

The system of progressive taxation prevailed at Athens. There were four Solonian classes of citizens, arranged according to wealth. Of these the first paid no taxes; the class next above them were entered on the tax-books at a sum equal to five times their income; the next class at ten times their income; the richest class at twelve times their income.

The principle of graduation, or progressive taxation, was a favorite one with the statesmen of the French Revolution. It was for a time adopted by the Convention in 1793. In consequence, perhaps, of the appetite thus created among the people for laying the burdens of government mainly on the rich, many of the later French writers on finance have been very strenuous in denouncing the principle.

Yet this system was approved, as we saw, by Say, and also by Montesquieu. In the personal tax, wrote the latter, "the unjust proportion would be that which should follow exactly the proportion of goods." Referring to the Solonian Categories at Athens, he said: "The tax was just, though it was not proportional. If it did not follow the proportion of goods, it did follow the proportion of needs. It was judged that each had equal physical necessities, and that those necessities ought not to be taxed; that the useful came next, and that it ought to be taxed, but less than what was superfluous; and lastly, that the greatness of the tax on the superfluity should repress the superfluity."

In 1848, at the Revolution, the idea of progressivity was revived. The provisional government in a decree, said: "Before the Revolution taxation was proportional; then it was unjust. To be truly equitable, taxation must be progressive."

M. Joseph Garnier, editor of the *Journal des Economistes*, makes a distinction between progressive taxation, properly so called, and progressional taxation. It is, he says, against the first that all the objections are directed which we find in writers who declare that progressive taxation is a species of confiscation, tending to the absorption of great fortunes by the state, to the leveling of conditions, to the destruction of property, to the discouragement of frugality and industry, to

the emigration of capital. There is, M. Garnier holds, a species of increasing taxation which is rational and discreet, to which he applies the term progressional, which is held within moderate limits, which is collected by virtue of a tariff of duties slowly progressive, and which, at the maximum, can not pass beyond a definite portion of the income of the individual.

In Prussia the tax on small incomes, known as the *Klassensteuer*, is levied on a scale of twelve degrees.

In England the principle of progression has never been admitted into the income tax further than is involved in the exemption of a certain minimum. How the subtraction of a constant amount from all incomes, and the taxation of the excess at a uniform rate, causes the rate on the total incomes to rise, from lowest to highest, will appear from the following table.

601. **The Effect of Exemptions.**—If we suppose the constant amount exempted to be \$1,000, and the rate of taxation on the excess to be ten per cent., incomes of different amounts will in effect be taxed as follows:

Income.	Income subject to Taxation.	Amount of Tax.	Rate of Taxation on Total Income.
\$1500	\$ 500	\$ 50	3.33 + per cent.
2000	1000	100	5 "
2500	1500	150	6 "
3000	2000	200	6.66 + "
3500	2500	250	7.14 + "
4000	3000	300	7.5 "
4500	3500	350	7.77 + "

But while the principle of progressivity has never been admitted into the income tax of England, it has been extensively applied to the so-called "Assessed Taxes;" that is, taxes on carriages, horses, servants, etc.

602. The question of progressive taxation is a nice one in theory, while in its practical application it is beset with the gravest difficulty, arising out of the instincts of spoliation which are deeply rooted in the human breast, an inheritance

from ages of universal warfare and robbery. The appetite for plundering the accumulated stock of wealth, once aroused, may become a formidable social and political evil.

Were the highest human wisdom, with perfect disinterestedness, to frame a scheme of contribution, I must believe that the progressive principle would in some degree be admitted; but in what degree, and by what means, I am at a loss to suggest.

That progressive taxation would be the demand of triumphant socialism, as it was of the Revolutionists of 1793 and 1848, we already know. That progressive taxation will be urged in the spirit of spoliation and confiscation, is most probable. The friends of the existing order will do well to be prepared to take their ground intelligently and maintain it with firmness and temper.

603. A Tax on Revenue Impracticable as the Sole Tax.—

While, as the sole tax, the tax on revenue has been approved, on grounds of political justice, by many, perhaps most, writers on finance, it has, like the tax on faculty, generally been rejected as impracticable, in view of difficulties in assessment, affecting incomes both high and low, more indeed the higher than the lower, and difficulties of collection, affecting especially incomes of the lowest class. Few writers of reputation, have, without qualification, advocated such an income tax as both politically expedient and economically advantageous. Fewer statesmen have had the courage to propose it to the legislature.

Revenue, or income, having, then, been abandoned generally throughout modern society as the sole basis of taxation, and only in exceptional cases forming even an important feature of existing tax systems, Expenditure has been resorted to increasingly, in the past and present century, from considerations not so much of political equity as of political and fiscal expediency. By far the greater portion of the revenue of the most advanced states is derived from taxes on consumption, as they are called; and every new demand of the treasury is met mainly from this source.

Yet even now Wealth is still employed in many communities

as the sole basis of taxation, the measure of the obligation to contribute to the support of government. It was the preferred form of taxation throughout the American colonies. It is still the principal form of non-federal taxation in the United States, as the Grand Lists of townships, cities and counties testify.

604. Is a Tax on Capital Equitable?—How can a tax on realized wealth or capital be justified?

Let us take two cases: first, when income is not taxed; secondly, when income is taxed.

First, when income is not taxed. It is claimed that the result of realized wealth affords the best practical measure of income or of productive faculty. Now, that such a claim in behalf of a property-tax should be conceded, or even seriously considered, clearly requires two things: first, that the ne'er-do-weels shall be comparatively few in number; and secondly, that the disposition to save out of income, for the accumulation of wealth, shall be the general rule in the community. These requirements were met in the American colonies generally. Barring the effects of intemperance, it was a rule with few exceptions that Americans in those times were disposed to labor, and to labor hard, that they might produce wealth; while, so general was the desire of wealth, so stalwart the manhood of those times, so simple the habits of the people, so high the social importance attributed to the possession of capital, that all the surplus above decent, wholesome subsistence, after adequate provision for intellectual and religious culture, was likely to go towards accumulation.

The mere statement of these elements of the case suffices to show the difficulties besetting such a principle of taxation, in its application to communities like those of the present day, with a less stringent public sentiment, with more extravagant modes of living, with a less general elevation of tastes and ambitions, with greater proneness to self-indulgence, with vast classes that do not even try to save. In such a state of society, to tax only that part of revenue which is laid by for future consumption, or to assist in the further production of wealth, is both politically unjust and eco-

nomically vicious, exciting to extravagance and discouraging frugality.

Secondly. But if a tax be imposed on income, how can a property-tax be justified at all? Have not the whole community been once taxed upon income, as affording a measure of the ability to contribute to the public service, and shall now a portion of the wealth so excised be again subject to deduction, on no other ground than that it has been saved, presumably to assist in future production?

605. The Purely Economic Theory of Taxation.—Mr. McCulloch, the author of one of the few works of value in the English literature of Taxation, boldly proposed to abandon altogether the attempt to follow out the equities of contribution. I have already quoted his statement: "The distinguishing feature of the best tax, is, not that it is most nearly proportioned to the means of individuals, but that it is easily assessed and collected, and is, at the same time, most conducive to the public interests."

The line of reasoning which leads up to Mr. McCulloch's conclusions may be stated as follows: Government springs from injustice, and, in the constitution of things, must commit more or less injustice. It is of no use to attempt to pursue the equities of contribution; they will elude you. It is admitted that it is impossible to distribute equally the benefits of government; why make the hopeless effort to apportion its burdens with absolute justice? Get the best government you can; maintain it at the least expense consistently with efficiency; collect the revenue for the service by the most convenient, simple and inexpensive means. By undertaking to effect an equitable apportionment of the burden, through complicated methods or by personal assessment, you are not only likely to fail; you are certain, at the best, to add to the aggregate cost of the service, and are in great danger of generating new and distinct evils by disturbing economic relations and obstructing the processes of production and exchange.

606. The Theory of the Repercussion or Diffusion of Taxes.—While writers on finance have commonly insisted that the equities of contribution should govern in assessment,

a belief in the so-called Repercussion, or diffusion, of taxes has led economists very generally to give their approval to the system of indirect taxation, the growth of which forms the most marked feature of the fiscal history of the present century.

Let the state, it is said, levy its contribution on such articles of general consumption as are most easily reached, or on such of the processes of production or exchange as lie most open to view, trusting to the laws of trade to distribute the burden over the whole body of the population.

This plea raises the question of the Incidence, the ultimate incidence, of taxation. "I hold it to be true," said Lord Mansfield in his speech on taxing the Colonies, "that a tax laid in any place is like a pebble falling into and making a circle in a lake, till one circle produces and gives motion to another, and the whole circumference is agitated from the center." Taxes uniformly advanced on all like competing property," says Mr. Wells, "will always tend to equate themselves, and will never be a special burden to those who originally made the advances to the government."

607. How do Taxes Tend to Diffusion?—This, which may be called the Diffusion-theory of taxation, rests upon the assumption of perfect competition. It is true, to the full extent, only under conditions which secure the complete mobility of all economic agents. As far as members of the community are impeded in their resort to their best market by ignorance, poverty, fear, superstition, misapprehension, inertia, just so far is it possible that the burden of taxation may rest where it first falls. It requires, as Prof. Thorold Rogers has said, an effort on the part of the person who is assessed to shift the burden on to the shoulders of others. Not only is that effort made with varying degrees of ease or difficulty; but the resistance offered may be of any degree of effectiveness: powerful, intelligent, tenacious, or weak, ignorant, spasmodic. The result of the struggle thus provoked will depend on the relative strength of the two parties; and as the two parties are never precisely the same in the case of two taxes, or two forms of the same tax, it must make a dif-

ference upon what subjects duties are laid, what is the severity of the imposition, and at what stage of production or exchange the contribution is exacted. It is not, it never can be, a matter of indifference when, where, and how taxes are imposed. "The ability to evade taxation," writes M. Say, "is infinitely varied, according to the form of assessment and the position of each individual in the social system. Nay, more, it varies at different times. There are few things so unsteady and fluctuating as the ratio of the pressure of taxation upon each class, by turns, in the community."

608. M. Say's Views.—It has always seemed to me strange that J. B. Say should be cited, as he so often is, as an authority on the side of the Diffusion-theory of taxation. Not only in the paragraph from which I have quoted does he recognize the vital importance of the right "seating" of taxes; but in his references to the essay of Canard, which had been crowned by the Academy (1802), he is even more pronounced. Canard had said that it is of little importance whether a tax press upon one branch of revenue or another, provided it be of long standing, because every tax in the end affects every class of revenue proportionally, as bleeding in the arm reduces the circulating blood in every portion of the human frame. To this M. Say rejoins that the object taken for comparison has no analogy with taxation. The wealth of society is not a fluid, tending continually to a level. It is, the rather, an organism, like a tree or a man, no part of which can be lopped off without permanently disfiguring and crippling the whole.

609. M. de Parieu's Views.—M. de Parieu has given a chapter of his great work to the Incidence of Taxation. In respect to what he calls taxes levied upon the conditions of every human existence, he reaches the result that they have effects very obscure, and in a still greater degree subject to dispute. Where taxes are levied in cities upon the necessities of life, he finds no considerable danger of evil effects, since there is a constant intercommunication between the laborers of towns and those of rural districts, and migration will soon restore the equilibrium after the disturbance created by the new impost. It is otherwise when a new tax is imposed

throughout the whole extent of a country. The emigration of laborers to foreign parts is only accomplished against a certain resistance, arising out of their habitudes and affections. It is always, moreover, accomplished at a definite loss and an indefinite risk. To throw taxes on consumption back upon the capitalist or the employer becomes, in M. de Parieu's judgment, a task very difficult and often wholly impracticable.

610. Conclusion.—I reach the conclusion that, in a condition of imperfect competition, we have no assurance that indirect taxes will be diffused equably over the whole community, leaving each class and each individual in the same relative condition as before the imposition. Something less, it may be much less, than a proportional contribution must result from the differing strength and opportunities of the several classes and individuals. The legislator can not, then, adopt the comfortable doctrine of the indifference of the place and the person where and on whom the burden shall be laid. His responsibility abides for the ultimate effects of the taxes he imposes. Whether with reference to the equities of contribution or to the general interests of trade and production, he is bound carefully to consider the nature and probable tendencies of every projected impost.

XVII.

PROTECTION VS. FREEDOM OF PRODUCTION.

611. The Doctrine of Laissez-Faire.—The question of Protection, as against Freedom of Production—not, as it is commonly stated, against Freedom of Trade—is rarely discussed, on both sides, upon purely economic principles; perhaps has never been, in an actual instance, decided without the intermixture of political or social considerations.

The arguments of those who have favored the policy of so far limiting the territorial division of labor (see par. 83), as to constitute industrial entities corresponding to existing political entities (which I take to be the real intent of what is called Protection) have been of every degree of vagueness;