Let no provocation tempt us to snap the ties that connect us with the peaceful subjects even of hostile and despotic states; let us seek in political science instead of in the usages of former wars our views of national policy and international law, and we shall become a greater, a more secure, and a more honoured people than by the ruin of the Russian empire.

III.—The Relative Expediency of defraying the expense of War by Loans or by Increased Taxation, considered with reference to the present financial system of the United Kingdom.—By Richard Hussey Walsh, LL.B., Professor of Political Economy in the University of Dublin.

[Read 16th April, 1855.]

HAVE WE A RIGHT TO TAX SUCCEEDING GENERATIONS?—When discussing the relative expediency of defraying extraordinary public expenditure by loans or by immediate taxation, it is sometimes sought to dispose of the question in limine by denying the right of an existing community to shift their pecuniary liabilities on those who come after them. But in this it is overlooked that in the political struggles which give rise to national debts, future as well as present interests are generally involved, and often to a greater extent. For instance, if the war now in progress had not been undertaken, and Russia allowed to go on in the ambitious career she is said to have marked out, a considerable time must have elapsed before she could have sufficiently extended and consolidated her power as to be in a position to endanger our territorial possessions or interfere with our commerce. The next and succeeding generations would be far more exposed to such injurious results than the present, and accordingly the expense of the war must be deemed to be incurred rather for their protection than our own. Should it, therefore, be found necessary to make them bear a part of it, they can have no just reason to complain.

UNDER OUR OWN FINANCIAL SYSTEM IS IT ADVISABLE TO DEFRAY A LARGE AMOUNT OF EXTRA EXPENDITURE BY IMMEDIATE TAXATION EXCLUSIVELY?—It is one thing to maintain that future generations may justly be burthened with a national debt, and quite another to assert that it is advisable to meet extra public expenditure by borrowing rather than by increased taxation. Prudence dictates that present liabilities should be satisfied by immediate sacrifices on the part of the people, and the resources of the future left free and unincumbered to bear whatever demands on them may arise. To carry out this principle in financial administration would be in itself extremely desirable; but occasionally it may be impossible to pursue such a course, and even were it otherwise, there might be countervailing disadvantages which merit our serious attention. I do not intend entering upon all the questions arising in connexion with this subject; but I shall confine myself chiefly to one which stands particularly in need of development, because, although the circumstances on which its importance depends possess little novelty,
their relation to the object of the present discussion has not hitherto
received that degree of consideration to which it is entitled.

It is an admitted principle that taxes should press equally on the
members of the community in general, and not on a portion of them
alone; and if we find that consistently with this, a large increase to
the public revenue cannot be acquired immediately, we establish a
very strong objection to the practice of always raising the supplies
within the year (as it is called) no matter how great may be the
demands on the national resources.

Were all the public revenue derived from direct taxation,
and were this adjusted on a satisfactory basis, it might be
increased or diminished as required, without any one having just
reason to complain he was treated worse than his neighbours;
but our financial system is not of this simple nature, and there are
very good reasons why it should not be so, which will be men-
tioned farther on. Our system is a mixed one, the public revenue
being partly derived from taxes levied directly, such as the income-
tax, probate and legacy duties, and some others; and partly from
those imposed indirectly, the principal of which are the customs
and excise. So much of it as is derived from the income-tax and
other direct taxes might be increased at once to any given amount,
by raising the rate in a corresponding proportion. The expense of
collection becomes little, if anything, greater than before; and as
the chief part of the duty is derived from property whose value can
be pretty accurately tested, the temptation to evasion, which is
naturally augmented when the rate is made higher, is not likely to
cause a considerable loss to the revenue. It can only cause any in
that portion of the income-tax which comes from the profits of
trades and professions, and that is small compared with what is
derived from realised property, salaries, and other classes of revenue
whose amount it is equally easy to ascertain.* But unless we can
increase at the same time and in the same proportion the produce
of indirect taxation, we violate whatever equality had been origin-
ally approximated to by the combination of direct and indirect
taxes; and make such persons as pay income-tax bear much more
than their fair share of the expenses of the war. Let us see, therefore,
if the revenue furnished by the customs and excise can be increased
with that certainty and rapidity which the wants of the public
service in time of war may render necessary.

* The returns for 1853 show the annual value of the property assessed to the
income-tax in England and Scotland to be as follows:—

<table>
<thead>
<tr>
<th>Schedule</th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Lands, houses, &amp;c.</td>
<td>£105,500,000</td>
</tr>
<tr>
<td>B</td>
<td>Profits of occupation</td>
<td>£48,000,000</td>
</tr>
<tr>
<td>C</td>
<td>Funds</td>
<td>£26,400,000</td>
</tr>
<tr>
<td>D</td>
<td>Trades and professions</td>
<td>£65,700,000</td>
</tr>
<tr>
<td>E</td>
<td>Profits of office</td>
<td>£11,600,000</td>
</tr>
</tbody>
</table>

**£257,200,000**

Hence those persons assessed under Schedule D, who alone have any facility for
defrauding the revenue by representing their means as smaller than they are in reality,
pay but about a fourth of the entire income-tax. I am not aware that this proportion
has been sensibly altered by the recent extension of the tax to Ireland, and to all per-
tons whose incomes range from £100 to £150 per annum.
It is an old saying that in the arithmetic of the customs two and two don't always make four—an adage which applies equally to the excise,—the common effect of raising the rate of taxation in either case not being to augment the public revenue in a corresponding degree, but even to diminish it in some instances, the resulting advance in price checking the consumption of the taxed article and encouraging smuggling or illicit production; and rarely, if ever, to increase it to the same extent as the rise in duty, or to any extent which can be calculated on with precision beforehand. It is a nice problem in financial administration to ascertain the rate of duty which will produce the maximum amount of revenue from any commodity, or indeed, any fixed amount which it may be desired to raise. The process by which either can be ascertained is chiefly experimental, and requires much time for its completion. Hence we cannot by indirect taxation easily raise much of the revenue which may be required to meet the heavy, sudden, and urgent demands of war, unless the duties previously had been at a very low rate indeed; and if any doubt were entertained on this head, I might refer to the financial annals of the country during the early part of the present century, when the successive augmentations in the customs and excise, introduced from time to time by different chancellors of the Exchequer, Mr. Vansittart in particular, were attended not only without any increase of revenue, but often with a positive diminution. And when the attempt to raise supplies in this manner turns out a failure, it gives rise to additional evils both moral and economical. For if the revenue be not augmented in proportion to the rise in duty, it can only be because less of the taxed article is produced, or part of what is consumed escapes the collector. Hence part of the capital previously employed in its acquisition must either remain idle, or be transferred to some other occupation—a proceeding necessarily attended with trouble and loss; or we call into activity the smuggler, the illicit distiller, and the like; or, what is most probable, we occasion a combination of all these evils.

It is true, that were the taxes of a country adjusted at a very moderate rate, a considerable increase of revenue from the customs and excise might be obtained by raising the duties, and no great danger incurred of checking consumption, interfering with capital, and encouraging smuggling and illicit production; but the financial necessities of the United Kingdom do not permit the arrangement of our taxes on such a footing. And even if they did, it may be questioned if, in time of war, when the demands of the army, navy, and militia interfere with the labour market, and a partial cessation of commerce between the belligerent nations causes a certain amount of stagnation in trade, the pecuniary circumstances of the people are in such a condition as to render it advisable to subject them to very heavy extra burthens. But, independently of this last objection, which applies to every species of tax, it is tolerably plain from the preceding, that situated as we are we cannot safely calculate on any very great increase of revenue from customs and excise to enable us to carry on an expensive war. And since these are the duties which fall on the people generally,—while the income-
The Alternative of Loans or Increased Taxation.

1855.

109

Shall we continue a mixed system of direct and indirect taxation, or endeavour to raise all the revenue by means of an income tax?—This question suggests the consideration as to whether our financial system might not be thoroughly altered, all existing taxes abolished except the income-tax, and the latter so extended and modified as to embrace every kind of property, and reach every individual who at present contributes to the support of the state. Of late years, many have recommended a plan of such a nature, and among those who do so are several for whose opinion I entertain the highest respect. But the more I reflect on the subject, the stronger the difficulties appear to me of devising a general income tax which should be fair, and of collecting it afterwards from all classes of the community. The practice of nations, from the most democratic to the most despotic, affords no precedent for such a system of taxation, and the standard writers on political economy are also found opposed to it. Adam Smith* condemns it generally and unequivocally, under the name of a capitation tax proportional to the means of each contributor; and Mr. M'Culloch,† and Mr. J. S. Mill,‡ who treat of the subject of direct taxation at pretty considerable length, arrive at the conclusion that an income-tax should not be adopted as the sole instrument of finance.

A few years ago the question of financial reform was very much agitated, and of those who wrote or spoke on the subject very few were to be found agreed as to the mere conception of a fair income tax.§ This raises a formidable obstacle in the way of the proposed change in our financial system, as while the advocates of direct taxation are divided into so many sections, it can hardly be expected the public will defer to any one of the various theories they propound. And even supposing no such diversity of opinion existed, and that reasonable people were agreed as to what constitutes a fair

* Wealth of Nations, b. 5, chap. ii. art. iv.
† Taxation and the Funding System, part 1, chap. iv.
‡ Principles of Political Economy, b. 5, chap. vi. s. 1, 2nd edition.
§ A great number of the plans proposed for a perfect income or property tax are to be found in the Report of the House of Commons on the subject which appeared the year before last. To that of the actuaries, Mr. Gladstone assigns pre-eminence in impracticability. See pamphlet containing his financial statement of April 18th, 1853, p. 24. (Parker and Son, London.) It is also exposed to grave objections on the score of justice; but in this respect it has many rivals.
income-tax, I contend, nevertheless, it should not be made to serve as the sole instrument of finance, since it would be found impracticable to collect it from persons of small means, such as are the majority of the population. But the aggregate amount of these small incomes is, as it is well known, very considerable; so that were they to be exempted, a great portion of the national wealth would be withdrawn from taxation, and the remainder over-taxed in a corresponding degree.

In order to make an income-tax reach the labouring classes generally, it has been proposed that employers should deduct it when paying them. Now any one on reflection can hardly fail to perceive how very inexpedient it would be to introduce this additional element of discord into the relations, not always of the most friendly or confidential character, which actually subsist between masters and men. Neither could this plan be adopted with respect to persons such as cottier tenants and tradesmen of various classes, who work principally on their own account and not for any master, receiving at once in the price of what they produce the wages of labour and profits of capital.

But to levy the tax immediately from the poorer and more numerous members of the labouring classes, in the same way as we now do from persons whose incomes exceed £100 per annum, would not answer either. Very many of these live, as the expression is, from hand to mouth, spending a little more or less according to the fluctuations in their income, and living in general quite up to it. Weekly earnings and weekly expenditure are the rule among the working classes; and to seek to subject them to half-yearly, or even quarterly bulk payments, to meet the calls of the Chancellor of the Exchequer, would be an invasion of their fixed habits such as they would not patiently submit to. Indirect taxes, falling on them as they do in the shape of the enhanced prices of some of the articles they consume, are not exposed to this objection. They are levied pari passu with expenditure, and enter, as it were, unconsciously into the weekly or even daily calculations of the labouring classes. This difficulty it might be attempted to get over by calling on the workman for the income-tax weekly and not half-yearly. But this would increase enormously the cost of collection, and so remove one of the principal arguments in favour of direct taxation. Besides, these weekly payments would involve the necessity of weekly investigations into the pecuniary affairs of the contributors, which could hardly fail to generate feelings of irritation on the part of those subjected to them, extremely dangerous to the peace of the country.

The difficulty of ascertaining a workman's income, should he not wish to disclose it, is another circumstance not to be lost sight of. The rate of wages in any particular locality may be known pretty accurately, but who is to tell how long each labourer has been at work, and how long out of employment? The person or persons with whom he has worked might be applied to for information if he chose to name them; but they might not be able to give it, and certainly in cases where the same man has been employed by several, no one of them could tell how long his labourer had been
working for others, and how long on his own account without having any employer over him but the public at large. In case of collusion between masters and men, it would, of course, be all but impossible to discover the rate and amount of wages. And it is to be feared there are many employers who would collude for such a purpose, rather than increase the difficulty of dealing with their labourers by placing themselves in the obnoxious position of rigid assistants of the tax collector.

Again, the roving habits of many of the working classes, and the want of publicity attending their movements, are also to be taken into account when deciding the feasibility of reaching them by an income-tax. There are some who might be assessed at one place to-day, and when the time of payment arrived, might be far enough off, without leaving the collector any clue to discover the railway, canal, harbour, drainage works or buildings, at whose construction they might then happen to be engaged.

From these considerations it is manifest that an income-tax is ill adapted to serve as an exclusive instrument of finance. If it be extended to all, it must prove extremely expensive to collect, and besides be so very vexatious to the majority of the working classes as to endanger the peace of the country, or at least accelerate fearfully the rate of emigration, which already, without any such incentive, is proceeding so fast as to excite considerable alarm. But if it be not extended to all, and still the entire revenue be raised by it, the incomes exposed to it will be greatly over-taxed, in violation alike of justice and expediency; and the danger of driving labour from the country be exchanged for the equally formidable evil of making capitalists and capital depart for other lands, where a less oppressive system of finance may be in operation. There are instances in history of states having gone to decay, or, at least, been fearfully injured, owing to the removal of the most intelligent and wealthy of the inhabitants, driven from the country by political injustice. A similar effect would doubtless be produced by financial injustice if carried to a great extent; and it behoves us, therefore, to take care not to introduce a system of taxation which might lead to so disastrous a consequence.

COMMON OBJECTIONS AGAINST CONTRACTING NATIONAL DEBTS.—We have next to consider if the loan-system be so objectionable as it is usually represented. One of the faults most commonly found with the practice of contracting national debts is, that by so doing we take from the capital of the country what we want for the war, and thereby check production, and lessen the means of paying wages. In other words, that by raising loans we do not really avert in the slightest degree the inconvenience which would be felt were the supplies obtained at once by increase of taxation, but merely shift the burthen on those least able to bear it—the men who live by the sweat of their brow. But in this there are two errors. In so far as the objection applies to the loan system, it is not peculiar to it, but extends likewise to every mode of providing for government expenditure on a large scale.* If a man lends £100 to Government,

* * That taxation should not encroach upon the amount of the national capital, is
or pays it in the shape of increased taxes, in either case he is equally less able, by the amount of £100, to employ labourers himself, or furnish others with the means of doing so. It is said, however, that as the contributor to taxes loses for ever what he advances, he will exert himself to make up the deficiency by saving what otherwise he would have expended unproductively, rather than suffer his capital to be diminished or its accumulation checked; whereas the subscriber to a loan, being in a position to get back at any moment by a transfer of stock the amount he furnished to Government, has no such inducement to undergo the sacrifice of practising extra economy. But it does not follow that the contributor to taxes will be able to follow his inclination; and if the subscriber to a loan has not so great an inducement to save in place of what he advances, yet the very fact of his coming forward voluntarily to lend to the state, shows that he is better able than his neighbours to save if he pleases. It should not be forgotten that the desire to avoid lessening his capital is only one of the motives which lead an individual to accumulate. The desire to increase it so as to be enabled to profit by any advantageous field of investment that offers, is another, very powerful, and which is called strongly into operation by the attractive terms usually offered by the state when contracting a new loan.

The second error, to be found in the opinion that Government by borrowing diminishes, pro tanto, the means of carrying on production and employing labourers, appears when it is attempted to apply the objection to the case of a country whose industrial condition is like that of Great Britain. There are some who would seem to imagine that when Government seeks a loan, merchants and manufacturers dismiss those they employ, and shut up their counting-houses and factories, delighted to exchange the trouble of business for the ease and luxury of an extensive fundholder. This is simply absurd, and I mention it merely as an instance of the extravagant views occasionally entertained on the subject. But the objection, when rationally put, amounts to this: by borrowing, Government becomes a competitor in the money market with those who seek capital to be employed in production, and according to what it thence carries away, the less will remain for the support of industry. In so far as this applies at all, it also, as was shewn before, applies to the case of taxes; but from the peculiar industrial condition of England, it may be proved that this objection to contracting a national debt is entitled in her instance to little consideration. England saves capital enough not only to support her own industry, but also to advance the means of carrying on production in foreign lands, to make loans to foreign states, and to furnish wherewithal to promote the most extravagant industrial speculations both at home and abroad. It is the very abundance of riches that leads rational beings to make such foolish invest-
ments, and we may be sure that when Government comes forward to raise a loan, men will not turn capital from employment in the work of production at home, but rather discontinue advancing the means of supporting unwise speculations and enterprises they never would have embarked in but for the want of a satisfactory field of investment, or else become less extensive holders of foreign stocks and shares.

The great difference between the effects on wages of employing wealth as capital, and expending it unproductively, results from this; that in the former case the labourers, in return for their remuneration, produce what will enable the capitalist to resume the work of production, and pay wages over again; while in the latter nothing remains to renew the fund for the maintenance of labour. It is all the same whether the expenditure be intentionally unproductive in an economic point of view, or become so from the failure of the industrial enterprise in which it was embarked. What is expended in the payment of soldiers, and in the purchase of warlike stores will not, it is true, produce any return to keep up the means of advancing wages to labourers; but had it been devoted to the opening of worthless mines, for example, or to any other profitless enterprise; or, finally, had it not been saved but merely employed as income, the consequence would be precisely similar. And it is also to be remembered that even when loans absorb what would otherwise have been employed as capital, it is not the poorer labouring classes alone who suffer by the transaction; but every one, he he rich or indigent, who would have taken part in the business; with the sole exception of the individual who furnishes to Government the capital diverted from the work of production.*

The objection against the loan system entitled to most weight is that, when once a national debt is contracted, it is rarely paid off; and thus the state goes on, from loan to loan, until at length its finances become hopelessly disordered. During the last century and a-half, a debt of about £862,000,000 has been funded in England, and of this, up to the year 1849, but £71,000,000 have been paid off; viz. £2,000,000 within thirteen years of peace, when

* Most persons cannot be fully aware of this fact, but it is found convenient to overlook it, and rest their opposition to the loan system on the grounds of humanity. To those with whom philanthropy is a principle, and not a pretext, it must be very revolting and discouraging to see how frequently alleged sympathy for the poor is dragged forward by the political adventurer or the sophist, to support the most untenable propositions, and cry down all opposed to them. Protectionists talked as if engaged in defending the wages of labour from foreign competition, when in reality the greater portion of them were far more solicitous about the effects of free-trade on profits and rent. Those who have committed themselves to a project involving a disturbance of perplexing magnitude in the pecuniary accounts of the nation, by the substitution of tenpence for the pound as the unit of value, put themselves forward ostentatiously as the guardians of the poor man's penny against the attacks of the advocates of the only practicable system of decimal currency; and keep out of sight, as well as they can, the rather important circumstance that for those, like the poor, who make their bargains from day to day, and are not bound by contracts to endure for many years, a change in the money they employ produces but trifling and temporary inconvenience. And perhaps there is no question whose discussion is more frequently and unscrupulously embarrassed by reference to the supposed interests of the humbler classes, than the very one which forms the subject of the present essay.
George II. reigned; £10,000,000 in the reign of George III. from the peace of Paris in 1763, to the commencement of the war with America in 1775; and £10,000,000 more from the conclusion of that war in 1784, to the commencement of that with France in 1798; while about £49,000,000 have been paid from the battle of Waterloo up to 1849. Since then, a few more millions of the debt have been satisfied; but now we must look forward to a contrary state of things. It is to be hoped that when peace is restored, some energetic measures may be taken for the reduction of the principal of the national debt. The citizens of the United States have set us a good example in this respect. During the peace which succeeded the war of independence, they made great steps towards redeeming the debt it had forced upon them. In like manner they dealt with the debt contracted in their second war with England, until at length, in 1835, they extinguished what remained of the liabilities entailed by the two struggles with the parent state. They are now, I believe, pursuing a similar course with respect to the expenses arising from the Mexican war, and some other proceedings. In this they are worthy of imitation; and if we were prudent, we would not hesitate to take a leaf from their book whenever an opportunity presents itself. But the fact is, when a country is heavily taxed, any excess of revenue over expenditure is generally made use of by the Government of the day, as an opportunity for acquiring popularity by the remission of taxation. Few statesmen have enough of public virtue to resist this temptation, and follow the less immediately popular though more beneficial course of relieving the nation once for all of a portion of its weighty liabilities. But of late years we have witnessed so much reform in financial and commercial administration, we may hope for improvement in this respect likewise. The present war has already taught two important lessons. It has shown how vain were the expectations of those who had flattered themselves that the principal nations of Europe had grown too wise to appeal to the sword as the abiter of their differences; and it has also demonstrated that, much as we condemned our ancestors for contracting national debts, and leaving us to pay the interest until we choose to redeem the principal, we are quite ready to imitate their conduct when the choice lies between ourselves and posterity. These are lessons which ought not to be forgotten, and which I trust we may profit by when peace returns.

* In 1791, the national debt of the United States amounted to 75,460,000 dollars: and by 1812 it had been reduced to 45,200,000 dollars. During the war which followed, it rose to 127,330,000 dollars; and by 1835 it was extinguished. The present debt is 23,340,000, being less than one fifth of the annual interest on ours. The federal credit of the United States has been honourably maintained from the commencement of the revolutionary war down to the present period; and it is as unjust to cast any imputation on her national honour, on account of the misconduct of some of her provincial assemblies, as to assail our own for the flagrant dishonesty not unfrequently exhibited by our local bodies and trading corporations. "In Europe a very erroneous estimate has been formed, and very unjust conclusions entertained, principally, we believe, from ignorance, by confounding the non-paying and repudiating states with the revenue, debt, and expenditure of the federal government, and of the states which have honourably and religiously discharged their obligations."—Macgregor's Commercial Statistics, vol. iii. p. 1046.