

ON
THE POLICY
OF
DIRECT OR INDIRECT TAXATION:
A PAPER
READ BEFORE
THE DUBLIN STATISTICAL SOCIETY:

BY
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On the Policy of Direct or Indirect Taxation. By James A. Lawson, LL.B.

GENTLEMEN, I think you will all agree with me when I say that the payment of taxes is generally considered one of the most disagreeable duties which we are called on to perform in the social state. We willingly pay rent, or pay for clothes, or even luxuries, but the visits of the tax-collector are regarded with peculiar dislike. The reason I conceive is, that we do not sufficiently consider the purposes of taxation, and that taxation is not always strictly confined to its legitimate object. If taxes be properly imposed, there is no money expended by us for which we receive so great a return. It is the price we pay for Protection—under which are included, personal protection, security to our property, and, as incident to that, the means of adjusting our differences with our neighbours. If each individual had to protect himself, watch over his property, and settle his disputes, his time would be almost entirely occupied, and the business would still be very badly done. When a government is established, all these matters can be and ought to be executed very cheaply and effectually, and therefore, if we were not suffering for our own follies and those of our ancestors, our taxes ought to be light and our government cheaply administered. Every individual is indebted to government for the protection of his life and liberty, and therefore every subject (paupers of course excepted, who have nothing,) ought to contribute to support government. Those possessed of property which requires more protection, and supplies the means of paying for that protection, ought to contribute in proportion to the amount of property they possess; and this being done, every man is entitled to require protection for himself and his property without any further cost; and is also entitled to have free access to the public tribunals, where his rights will be settled and adjudicated upon by the constituted legal authorities, without any cost to him except what he himself may, for prudential motives, think it expedient to pay to those who are to conduct his case. Such, I conceive, is the theory of sound taxation, differing very widely from the practice, for reasons which we shall now proceed to analyse. Now I think the fair, obvious, honest mode of obtaining that amount thus necessary for sustaining these establishments, is by compelling every man to put his hand in his pocket, and pay his fair quota towards this

common purpose ; and as this must ultimately and in effect be done, any attempt to disguise or evade this process, or to effect in a circuitous manner what ought to be done directly and openly, is in itself a useless proceeding, must arise from some improper motive, and must be attended with additional expense and inconvenience. Indirect or circuitous taxation has therefore no sound principle on which it can rest, and if it is to be justified at all, it must be justified by some arguments of convenience or expediency. "The requisites of a good system of taxes are—1, equality ; 2, certainty ; 3, that they should be levied at a convenient time ; 4, that they should be productive, that is, that they should not take more out of the pocket of the subject than goes into the pockets of the state." A direct tax can be made to possess all these requisites ; it can be made equal, by imposing it on every person according to his means ; it can be rendered certain, and can be levied at suitable and convenient times ; and it is most productive, the expense of collecting it being small, while all goes directly into the coffers of the state. I would add that direct taxation possesses two other qualities which I think are essential in taxation : first, it does not interfere with the natural course of human industry ; and secondly, every man when he is paying a tax knows and feels that he is paying one. Now indirect taxes, by which I mean taxes imposed on commodities instead of on individuals, want two of these four requisites—they are not equal, for they fall only on the consumer of the articles taxed, and are not at all paid by persons in the proportion of their relative means—and they are not productive, for the collection of them is very expensive, and the payment of them constantly evaded. They differ, however, from direct taxation in the two last respects I have mentioned, and that seems to be their chief recommendation—they interfere with the natural course of human industry, and they are paid to a great extent unconsciously ; they are filched instead of being taken fairly and avowedly. It is in these two latter respects especially, that I wish to contrast the policy of direct and indirect taxation.

The first is, the interference with the natural direction of human industry. One of the principal arguments in favour of indirect taxation has been, that it enables government to encourage the consumption of some articles and check the consumption of others. Now this is essentially unsound in principle, and mischievous in its operation. This is a matter entirely outside the province of a government. The duty of a government is to let people alone, and make them let one another alone ; but to interfere with the expenditure of individuals is a piece of impertinence. We see relics of this feeling in all the sumptuary laws in ancient and modern times, which were always found mischievous and incapable of doing what they professed to do. The greatest evils that have been inflicted have arisen from the paternal care of governments ; and in that word "paternal" lurks the fallacy—that of

confounding the position of the government with that of a father of a family, when the duties and responsibilities of each are entirely different. Hence it has been thought the duty of a government to seek to check the use of spirits, tobacco, and articles of that kind by imposing high taxes on them. Now that it does not produce this result experience will satisfy any who look at the immense consumption of these two articles, and the revenue realised by them—the revenue raised by tobacco in these kingdoms being from three and a half to four millions, and by spirits and malt ten millions, while in countries where they are cheap they are not at all used to the same extent. These matters may safely be left to the controul of individual interest and prudence, as well as higher motives; and if these cannot restrain them, legislative enactments will indeed be impotent.

Now let us see what positive mischief such taxes do by interfering with production. It is evident that if individuals are unfettered by any legislative restraints, each will choose that business which is most productive, and each will consume that which will afford him most enjoyment; therefore, where there is freedom from restraint there will be, *ceteris paribus*, the greatest wealth and the greatest enjoyment. Now the imposition of taxes on commodities operates injuriously in both these respects, it diminishes wealth and enjoyment. How does it do this? The effect of a tax is to raise the price of the taxed article, and therefore to diminish its consumption—for every rise of price in an article limits both the number of consumers and the quantity consumed. Those persons who are obliged to discontinue or curtail the use of the article, must resort to some substitute not so useful or agreeable, otherwise they would have used it before. The consequence of the diminution of consumption will be the diminution of production following immediately after, and the capital which was employed in this branch is now redundant in its amount, and must be transferred to other and less profitable investments. So far, therefore, as consumption is concerned, it is a useless and impertinent proceeding on the part of a government, to attempt to controul individuals by taxation—and so far as production is concerned, a great loss of material wealth must be the result. The object of taxation is to raise a revenue for the purposes of state expenditure, and when it seeks to do any thing more, it is no longer taxation, and we must find another name for it.

I now come to what has furnished, and still furnishes the great argument in favour of indirect taxation, and what I regard as its greatest evil after the one I have been discussing, viz.—that such taxes are paid unconsciously. This was and would be a very good argument for a despot to use, who was considering how much he could extort from his subjects without murmuring; but really, in a representative government, where none can tax us but ourselves, it is absurd and childish to be endeavouring to deceive ourselves; and in one moment to lay on a tax in order that we may, in the

next moment, persuade ourselves into the belief that it is not a tax. People are now governed, and only can be governed, by reason and intelligence, not by perpetuating ignorance and delusion—it is impossible to do this any longer, even if it were desirable. If therefore the truth cannot be concealed, is it not better that we should have it fully and avowedly before us? is it not better that every man in the community should know exactly how much he contributes to the support of the state? Every merchant may, every private individual should, know what his means are, what are the items of his receipts and expenditure, and why should the accounts of the nation be falsified by entering under the head of tea and tobacco what should be under the head of taxes? It has, I am sorry to say, been found a convenient thing thus to blindfold the ignorant; but surely the open and honest policy is the truest and best? This system naturally descended to us from darker ages. We have been led into it, and we are now paying the penalty for its long continuance. If there had never been anything but direct taxation, we may safely affirm that we never would have been burdened with the enormous load of national debt which we have incurred. People would have then seen plainly that their expenditure was far outrunning their income, and that they were subjecting themselves to incumbrances of which their posterity would never be rid. If every man directly paid his quota towards the maintenance of the state, he would then have a direct motive in seeing that all was conducted in the most economic manner consistent with honor. Every man would know how much he had to pay and how much to spend: while the cheapness of commodities that would follow the abolition of the taxes would stimulate and encourage industry.

Having noticed these two points of contrast between direct and indirect taxation, I would observe the two great evils of indirect taxation which direct taxation avoids, and then advert to some of the supposed difficulties in the way of carrying out direct taxation. The two great evils of indirect taxes are their unproductiveness or expense of collection, and the inequality in their incidence. Our taxes on commodities are collected through the departments of the customs and excise, aided by the coast guard or preventive service, called preventive because it does not prevent smuggling. I find that the customs duties in Ireland for 1846 amount to £2,500,000, and the expense of collection £240,000, or $8\frac{1}{2}$ per cent, while the rate per cent. at which the excise revenue was collected is £9 16s. 10d. for the same year in Ireland—a most enormous percentage indeed. The expense of collecting the stamp revenue for the same period is only £3 7s. 4 $\frac{3}{4}$ d. per cent.; but this arises from its nature; the parties taxed must pay in the money, and the greater part is collected by the officers of the courts as part of their duty, and whose salaries of course are not charged under the head of stamp expenditure. Perhaps, however, of all indirect taxes none are more objectionable in principle or injurious to

national wealth than the stamp duties ; they impede the free transfer and circulation of property ; they are almost always paid out of capital, not out of income ; they thus add to the difficulties of those whose circumstances are embarrassed under legal proceedings ; they are so heavy as in many cases to prevent the suitor from asserting his just rights, and thus give a premium to oppression and injustice.

I have said in the outset, that the tribunals of the country should be open to every subject without charge, otherwise the poor will be obliged to forego their honest claims. Now, how stands the fact ? Why, if we take up any bill of costs, nearly one-third of the amount will be found to be for stamp duties and fees of office, while the whole is ascribed to the covetousness of the legal professions. Even in our Civil Bill Courts, which are designed to supply cheap justice, we find fees payable to the judge and officer at every step. The judge receives one shilling for every adjudication, and for some special cases five shillings and ten shillings. There are thirty-five such jurisdictions in Ireland, and if we calculate these fees at £500 a year each, which I believe is below the average, the result is, that the poorest class in the community pay a tax of £17,500 a year for cheap justice, independently of the costs payable to their attorneys or counsel.

The Irish stamp duties in 1846 amounted to £594,000, and of this £379,000 were for duties imposed in law proceedings. The stamp duty on deeds alone was £161,000, while the Law Fund, Exchequer Fund, and Chancery Fund amounted to £50,000—an enormous tax upon suitors ! and £130,000 was paid for legacies and probates. Now this latter is all a deduction from capital, a most ruinous thing here, where capital is so much required. Thus we see that indirect taxation takes a great deal out of the pocket of the subject, which never finds its way into the pocket of the state.

The next fact I would advert to is the necessary inequality in the incidence of these taxes. It is found to be useless to tax any articles except those in general use, for no other will produce a large revenue, and therefore the articles which enter largely into the consumption of the labouring classes are most heavily taxed, and the consequence is that the labouring classes pay more in proportion to their means than the higher ranks of society. There are no means at present of ascertaining exactly what the amount of the contribution of a labouring family is to the taxes, but certainly their expenditure consists so much more of the mere necessities of life which are the articles most heavily taxed, that they must contribute more in proportion to their means than the richer classes.

I think it is plain from what I have said that the course of legislation now ought to be gradually to substitute direct taxation upon individuals for taxation upon commodities. But I now wish to address myself to one or two practical difficulties which are supposed to stand in the way of this tax. The first is the difficulty of

ascertaining the means of different individuals. Now I believe there would be no difficulty whatever in ascertaining it closely enough for practical purposes, and I think the answer of parties to the enquiries sent to them should be acted on as satisfactory, unless some palpable fraud were attempted, which the commissioners should have power to inquire into and punish. I believe that if an income tax were universal, as it ought to be, and did not stop short at £150 a year, and moreover, were a percentage on every pound of the income, there would be much less temptation to deceive than at present; and suppose it to be £5 per cent. on all incomes, I do not believe, and would be sorry to believe, that any universal or general system of misrepresentation could prevail for the sake of saving that small per centage. Even with regard to tradesmen and the labouring classes, there would be little difficulty in ascertaining their means near enough for all practical purposes. Persons in trade or business it would certainly be difficult to detect in any false statement of their income, but we might safely rely on the general conscientiousness of our people for a fair return. As to fundholders and all who receive public salaries, their proportion could be stopped at the time of payment; all employers who paid salaries or wages should also be invested with the power of stopping the percentage from the payments to their employed, and be made responsible for it.

I think for these reasons that the policy of a government ought to be gradually to depart from the system of taxes on commodities and to substitute an income tax—the latter has been tried and worked well. A great deal is said about the comforts of the labouring classes and about raising their wages, but the most effectual way of raising their wages is to take the taxes off the commodities they consume. I believe by doing so you would raise their condition greatly; by taking off taxes from commodities, industry would be allowed once more to flow into its natural channels, and a great addition to the natural wealth would be the result. By the sweeping away of the whole cumbrous establishment of Customs and Excise a great burden would be removed, the course of foreign trade and domestic would be unimpeded, and if the example were followed by other countries, as it ultimately should, the consequences to mankind at large would be most beneficial.