

the purpose of avoiding this competition between themselves, still further increase the dependence of labour and enable the protected employers to still further curtail wages. Protection, therefore, tends to make the position of mere labourers more precarious and to reduce wages.

TAXATION AND PUBLIC REVENUE 69

§ 64. **SOME FURTHER EFFECTS OF THE TAXATION OF COMMODITIES.** — Any tax which falls on commodities used in the cultivation of land, whether in the shape of fixed improvements or the materials thereof, implements or material, cannot be further shifted by the user of the land on to the purchaser of his produce on account of foreign competition. Such taxes, therefore, reduce the profit from agriculture. They, therefore, tend either to throw marginal land out of use and thereby to reduce rent, or to the use of land for purposes giving a similar nett return with the application of a smaller amount of capital. In either case the demand for labour is reduced and wages must tend to fall.

Taxes which fall on the materials or machinery used in mining or on mining improvements, and taxes falling on buildings, machinery, and raw material of manufacturing industries, have similar results. Where protective duties on the finished product apparently enable the manufacturers to shift such taxes, by the increase of the price of competing foreign goods, they in reality fail to have this effect. Though these same protective duties on the finished goods would have enabled the manufacturers to raise their prices to the same figure, if machinery and raw material had remained untaxed. Such taxes, therefore, are not and cannot be shifted any further.

Taxes which fall on buildings or the material of buildings tend to increase the cost, and, therefore, to reduce the construction of buildings. They, therefore, tend to increase the price and rent of buildings and to restrict the houseroom which families of small means can afford. This tendency is, however, counteracted to a small extent by the reduction in the rent of building land, which arises from the smaller demand for the same.

§ 65. **TAXES ON PROPERTY**, also called Taxes on Wealth, are supposed to be assessed upon the nett value of the property possessed by

70 ECONOMIC PRINCIPLES

any person, i.e. on the difference between his assets and liabilities. Such taxes, therefore, fall on real wealth, legal rights to wealth, and tribute rights. If a Property Tax could be assessed fairly, its effects and incidence would vary with this difference in its objects. As far as it fell on capital, it would generally act like other taxes on commodities, i.e. would generally be shifted from

the subject to the consumer with all the attendant consequences. So far as it fell on legal rights of debt, it could be shifted in some cases and not in others. So far as it fell on goods in course of consumption and on tribute rights, it could not be shifted.

Universal experience has, however, proved the absolute impossibility of arriving at the amount of taxable property and of assessing it fairly. Legal rights and many tribute rights, as well as the most valuable forms of real wealth, can be easily concealed, and the more valuable any form of wealth is, the more difficult it is for any ordinary assessor to arrive at its value. The owners of legal rights, tribute rights, and of the more valuable forms of real wealth, therefore, pay on a small part of their property alone, whereas the owners of the less valuable forms of wealth pay on the whole of their property. The poorer members of the community, therefore, pay for the wealthier members; the latter escape the larger part of the amount which they ought to pay, while the former pay on all their wealth.

As a consequence this system of taxation has been abandoned in most civilised countries, and where it still exists, as in the States of the American Union, it has, over and over again, been condemned by almost every Assessor, Governor and Commissioner who, in any State, has reported upon it, because:

It sacrifices the country for the cities; the poor for the rich; widows and orphans for crafty business men; the honest for the dishonest; and gives rise to unlimited perjury and corruption.

TAXATION AND PUBLIC REVENUE 71

§ 66. **TAXES ON INCOMES** are generally levied on all incomes above a certain amount, in whatever manner acquired. They, therefore, fall on incomes derived from labour and services, from interest, and from tribute rights. In some countries the rate of the tax is higher on incomes derived from the two latter sources than on those derived from the former. A tax which falls on incomes derived from labour or services rarely can be shifted; a tax which falls on incomes derived from tribute rights cannot be shifted. So far, however, as it falls upon incomes derived from interest, it checks the flow of foreign capital to the countries where it is imposed, and thus tends to increase the rate of interest prevailing there. A tax on such incomes, therefore, is frequently shifted from the lender to the borrower.

A tax on small incomes, derived from one or a few sources, cannot easily be evaded, whereas a tax on large incomes, derived from many sources, can frequently be evaded to a considerable extent. The smaller taxable incomes, especially when derived exclusively from labour or personal services, therefore, usually are taxed on their full amount.