

should take any kind of work into its own hands, unless it is perfectly clear that the work will be done much better, and more cheaply than private persons could do it. There is a balance of advantages and disadvantages to be considered: the advantage of a single great establishment with plenty of funds; and the disadvantage that work is always done more expensively by Government. In the case of the post-office, the advantages greatly outweigh the disadvantages; the same would probably be the case with a well-arranged parcel post; in the postal telegraphs, there are many advantages, but they are obtained at a considerable loss of revenue. If the state were to buy up and manage the railways of Great Britain, the advantages would be comparatively small, but the losses would be enormous. In America the express or parcel companies are so admirably managed that they do the work more safely and better than the Government post office. There can be little doubt, too, that the American railways and telegraphs are far better managed now than they would be if acquired by the Federal Government.

## CHAPTER XVI.

### TAXATION.

95. **There must be Taxes.** Whether governments undertake more or less functions, it is certain that we must have some kind of government, and that this government will spend a great deal of money. This money, too, can very seldom be obtained in the form of real profit on the work done, so that it must be raised by taxation. We generally apply the name tax to any payment required from individuals towards the expenses of the local or general government. We may easily indeed be taxed without being aware of it; thus, nearly the half of every penny paid for posting a letter

is a tax, and a town may be taxed through the price of gas or water.

At one time or another, and in one country or another, taxes have been raised in every imaginable way. The **Poll Tax** was a payment required from every **poll** or head of the population, man, woman, or child. This was considered a very grievous tax and has never been levied in England since the reign of William III. The **Hearth Tax** consisted of a payment for each hearth in a house; then a rich family with a large house and many hearths paid far more than a poor family with only one or two hearths. But as people did not like the taxgatherer coming into the house to count the hearths, the window tax was substituted, because the tax-gatherer could walk round the outside of the house, and count the windows. Now, in England, we do not tax the light of heaven at all, but we fix a man's payments by the rent of his house, the amount of his income, or the quantity of wine and beer he drinks.

96. **Direct and Indirect Taxes.** Taxes are called **direct taxes** when the payment is made by the person who is intended to bear the sacrifice. This is the case generally with the assessed taxes, or the charges made upon people who have menservants, private carriages, &c. As most people keep carriages only for their own comfort, they cannot make other people repay the cost of the tax. But if a carrier or tradesman were taxed for his carts, he would be sure to make his customers repay it; thus the tax would not be direct, and carriages employed in trade are therefore exempt from taxation. Other taxes in England, which are generally direct ones, are the income-tax, the dog-tax, the poor-rates, the house-duty; but a tax which is usually direct, may sometimes become indirect, and it is often impossible to say what is really **the incidence of a tax**, that is, the manner in which it falls upon different classes of the population.

**Indirect taxes** are paid in the first place by

merchants and tradesmen, but it is understood that they recover the amount paid from their customers. The principal part of such taxes in England consist of the **customs duties** levied upon wine, spirits, tobacco, and a few other articles, when they are imported for use in this country. **Excise duties** are similar duties levied upon like goods produced within the kingdom. These were called **excise**, because it was originally the practice actually to cut off a portion of the goods themselves, and take it as the duty. In England, excise duties are now levied on a few things only, such as spirits and beer; and care is taken to make the excise duty as nearly as possible equal to the customs duty on the same kind of imported goods. English brandy pays a duty equivalent to that on French brandy, and the matter is arranged so that the duty shall neither encourage nor discourage the making of English brandy. Thus the trade is left as free as it can be, consistently with raising a large revenue. Another important class of indirect taxes consist of the **stamp duties**, which are payments required from people when they make legal agreements of various kinds. According to law, deeds, leases, cheques, receipts, contracts, and many other documents are not legally valid unless they be stamped, and the cost of the stamp varies from a penny up to hundreds or even thousands of pounds, according to the value of the property dealt with. Stamp duties are probably in most cases indirect taxes, but it would be very difficult to say who really bears the cost; this must depend much upon circumstances.

97. **Maxims of Taxation.** Adam Smith first stated certain rules, or maxims, which should guide the statesman in laying on taxes; they are such good rules that everybody who studies political economy ought to learn them. They are as follows—

(1) The subjects of every state ought to contribute towards 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.

This we may call the **maxim of equality**, and equality consists in everybody paying, in one way or another, about an equal percentage of the wages, salary, or other income which he receives. In England the taxes amount to something like ten per cent., or one pound in every ten pounds, and this is pretty equally borne by different classes of society. It is probable, however, that the very rich do not pay as much as they ought to do. At the same time those who are too poor to pay income tax, and who do not drink nor smoke, are almost entirely free from taxation in this country; they pay very little, except poor rates. It would be impossible to invent any one tax which could be equally levied upon all persons. The income tax is a tax of so many pence in every pound of a person's income, but it is impossible to make people state their income exactly, and poor people could never be got to pay such a tax. Hence it is necessary to put on a certain number of different taxes so that those who manage to escape one tax shall be made to pay in some other way.

(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. This is the **maxim of certainty**, and it is very important, because, if a tax is not certainly known, the tax-gatherers can oppress people, requiring more or less as they choose. In this case it is very probable that they will become corrupt, and will receive bribes to induce them to lower the tax. On this account duties ought never to be levied according to the value of goods, or *ad valorem*, as it is said. Wine, for instance, varies in value immensely according to its quality and reputation, but it is impossible for the custom-house officer to say exactly what this value is. If he takes the statement of the people who import the wine, they

will be tempted to tell lies, and say that the value is less than it really is. And as it would not be easy to prove the guilt either of the customs officer or of the importers, it is to be feared that some officers will receive bribes. But if the wine is taxed simply according to its quantity, the amount of duty is known with great certainty, and fraud can easily be detected. The same remarks apply more or less to every kind of goods which varies much in quality.

(3) Every tax ought to be levied at the time, and in the manner, in which it is most likely to be convenient for the contributor to pay it. This is **the maxim of convenience**, and the reason for it is sufficiently obvious. As government only exists for the good of the people at large, of course it ought to give the people as little trouble as possible. And as the Government has immensely more money at its command than any private person, it ought to arrange so as to demand a tax when the taxpayer is likely to be able to pay it. Thus there seems to be no sufficient reason why the government should make people pay the income-tax in January, when they are likely to have plenty of other bills to pay. In respect of this maxim, the customs and excise duties are very good taxes, because a person pays duty whenever he buys a bottle of spirits or an ounce of tobacco. If he does not want to pay taxes, let him leave off drinking and smoking, which will probably be better for him in every way. At any rate, if he can afford to drink spirits and smoke tobacco, he can afford something for the expenses of government. The penny receipt duty, again, is in this respect a good tax, because when a person is receiving money he is sure to be able to spare one penny for the State, and he is generally so glad to get his money that he thinks nothing of the penny.

(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. This is the **maxim of economy**. Thus, a tax ought not to be imposed if it would require a great many officers to collect it, and thus waste much of what is collected, or if it disturbs trade and makes things dearer than they would otherwise be. Again, the government ought not to cause people to lose time and money in paying the taxes, because this is just as bad for them as if they paid so much more taxes. In this respect the stamp-duties are very bad taxes, because in many cases it is requisite for a person to take his deeds and other documents to the stamp-office and lose his time, or else employ lawyers and agents to do it for him, who charge considerable fees. So troublesome are some of the stamp-duties that in many cases people neglect to have their agreements stamped, and prefer to trust to the honesty of those they deal with. Such agreements are thus often rendered of no legal value, and the government, for the sake of sixpence or a shilling, practically denies law to the people.

98. **Protection and Free Trade.** Almost every government has employed taxation at one time or another, for the purpose of encouraging industry within the country. It is often supposed that if purchasers are prevented from buying foreign goods, they will have to buy home-made goods, and thus manufacturers at home will be kept busy, and there will be plenty of employment. This is altogether a fallacy, which we may call the **fallacy of Protection**, but it is one which readily takes hold of people's minds. No tradesman or manufacturer likes to see himself underbid by those who offer better goods at lower prices. When foreign goods, then, are preferred by purchasers, the home manufacturers of such goods complain bitterly, and join together to persuade people that they are being injured by foreign trade. There is still so much national pride and animosity, that a nation does not like to be told that it is being beaten by foreigners

The manufacturers, misled by their own self-interest, use all kinds of bad arguments to show that if foreign products were kept out of the country, they could make as good ones in a little time, and then they could employ many people, and add to the wealth of the country. They fall, in fact, into **the fallacy of making work** before described (section 55), and argue as if the purpose of work was to work, and not to enjoy abundant supplies of the necessaries and comforts of life.

Now it is impossible to deny that certain owners of lands and mines and works may be benefited by putting duties upon foreign goods of the kind which they want to produce. Those who are already enjoying the advantage of such improper duties may, of course, be injured when they are removed. But what we have in political economy to look to, is not the selfish interests of any particular class of people, but the good of the whole population. Protectionists overlook two facts—(1) that the object of industry is to make goods abundant and cheap; (2) that it is impossible to import cheap foreign goods without exporting home-made goods of some sort to pay for them.

We have already learnt the obvious truth that wealth is to be increased by producing it in the place most suitable for its production. Now the only sure proof that a place is suitable is the fact that the commodities there produced are cheap and good. If foreign manufacturers can underbid home-producers, this is the best, and in fact the only conclusive proof that the things can be made more cheaply and successfully abroad. But then it may be objected, what is to become of workmen at home, if all our supplies be got from another country. The reply is, that such a state of things could not exist. Foreigners would never think of sending us goods unless we paid for them, either in other goods, or in money. Now, if we pay in goods, workmen will of course be needed to make

those goods ; and the more we buy from abroad, the more we shall need of home produce to send in exchange. Thus, the purchase of foreign goods encourages home manufactures in the best possible way, because it encourages just those branches of industry for which the country is most suited, and by which wealth is most abundantly created.

99. **The Mercantile Theory.** Perhaps, however, it will be objected that our foreign imports will be paid for not in goods but in money ; thus the country will be gradually drained of its wealth. This is **the old fallacy of the Mercantile Theory**, which was to the effect that a country becomes rich by bringing gold and silver into it. It is an absurd fallacy, because we can get no benefit by accumulating stocks of gold and silver. In fact, to keep precious metals causes a loss of interest upon their value ; people who are rich may afford to have costly plate, and the pleasures they derive from it may be worth the interest. But to have more gold, or silver money than is just sufficient to make the ordinary payments of trade causes dead loss of interest. Nor is there any fear that the country will be drained of money entirely. For, if money became scarce, its value would rise according to the laws of supply and demand, and prices of goods would fall ; then imports would decrease, and exports increase. It is only a country like Australia or North America, possessing gold or silver mines, which could go on paying money for its imports, and then it is quite right it should do so, the metal being a commodity which can be cheaply produced in the country. Gold and silver must be got out of mines, and therefore a country which buys goods with money must either have such mines, or else get the metal from other countries which possess mines. In no case, then, can we import foreign commodities without producing at home goods of equivalent value to pay for them, and thus we see beyond all doubt that foreign trade is

a means of increasing, not decreasing, the activity of industry at home.

**100. Is Political Economy a Dismal Science?**

This is only a Primer, a very brief and elementary account of some parts of political economy, and it is evidently impossible to argue out the subjects of such a science in so small a compass. But the purpose of this little treatise will be fulfilled if those who begin with the primer can be persuaded to go on and study larger works on the science. But even he who has read only thus far must know that political economy is no cold-blooded or dismal science, as people say. Is it a dismal thing to relieve the labourer of his load, or to spread his table with the most nutritious food? No doubt the science is dismal enough so far as it leads us to reflect upon the needless misery existing on every side. It is dismal to think of the hundreds of thousands who lengthen out a weary life in workhouses and prisons and infirmaries. Strikes are dismal; lock-outs are dismal; want of employment, bankruptcy, dear bread, famine, are all dismal things. But is it political economy which causes them? **Is not our science more truly described as that beneficent one, which, if sufficiently studied, would banish such dismal things, by teaching us to use our powers wisely in relieving the labours and misery of mankind.**

END.