredth of a mark.

Besides the complete harmony of an Income-tax with the general principles of Taxation, as already unfolded, it has several specific advantages over other forms of Taxes.

a. It has no tendency to *disturb prices*. Were there no taxation except on Incomes, and were all the incomes rightly ascertained, the prices of everything would be just as if there were no taxes at all. Taxation would then be like the atmosphere, pressing equally on all points and consciously on none. It is through tricks wrought on Prices, that the greatest and most widely spread injustices have been done and suffered in this country during the past thirty years: a depreciated Money, whether of paper or silver, raises some prices and not others, and some prices before others, and thus distributes its mischiefs unequally; protectionist tariff-taxes play of design fantastic tricks with prices, raising some and depressing others, thus working monstrous injustice on a vast scale; and almost all forms of taxation become unequal and unjust through their diverse action on Prices. But a universal Income-tax exclusive of all others, properly levied and fully responded to by the payers, would have no influence at all upon prices, could by no possibility work essential injustice, and would be certain to be very productive without becoming burdensome.

b. A second great advantage of such an Income-tax in such a country as this, would manifestly be, that all men would be obliged to keep exact pecuniary accounts; more orderly methods of Business would generally prevail; most men would know much better than they do now

how they stand themselves, and whom of others to safely trust; sudden commercial failures, indeed failures at all, would be less frequent and severe; and everything in the business world would be more aboveboard and better known.

c. A third advantage of such an Income-tax, and the chief, would be its tendencies to *fiscal simplicity*. Complexities in the Exchequer are always and in many ways expensive to the People. In this country, where distinct taxes have to be paid, first to the local municipality, then to the State, and last to the Nation, Income-taxes, were all others abolished, would have this striking advantage, that the local municipality might best ascertain the incomes of all its legal residents once for all, no matter from what sources local or other the incomes be derived; and, having collected its own local *per centum*, the State and then the Nation would each have to collect an additional *per centum* on the same income for themselves. Or, better still, by an amicable arrangement, neither party yielding up its inherent right to tax, one set of officials might ascertain the incomes and also collect the tax for all three governments once for all. It may be long, it doubtless will be, before we shall ever come to such economy and simplicity and fiscal beauty as this is; for the pride of sovereignty is very strong both in State and Nation; each is jealous of the powers of the other, each is fond of the pelf and patronage and officialism connected with the gathering of the taxes, and each would be disinclined to yield anything to the other; but the fact remains, that, as it is of acknowledged moment to have the single Cæsar's image and inscription on every piece of the national Money, so it is of almost equal moment in point of cheapness and clearness and simplicity to have the hand of Cæsar seen but once in taking in the Taxes.

Objection has been often raised to any form of Income-tax from the publicity of private affairs resulting from it. It was just this that proved fatal to our own first experiment along this line of national action. But there seems to be some confusion of ideas in connection with this phrase, "publicity of private affairs," for really, so far as taxation is concerned, there ought to be nothing "private" about the amount of any man's income, or the aggregate of all forms of his property, inasmuch as every man has a *right* to know, that all his neighbors are contributing *pro rata* with himself to support that Government, which is *common* to him and them. There is nothing, at least there should be nothing, "private" in connection with Government; that is the one absolutely "*public*" thing of the world; least of all should there be anything private in the matter of public taxes, since in bearing up the burdens of Government all the citizens are alike copartners, and in this view and for this purpose each has a right to demand a look into the books of all the others.

Another objection has often been raised, namely, that some men will never give in a true return of their Income. Ah! but they can be made to do so, as the forms are perfected, as fraudulent returns are promptly punished by additional assessment and collection, and as the memory and conscience of the payers are quickened by the action of a healthful public opinion brought to bear through the annual publication of the list of their returns. Men are not so isolated from each other as that a man's neighbors do not know pretty well the general amount of his income. There is the additional security of an oath, of the fear of punishment, and of the wish to stand well with one's class. At the worst, it may be said, that evasions and fraud accompany also all other forms of Taxation.

5. What is the difference between DIRECT and INDIRECT

Taxes? This is an old and proper division: we must now see what is the economical basis of it. A direct tax is levied on the very persons who are expected themselves to pay it; an indirect tax is demanded from one person in the expectation that he will pay it provisionally, but will indemnify himself in the higher price which he will receive from the ultimate consumer. Thus an income tax is direct, while duties laid on imported goods are indirect. There has been a great amount of discussion on the point whether direct or indirect taxation be the more eligible form; but the reader of penetration will perceive that there is not at bottom any very radical difference between them; each is alike a tax on actual or possible exchanges, with this main difference, that men pay indirect taxes as a part of the price of the goods they buy, without thinking perhaps that it is a tax they are paying, and consequently without any of the repugnance that is sometimes felt towards a tax-gatherer who comes with an unwelcome demand. Thus indirect taxes are conveniently and economically collected. Especially is this true of impost taxes; since one set of custom-house officers may collect easily and at once the government tax which is ultimately paid by consumers all over the country. The taxes also levied by the present United States internal revenue law are indirect taxes, whereby the government gets in a lump what is afterwards distributed over many subordinate exchanges. The countervailing disadvantage of indirect taxation, however, is, that the price of the commodity is usually enhanced to an extent much beyond the amount of the tax, partly because it is a cover under which dealers may put an unreasonable demand, and partly because the tax, having to be advanced over and over again by the intermediate dealers, profits rapidly accumulate as an element of the ultimate price.

Direct taxes are laid either on Income or Expenditure.

As the difficulty of a tax on a person's whole expenditure is much greater than one on his whole income, inasmuch as the items are more numerous and more diffused, it is only attempted to levy a few taxes on some special items of expenditure, such as those on horses, carriages, plate, watches, and so on; but as these do not reach all persons with any degree of quality, they are so far forth objectionable. A house-tax, levied on the occupier, and not on the owner, unless he be at the same time the occupier, would be a direct tax on expenditure every way unobjectionable. Taking society at large, the house a man lives in and its furniture are probably the most accurate index attainable of the size of his general expenditures. They are open to observation and current remark; they are that on which persons rely more perhaps than on anything else external for their consideration and station in life; the tax could be assessed with very little trouble on the part of the assessor; and it is well worthy the attention of our State and National Legislatures, whether such a tax, if more taxes should be needed, would not be more equal and more easy of collection than any others now open; or whether it might not with advantage take the place of some of the complicated and objectionable taxes now laid. Direct taxes have this general advantage over indirect, that they bring the people into more immediate contact with the government that lays the taxes, and subject it to a quicker supervision and more effectual curb, whenever its expenditures grow larger than the people think it desirable to incur; perhaps they have this general disadvantage over indirect taxes, especially over imposts, that the number of officials required to assess and collect them is larger, thus swallowing up a part of the proceeds of the taxes, with this liability also of bringing the people into an attitude of hostility to the government and to its contemplated expenditures.

But whether the taxes be direct or indirect, or whatever be their form, except it be a poll-tax, which is questionable at best, they are laid upon Exchanges, and are designed to withdraw for the use of the government a part of the Gains of exchanges.

6. Are CREDITS a legitimate subject of Taxation? The answer is very easy. Unless this whole treatise from beginning to end be unsound, Credits stand upon the same economical grounds as Commodities and Services, and so may be taxed for the same reasons as those may be taxed. Whatever is bought and sold is properly enough taxed, if the needs of the government require it, and if such taxation would be productive and not too unequal. As Values always spring from the action of individuals, so the incidence of taxes is upon persons rather than upon things; and the question is what can a man sell, or what has he already sold, on the gains of which sale the government may lay some claim? If I have a note and mortgage on my neighbor's farm, I can sell it at any time to a third party; it pays me interest *ad interim*, and I can collect it at maturity. Government therefore properly taxes me for that credit in my possession. It is a part of my property. The holders of the government bonds occupy an economical position exactly similar. They have a lien on the national property and income. The credits they hold are vendible commodities. They are a paper bearing interest. They can be collected at maturity. They are indeed exempted by law from municipal and State taxation. That was a legitimate inducement held out to everybody alike to invest in the bonds. But there is no reason why the nation, having withdrawn them from town and State taxation, should not itself all the more subject them to their fair share of the national burdens, unless indeed it be claimed, as perhaps it fairly may be, that the exemption enables the



government to borrow at a just so much lower rate of interest. The income at any rate derived from the bonds should be taxed as soon as any other income is. It is no longer any ground of merit, even if it ever has been, for persons to buy the government debt. It is a mercantile transaction, and should be so considered in relation to taxes. So of other mercantile credits. They are taxable. Massachusetts has had a great deal of trouble of late years both in the Legislature and otherwise about the taxation of mortgages on taxed Massachusetts farms and other real estate. The question is intricate and full of difficulty. Some things about it, however, are clear. The note and mortgage is a different *piece* of property, and a different *kind* of property, from the real estate. It is a peculiar sort of credit. The owner of it is a different person from the owner of the real estate. Either bit of property may change hands without changing the *status* of the other. The question of taxing the note and mortgage, like the question of taxing the bonds, seems to hinge on the effect it would have on the rate of interest of the obligation secured by the mortgage. If the holder of the mortgage expects to have to pay a tax upon it, he will try to get a higher rate of interest on his money loaned and thus secured. Whether mortgagees taxed as such *can* throw off the tax upon the mortgagors in a higher rate of interest on the money loaned is a point much disputed and at least doubtful. General principles would lead us to favor the taxation of note and mortgages in the hands of their holders, so long as such cumbersome forms of taxing as prevail in Massachusetts are maintained. A universal income-tax would solve this difficulty also in a moment of time.

7. Has Political Economy anything to say about the RATE of taxes per unit of that which is subject to tax? Yes; it has an important word to say upon that point.

From the very nature of Taxes in general, and in order that they may be most productive in the long run, as well as discourage as little as possible the Exchanges which would otherwise go forward, the Rate of taxes ought always to be *low* relatively to the amount of Values exchangeable. A high rate of tax not infrequently stops exchanges in the taxed articles altogether, and of course the tax then realizes nothing to the government. As the only motive to an exchange is the gain of it, the exchange ceases whenever the government cuts so deeply into the gain as to leave little margin to the exchangers. The greater the gain left to the parties, after the tax is abstracted, the more numerous will the exchanges become, and the greater the number of times will the tax fall into the coffers of the government. In almost all articles, consumption increases from a lowered price in even a greater ratio than the diminution of the rate of tax; so that the interests of consumers and of the revenue are not antagonistic but harmonious. On articles of luxury and ostentation, and on those, such as liquors and tobaccos, whose moral effects are clearly questionable, very high taxes may properly enough be laid, because their incidence will hardly tend to diminish consumption, and it would scarcely be regretted if it did; but with this exception, duties and taxes should be levied at a low rate *per centum* as well for the interest of revenue as of consumers. It is to be added, however, that the taxes even on these articles may be too high to meet either a revenue or a moral purpose. The internal tax of two dollars a gallon upon distilled spirits was of this character. Experience has demonstrated that a less tax will produce more revenue, and the drinking of whiskey, bad as that is, is less culpable than the endless frauds on the government provoked by the high tax.

8. What is the difference between SPECIFIC and ADVALO-

REM Taxes, and why should the student take careful note of these both singly and combined? These terms are used more particularly in relation to Tariff-taxes, but there is nothing in the distinction itself so to limit its application. A Specific tax is a tax of so many cents or dollars on the pound, yard, gallon, or other *quantity* measurable: an Advalorem tax is a tax of so much *per centum* on the invoiced or appraised *money value* of the goods subject to the tax. Specific taxes, accordingly, are far simpler and steadier in their operation than the others; it is easy to ascertain the weight or number or other quantity of valuables, and then to apply a fixed ratio to them in the way of tax; the payer knows or may know beforehand precisely how much the tax will amount to, and consequently just how it is to affect the profitableness of his current trade; and on these and other grounds specific taxes are preferable to advalorem ones. To be sure, this form of tax involves that high-priced grades of an article pay no higher taxes than low-priced grades of the same, but this consideration is largely overbalanced by those of convenience and productiveness.

Advalorem taxes, on the other hand, are never calculable beforehand; because Values from their nature are variable, and as a matter of fact do constantly vary. Imported goods, for instance, bring with them the invoice of the seller giving the values at the place of exportation. But the importer is by no means sure that the tax will be levied upon that valuation. The home valuation will of course be higher, otherwise the goods would not be imported. Whenever it becomes the policy of a country, as of the United States at present, to keep foreign goods *out* to the utmost extent possible under the law, which law is itself devised on purpose to keep them out, there will always be suspicions and charges of undervaluations at the place of export; there will always be a motive on the part of the

foreign seller or agent thus to undervalue the goods in the interest of the importer, so as to lessen his tax, and so increase the seller's market; such abnormal tariff-taxes are the enemy of mankind in general, and, therefore, there will be no end of deceits and evasions at both terminals of the ocean-route, and "custom-house oaths" will become a by-word of course; the importing, or rather the non-importing, country will keep in pay an army of spies and informers on both sides of the water in order to prevent what is called "frauds," and another army of "appraisers" at its custom-houses in order to discredit the invoices, and to jump at a valuation of the goods, on which the tax shall be levied; and honorable merchants and importers, without any fault of their own, are liable to get entangled in the miserable meshes of such goings-on, as happened in a memorable case in New York a few years ago, and be mulcted in fines (perhaps to immense amounts) one-half of which shall go to the informer.

There are too many practical difficulties connected with either of these two forms of tax to make it proper to combine the two upon the same article of merchandise. To combine them thus is one of the tricks and traps of Protectionism. That makes it next to impossible for any importer to tell beforehand what the two taxes will aggregate, and quite impossible for any ultimate consumer to tell how much of his price paid is due to the demands of his Government. Opening the official tax-book at random, we quote as follows from a single page: "Webbings, pound 50 cents, and 50 per cent"; "Buttons, pound 50 cents, and 50 per cent"; "Suspenders, pound 50 cents, and 50 per cent"; "Mohair cloth, pound 30 cents, and 50 per cent"; "Dress trimmings, pound 50 cents, and 50 per cent." Besides these, on that same page, there are 14 other articles under similar compound taxes, mostly at 50