

ON
THE ADVANTAGES AND DISADVANTAGES
OF
INDIRECT TAXATION;

AND A
SCHEME FOR DIRECT TAXATION,

WHICH
WOULD BE EQUITABLE AND COMBINE THE ADVANTAGES OF
AN INDIRECT TAX.

A PAPER READ BEFORE THE
DUBLIN STATISTICAL SOCIETY,

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BY
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Applications for leave to read papers should be made to the secretaries at least a *week* previously to the meeting.

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The subscription to the society is one pound entrance, and *ten shillings* per annum.

LIBRARY.

RESOLUTIONS OF COUNCIL, 6TH SEPTEMBER, 1850.

That the books that have been presented to the Society, and such books as shall hereafter be presented to or deposited with the Society, be placed under the care of Mr Richard D Webb as Librarian, to be by him lent to the members or to such other trust worthy persons as he may approve of.

That the Librarian keep a list of the books presented to or deposited with the Society; and a record of the persons to whom they are lent, with the dates of their being issued and returned.

The Council hope that members who have rare or valuable books or pamphlets on Political Economy or Statistics; will take advantage of the formation of the Library, by depositing such books or pamphlets for a time in the Library, so that the writers of papers may have an opportunity of consulting such books, without being involved in the expense of buying them. ing, in case of equality, a casting vote.

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On the Advantages and Disadvantages of Indirect Taxation, and a Scheme for Direct Taxation which would be equitable, and combine the advantages of an Indirect Tax. By William Hogan, Esq.

THERE are two methods of lightening the pressure of those taxes which must be raised for the expenses of government; one, by lessening the expenditure; and the other, by so arranging taxation, that it shall press as lightly as possible on the tax payer.

The first belongs to the department of politics; and this society, very properly, excludes all political discussion.

The second belongs to that department of economic science which falls within our rules, and I propose to bring under consideration the relative advantages and disadvantages of indirect, as compared with direct, taxation; and to suggest a scheme of direct taxation, which would be equitable, would avoid the disadvantages, and combine the advantages of indirect taxation, without disturbing the present distribution of the burden.

By indirect taxes I mean those imposed upon articles of consumption, as, for instance, tea, coffee, malt, &c. Every one admits, that the consumer of any article on which a tax had been paid before he purchased it, must pay, in addition to the real value of the article, much more than the tax levied by government. The merchant who pays the tax must have his profit on the money he advances to government, as well as on the price he pays for the article in question, together with interest on the money advanced. The system of bonding warehouses has lightened this portion of the burden. The retailer who purchases from the merchant must have his profit and interest, so that the consumer has to pay not only the tax levied by government from the merchant, but also the profit fairly and properly required by the merchant and the retailer, as well as interest.

There ought to be the same profit on a thousand pounds invested in the purchase of goods, whether they had been previously taxed or not; whether the whole sum went to pay for the cost of producing the goods, or half of it was a government tax.

The injury done to trade by the restrictions imposed by the authorities, in the preparation or production of the articles liable to the tax, is universally felt and acknowledged; and the great improvement in quality, increase of consumption, as well as reduction in price, which have followed a repeal of a tax in some cases, (as, for

instance, in the case of the duty on glass, which has been recently repealed,) leave no doubt on the mind on this point. It is stated in the *Penny Cyclopædia*, under the head "Excise," on the authority of a gentleman conversant with all the details of the art of calico printing, that "upon the same premises, with the same capital, and employing the same amount of labour, double the quantity of cloths are now printed, which could have been printed previously to the repeal of the duty, and to the consequent withdrawal of the excise officers from the works."

The expenses in which government is involved, in order to raise money by indirect taxation, are also very considerable. The expense incurred for the collection of the customs and excise last year was nearly two millions, of which upwards of half a million was for the preventive service alone.

It may be asked, if all this be true and so easily proved, why do most people object to the substitution of a direct tax, instead of indirect taxation? One reason is, that the tax proposed is an income tax, which every one feels would not be a fair or equitable adjustment of the burden; another is, that indirect taxation, levied on articles of consumption, has this great advantage,—*that the consumer has the power of taxing himself or avoiding taxation as he pleases*, and government has the satisfaction of knowing that he generally pleases to tax himself to the full extent of his means. Any man may regulate his expenditure as he thinks proper, and he has only to pay indirect taxes in proportion to his expenditure. This privilege of self-taxation is so highly prized, that the proposal to do it away by the imposition of an income tax, constitutes to many minds a valid and insurmountable objection to a tax which would press in an equal ratio on all, without regard to those just and rational motives by which men regulate their expenditure, and, as a consequence, the amount of their indirect taxation.

The reasons in support of an income tax, instead of any system of indirect taxation, are conclusive, when the community is considered as a *community merely*. It is lighter than any other, because it is collected at less expense, and all that is paid as a tax goes to the government. As regards the community, the substitution of an income tax for indirect taxation would only have the effect of lightening the burden, and placing it more conveniently on the back which is to bear it. But when we consider that the community is composed of individuals in very different circumstances, numerous cases occur to the mind in which it would press very unequally on individuals, lightening it on some considerably, and increasing it most unfairly on others; lightening it on those who are best able to bear it, and increasing it oppressively on others who ought to be spared as much as possible. An income tax also takes from men what they prize so highly; namely, that power of taxing themselves, which they enjoy under a system of indirect taxation. If a man chooses to exercise self-denial, from any cause, he exempts himself from a certain amount of taxation;

while he increases it by indulging himself, his family, and his friends. In this manner, a very large portion of the revenue, raised by indirect taxation, is voluntarily imposed and paid.

In order to explain how the imposition of an income tax, instead of indirect taxation, would not effect a fair and equitable adjustment, as between the individuals of the community, I shall state an extreme case. Suppose it were proposed to substitute an income tax for what is now raised by postage stamps, each individual would then pay a sum proportioned to his income, and might send out as many letters every day as he pleased. This would be a great boon to those merchants who send out perhaps one hundred circulars or other letters every day, but it would be an unjust imposition on those who do not write a hundred letters in a year. This would be no equitable adjustment of taxation; it would, in effect, be the imposition of increased taxation on the great majority of the nation for the relief of a few. An income tax, as a substitute for indirect taxation, would, in a similar manner, though in a less degree, be no fair equitable adjustment of taxation; it would take a smaller sum from many who now voluntarily tax themselves to a higher amount, and impose on many a much heavier tax than they now pay.

Take the case of a man who is in receipt of one thousand a year from realized property, which will descend to his family after his death, and compare it with that of a merchant or professional man who makes a thousand a year. The first generally spends his whole income, unless restrained by some peculiar cause. The second feels that he must not only support himself and his family, but lay by a considerable portion of his income, to provide the means of advancing his children, and supporting himself and his family, when health and strength must in the course of nature fail, and the income, which depends on his exertions shall cease. The first expends his thousand pounds a year, and his indirect taxation bears a certain proportion to his income. The second expends five hundred a year, and lays by as much, and his indirect taxation is about half what the first pays. Would it be a fair or equitable adjustment to charge both alike, because their present incomes are equal in amount? Would not the effect be to relieve one who does not need relief, and to throw an unjust burden on another, who ought rather to be encouraged, as increasing capital and the means of employment, and thereby increasing the national wealth?

No adjustment of taxation would be equitable, unless it was arranged on a principle of continuing the pressure on individuals in the same proportion as it now exists, or nearly so; neither would it be generally acceptable, unless each individual retained the power of regulating his own taxation as he can at present. It is clear that an income tax, if judged by these criteria, would neither be equitable nor popular as a substitute for indirect taxation, notwithstanding its other advantages.

We have seen that the advantages of indirect taxation are, that it is voluntarily imposed by each individual on himself; that he can increase or diminish it as his private circumstances require; that government rather gains, than loses, by allowing this liberty of self-taxation, as, in general, men tax themselves to the full extent of their means; and that an equitably adjusted direct tax could be levied at less expence and fall lighter on the individual tax payer. These advantages ought to be kept steadily in view.

We have also seen that the disadvantages of indirect taxation are, that the consumer must pay more than the tax imposed by government; that heavy expenses must be incurred for its collection, as for instance, the cost of the preventive service; that it operates injuriously upon trade and manufactures; and that the imposition of an income tax, in place of indirect taxation, would not be an equitable adjustment of the burden, and would altogether prevent that free action by which men tax themselves. The question now arises, whether any other system of direct taxation could be devised, which would not be liable to these objections, while it would retain all the advantages which have been urged in favor of an income tax. It appears to me that a tax of a certain per centage on a man's expenditure could be made just equal to his present indirect taxation; that by such a tax each would contribute to the revenue as much as he does at present, while he would be spared the expense of supporting the very cumbrous machinery which indirect taxation necessarily demands, together with mercantile profit and interest; and that he would be as free as he is present, to fix the amount of taxes he should pay, for it would still depend on the rate at which he lived. He could reduce the tax, by reducing his establishment, as he could increase it by a larger expenditure, just as it is at present.

The case of a few misers, who escape their share of taxation by their parsimonious style of living, and would also escape under a tax levied on expenditure, is not worth being taken into consideration. Those who live beyond their means are much more numerous than those who keep unreasonably within them, and on a miser's death, his heirs invariably more than make up for their ancestor's parsimony; and if the revenue should sustain a temporary loss, the accumulated capital would sooner or later find its way into the market, and increase the fund for the employment of labour.

The machinery for ascertaining and assessing the amount of each man's expenditure, would be at least as simple and as easily worked as that for ascertaining his income. The grounds for the estimate are almost patent, and no inquisitorial investigation would be necessary. In towns and cities all the inhabitants of houses of the same size in the same street, who kept the same number of servants, might be presumed to be living at the same rate. Additional servants, horses, and carriages would of course be estimated as increasing the rate by sums which most people already know, and the adjustments arising from peculiar circumstances would be easily

made, without unpleasant exposure or investigation. The poor-law valuation of every house and acre would greatly facilitate and guide the amount of the estimate all over the country. It would only remain to tax the floating population who inhabit parts of houses and frequently change their residence, and it would not be very difficult to deal with these according to their rank in life, and the appearance they kept up; wherever they went they could be required to produce a receipt for the tax then due, or to submit to a new assessment and pay it where they were found. No case would present so much difficulty as a valuation for income tax, and most cases would be simpler and more easily disposed of.

A tax of a certain per centage on expenditure could be made to produce to government just as much as the ordinary indirect taxes for which it was substituted. The revenue would come in a more convenient manner from the same sources, from the same individuals, and in the same proportions, while the common wants and indulgences of men would lead them to tax themselves as at present. A commencement might be made, by substituting an expenditure tax for that now levied on a few of the common necessities and luxuries of life, such as tea, coffee, and the like; and, as experience was gained, the expenditure tax would be gradually and safely substituted for almost every indirect tax.

As the fetters which indirect taxation imposes on trade were removed, it would expand in every direction, employment and consumption would increase, the necessities and comforts of life would be more generally enjoyed, and every one would gain by the change to an equitably imposed direct tax on expenditure.