CHAPTER VII.

TAXATION AND PUBLIC REVENUE

§ 59. **TAXES are contributions from their wealth which the Government compels all or some persons to make without regard to the value of the services which they receive from the State.**

Customs and excise duties, property and income taxes are examples of true taxes.

Payments made to the public revenue which are proportioned to the value of special services rendered, or of special privileges granted by the State to the payers, are of a different character. They are not taxes, but payments for services received. Charges on the rental value of land (exempting improvements), postage and telegraph fees, taxes on bank-notes are examples of such payments.

§ 60. **THE INCIDENCE OF TAXATION.—The real incidence of a tax frequently differs from the apparent one.** The subject of the tax frequently can shift the same upon some ultimate payer. Taxes are accordingly divided into direct and indirect taxes. Direct taxes are those of which it is intended that the subject shall be the ultimate payer. Indirect taxes are those of which it is intended that the subject shall shift them upon some other ultimate payer. This distinction is, however, of little value. Taxes intended to be indirect frequently cannot be shifted, and taxes intended to be direct frequently can be shifted.

The complexity of economic relations arising out

of the world-wide extension of commerce, the subdivision of labour and the existence of monopoly rights, causes the real incidence and the ultimate results of any tax to differ frequently and largely from its apparent incidence and proximate results. The following inquiry into the incidence and results of some of the more important systems of taxation is mainly intended for illustration, and, therefore, deals with the broad facts alone, avoiding less important qualifications.

§ 61. **TAXES ON COMMODITIES.** — The more important taxes on commodities are:

Excise Duties, which are levied on goods made within a country, at the place of their production and upon their producers. Such duties are always accompanied by equivalent or higher Customs Duties.

Customs Duties, which are levied on imported goods, at the place of their importation and upon their importers. Customs duties are of two kinds —Revenue and Protective Duties. The former are imposed for the purpose of yielding revenue to the Government, and may, incidentally protect local producers; the latter are imposed for the purpose of providing revenue for the local producers of similar goods to those foreign goods on which the duty is imposed, and may, incidentally, yield a revenue to the Government as well.

Export and Octroi Duties have been discarded, or nearly discarded, by the more civilised countries. Though they are duties on commodities, they will, therefore, not be considered here.

§ 62. **EXCISE AND REVENUE DUTIES.**—With few and insignificant exceptions, all such taxes can be shifted from their subject—manufacturer or importer—to the ultimate consumer of the commodity. **Such taxes become part of the cost of goods to their producers or importers,** and increase

to local manufacturers, and enable them to convert this into a complete monopoly by arrangements among themselves, called "Trusts" or "Rings." Such arrangements generally provide for the curtailment of production, the consequent reduction of employment, and the imposition of a uniform and increased price.

Protective duties, therefore, give little or no revenue to the Government, and a large revenue to manufacturers. This revenue, derived in the first instance from the merchants who purchase the protected goods, is shifted by them through intermediaries upon the ultimate consumer, with the same additions to the weight of the tax, and all the other consequences, as pointed out in § 62.

Protective duties artificially stimulate industries which give a smaller return to the same expenditure of labour and capital than other industries, by enabling the undertakers of such industries to increase the return to themselves by taxing consumers. They, therefore, withdraw or withhold labour and capital from the more profitable industries, and induce them to employ themselves in naturally less profitable or unprofitable industries, thus reducing the average profit from production throughout the protected country.

This artificial stimulus attracts labour and capital into such industries until their production exceeds the requirements of the protected market. Production is then reduced and employment curtailed, with the result that the increased competition of the labourers reduces wages. The subsequent combinations of protected manufacturers, for