

## CHAPTER III

### THE INCIDENCE OF TARIFFS FOR REVENUE

#### § 1

#### *Revenue and Protective Tariffs Distinguished*

So far we have discussed international trade mainly on the assumption that such trade is wholly free. As a matter of fact, trade is almost never wholly free between nations, though it is frequently so within the boundaries of a single nation. One of the largest, if not the largest, of free trade areas in the world, is the United States. Between one state and another, any tariff is unconstitutional. We have, therefore, free trade within our own borders, though not with outside nations. Almost, if not quite, every nation has a tariff wall, high or low as the case may be, which, usually, to a greater or less extent, hampers trade. Tariff duties at the boundaries of a country may be levied on goods imported or on goods exported, but in practice are much more likely to be levied on the former. We shall consider the economic effects of both import and export duties.

Import duties are of two sorts, revenue tariffs and protective tariffs. A strict revenue tariff is intended to raise revenue, without interfering with trade more than is necessary. High absolute free trade practically never exists between great nations, yet, in ordinary usage, free trade is said to exist when the tariff levied is levied according to strict revenue principles. A strictly revenue tariff, or so-called "free trade," means,

then, such an adjustment of taxes as will not, in any great degree, divert industry in the levying country out of the channels it would otherwise follow, *i.e.* it will so divert industry to the least possible extent consistent with collection of the needed revenue. A tariff levied by any country only on goods not produced within it, is such a tariff. An example is the British import tax on tea, an article not produced in Great Britain or Ireland. An import duty on goods which are, or can be, produced within the levying country, is also, properly speaking, a revenue duty, if it is accompanied by an internal tax of equal amount<sup>1</sup> on the domestic product. Such a tax does not have, and is not intended to have, any great effect on the location of industry. If the domestic producer is helped by the tax levied on imported goods, he is hindered to an approximately equal extent by the tax laid upon his own goods.<sup>2</sup> His position in relation to that of his foreign rivals remains, therefore, substantially the same as before.

A protective tax is intended, as such, primarily to divert industry from the channels it would otherwise follow into channels favored and encouraged by the tariff law. Its purpose is to encourage the home producer in some line or lines by levying a high tax on goods brought from abroad and thus discouraging the importation of such goods.

<sup>1</sup> If the domestic goods are of identical grade and therefore of the same value, a tax of the same per cent is also a tax of the same amount per unit of quantity. If the domestic goods are of different grade and different value, the question might arise whether a per cent tax or a tax per unit should be levied equally on both.

<sup>2</sup> Of course the tax, by necessitating a higher price, may decrease the total demand. If so, both home and foreign producers may make smaller sales. But so far as the public still buys the goods, these goods are produced where the conditions are relatively the best.

Expressing the matter in another way, we may say that both the revenue and the protective tariff are taxes on the consumer; but that in the former case the consumer pays this tax to the government, while in the latter he pays a tax to the home producer. A revenue tariff on imports can only be successful in its chief aim if it allows goods to be imported, because on all such goods a tax is paid which goes to the government and may be used for public purposes; while, on the other hand, a protective tariff is most successful in its aim in so far as it prevents goods from being imported, because then its effect is to raise the price which the home producers can charge. In this latter case, the government gets little or no revenue, and the tax, if we call it such, which the consumer pays, is paid, in the main, to the home producers, rather than to the government. In other words, the protective tariff makes the consumer buy of the home producer at prices higher than the home producer could otherwise charge.

## § 2

*When the Burden of an Import Duty Levied for Revenue  
is Borne by the Levying Country*

A revenue import duty is commonly supposed to be shifted by the importers on whom it is first imposed, to the consumers, in the levying country, of the taxed goods. In the complications of modern trade, with many countries taking part, this result is perhaps very nearly realized. But it is perhaps never exactly realized, and it is not difficult to imagine circumstances under which the main burden of the tax would fall elsewhere than on the consuming public of the tariff levying country.

Under sufficiently favorable (to the levying country) circumstances, a part, or all, of the tax might fall upon the exporting country, or, conceivably, the exporting country might lose more than the tax, to the profit of the levying country.

Let us, in discussing the various possible shiftings of an import revenue duty, use again our familiar illustration, the assumed trade between Ireland and Canada. If Canada, where a week's labor will produce, according to our first assumptions, 20 bushels of wheat at \$1 a bushel or 14 yards of linen at \$1.43 a yard, levies an import duty of 10 cents a yard on linen from Ireland, which would otherwise sell for \$1 a yard, this linen will sell for \$1.10. Irish linen will still be bought by Canadians in preference,<sup>1</sup> since Canadian linen cannot be sold for less than \$1.43. The tax is levied first on the importers. The importers will not, perhaps cannot, remain in business if they are unable to shift the tax, for to pay it themselves will make their profits (if these have been subject to competition and are therefore approximately the same as in other kinds of business) less than the same labor and capital will yield in other lines, and will very likely even turn them into losses. The foreign producers will not (unless combined in a monopoly and previously earning monopoly profits, and not then except under very improbable circumstances<sup>2</sup>) consent to suffer the loss, since this will reduce

<sup>1</sup> If there is any likelihood that such will not be the case, and if the tariff is to be levied for revenue, not for protection, a tax as great should be placed on the home produced goods.

<sup>2</sup> *I. e.* if the monopoly will lose less to bear the whole tax than to shift it and suffer a reduction of its sales. A monopoly will itself pay, without trying to shift, a tax levied directly on monopoly profits, since the monopoly can best pay such a tax by maintaining the same prices, *i. e.* prices yielding the highest net return. But a tax which increases in proportion to the number of sales, a monopoly will

their profits below the average level in their country, in other lines. The supply of Irish linen offered in Canada will not, therefore, equal the demand, unless the price rises by 10 cents a yard.

If the demand of Canada for linen is absolutely inelastic, the shifting proceeds no further; the 10 cents a yard remains as a continuing burden on Canadian consumers of linen. A certain amount of linen was wanted at the former and lower price, and the same amount is wanted at the somewhat higher price. The 10 cents additional goes to the Canadian government. The same amount as before must be paid to linen manufacturers in Ireland. Canadian wheat prices will not change, and wheat consumers in Ireland will buy the same amount as before of Canadian wheat. The trade will be in equilibrium at just the same point, as to quantity of money in each country and as to amount of cloth required to buy a bushel of wheat, as before. The net result is to take 10 cents a yard from each Canadian purchaser of linen imported from Ireland, and transfer this 10 cents to his government. If we omit reference to money and money prices, we may say that the tax has left just where it was before, the rate of interchange between the two commodities, linen and wheat, which equalized supply of and demand for each in terms of the other; and that the Canadian government has simply taken in taxation, from its own subjects, a part of their gain from the trade.

be more likely to endeavor to shift, and will not so greatly fear a resulting decrease of its sales, since this involves a decreased tax also.

## § 3

*When the Burden of an Import Duty Levied for Revenue is Shifted by the Levying Country to Another or to Other Countries*

But the situation is otherwise if Canada's demand for Irish linen is *elastic* while, at the same time, Ireland's demand for Canadian wheat is *inelastic*. If the demand of Canada for linen imported from Ireland is elastic, then the effect of the ten cents tax, in raising the price of the linen to \$1.10 a yard, will be to decrease the Canadian demand for the linen. In consequence, Canada will have a smaller money obligation to Ireland. Yet if Ireland continues to buy as much wheat as before, the yearly money obligations from Ireland to Canada will be the same as if the tax were not in force. There will consequently be an excess flow of money to Canada. Canadian prices will rise and Irish prices will fall. Of course, if the Irish demand for wheat is elastic, or if Ireland can as cheaply buy her wheat elsewhere, Ireland's demand for wheat will fall off as soon as the price rises very slightly. Then there can be little redistribution of the money metal, and Canada can shift very little of the tax upon Ireland. The net result is less trade. Canadians buy less cloth and sell less wheat. But if the Irish demand for Canadian wheat is *inelastic*, continuing at about the same amount despite rise of prices, then the tax may seriously decrease Ireland's gain from the trade, to Canada's advantage.

To illustrate this possibility, let us suppose that, in consequence of the tax on linen of ten cents a yard, which raises the price to Canadian consumers, the demand for linen is so decreased in Canada that there is

a net inflow of gold from Ireland; and let us suppose, further, that the inflow of gold does not cease until the supply of money in Canada is  $\frac{1}{4}$  of its former amount, and that of Ireland  $\frac{1}{5}$  of what it was. Then Canadian wheat would sell for  $\frac{1}{4}$  of \$1 or about \$1.09 a bushel, while Irish linen, not counting the tax, would sell for \$0.90 instead of \$1 per yard, or, with the ten cents tax, at \$1 instead of \$1.10. Let us suppose that, at this new set of prices, Canada again has to pay Ireland as much for linen each year as Ireland has to pay Canada for wheat.

How does the case stand as to gains and losses of the two communities? The Canadians are still getting their linen for \$1 a yard, the price without the tax having fallen to \$0.90. And they are getting \$1.10 a bushel for wheat instead of \$1. The Canadian government is securing its ten cents tax on every yard of linen; yet Canadian consumers are paying no more than before the tax was laid, and Canadian producers are getting a higher price for their wheat. The people of Ireland are paying to Canada the tax and more than the tax.<sup>1</sup> The linen manufacturing interests of Ireland are receiving \$0.90 instead of \$1 a yard for their linen; they are paying more for wheat. It is still worth while for them to engage in the trade. They can still secure more wheat in exchange for a week's production of linen than they can themselves produce in a week (except on their best lands). But they gain much less from the trade than formerly. It should be added that the taxing country, Canada, may gain also in lower prices of other Irish goods than linen cloth, resulting from the redistribution of money, and in their ability to buy more of

<sup>1</sup> Mill, *Principles of Political Economy*, Book V, Ch. IV, § 6.

these goods because of the lower prices and their own higher incomes.

We must guard ourselves against the assumption that the whole loss falls upon the Irish linen manufacturing population as distinguished from Irish producers in other lines.<sup>1</sup> The loss is general. The linen producers would not remain in that business and alone bear all the loss, since labor and capital tend always to leave relatively unprofitable for relatively profitable activities. They only sell linen more cheaply because of a decrease of money in Ireland, which tends to lower in a like proportion the prices of all Irish goods and Irish labor.<sup>2</sup> Likewise, the higher price of Canadian wheat falls alike on all consumers of it in Ireland.

On one hypothesis, however, the price of linen made in Ireland would fall by a greater per cent than other Irish prices, viz. on the hypothesis (likely to be in conformity with fact) that the profits of linen production are greater in some factories and on some sites in Ireland than on other sites in that country. If the tax decreases the demand for the linen in Canada, the Irish manufacturers on the better sites may alone be able to satisfy the demand remaining; and they may be willing to do so, because of their relatively advanta-

<sup>1</sup> Mill, *Principles of Political Economy*, Book V, Ch. IV, § 6.

<sup>2</sup> Strictly speaking, a  $\frac{1}{2}$  decrease of money in Ireland would, under the conditions here assumed, cause a fall in the prices of Irish goods, of more than  $\frac{1}{2}$ . For it would cause a fall of  $\frac{1}{2}$  in average prices, including the price of Canadian wheat and its products so far as bought and sold in Ireland, e.g. by middlemen. Since these goods would be higher in price, other goods must fall in greater proportion than 50 per cent. Whether the fall in the prices of other goods would be much greater than 50 per cent. would depend upon the importance, in the Irish market, of the Canadian product. If trade with Canada is assumed to be of slight importance, other prices would fall by about  $\frac{1}{2}$ , otherwise by more. But no good purpose would be served by complicating the text with these refinements.



geous positions, at prices lower than could be afforded by marginal manufacturers (*e.g.* those on the poorest sites), rather than go into other occupations. The loss to Ireland, due to Canada's tax, would then fall with greatest weight on the linen producers of Ireland, or on the owners of sites adapted to linen manufacture. A surplus gain, from better organization or from more advantageous situation, which these classes had previously enjoyed, would be lessened.

As regards the ultimate burden of the tax, we reach no different conclusion if we assume the currencies of Ireland and Canada to be based on independent standards and prices in the one country to be entirely unrelated to prices in the other.<sup>1</sup> Suppose each to have a paper money standard, not redeemable in gold. The ten cents tax discourages Canadian purchase of Irish linen. Ireland continues to buy about the usual amount of Canadian wheat. The balance is settled in gold. In Ireland, gold becomes scarcer and has more purchasing power; in Canada, it becomes more plentiful and has less purchasing power, per unit quantity. Irish paper money will buy less gold. Canadian paper money will buy more gold. Canadian wheat remains \$1 a bushel in terms of Canadian money, but it requires more gold than before to buy it, and more Irish money to buy the gold. The cost to the people of Ireland of Canadian goods tends to rise. The cost to Canadians of the products of Ireland tends to fall. Omitting, altogether, consideration of money prices, we may say that the tax, by discouraging Canadians from trading, has made necessary a new, and, for Canada, a more favorable rate of interchange of goods, to equalize supply and demand.

<sup>1</sup> Cf. Part I. Ch. VI. §§ 6, 7, 8, 9.

The illustrative figures which have been given show a loss to Ireland greater than the amount of Canada's tax.<sup>1</sup> Ireland's loss, however, might be the equivalent

<sup>1</sup> Professor Edgeworth seems to take the view (*Economic Journal*, Vol. VII, p. 397) that this extreme possibility is a consequence of the tax being collected, in practice, in money, and that if it were collected in kind, Ireland (in our example) could not be made to pay more than the tax. His thought apparently is that, however elastic Canada's demand for linen, if Ireland paid the tax in linen, in addition to giving Canadian consumers as much linen as before for the same amount of wheat as before, the trade would again be in equilibrium; that the Canadian consumers, as distinguished from the government, would then be entirely unaffected by the tax, and would be as willing to buy linen with wheat as previously and in as large quantities; and that Ireland, therefore, would not have to pay more than the tax to get the accustomed supply of wheat from Canada.

A correct distinction between the circumstances under which more than the burden of the tax might conceivably be shifted upon Ireland and the circumstances under which the full amount of the tax would be the limit of this burden, is based on what the Canadian government does with the tax and not at all on whether it is initially collected in money or in kind. We may rightly conclude that a Canadian import tax collected in linen could not impose a greater burden upon Ireland than the amount of the tax, if we suppose the Canadian government to throw the linen it receives as taxes into the sea or if we assume that it uses the linen so received for a purpose which would otherwise not be carried out. We may reach exactly the same conclusion with equal certainty, however, if we suppose the tax to be initially collected in money and the money then used to buy the linen to be disposed of in one of these two ways. If the burden of this tax collected in money falls entirely upon Ireland, then Ireland must sell enough more linen (assuming she has no other exports) to pay it. But the Canadian government expends the entire money returns from the tax for linen which, otherwise, by our present hypothesis, the government would not buy. In other words, Canada buys as much more linen as Ireland must sell additional to pay the tax. If Ireland, therefore, thus bears the entire burden of the tax by exporting extra linen, the remainder of her linen will find the same market as previously and will bring her as much wheat as before.

But if the Canadian government would use about the same amount of linen anyway, then for the government to get this linen by taxing linen imports in kind (and likewise by taxing them in money) instead of by purchasing the desired linen with the proceeds of internal taxes, means that, whereas the government before, in effect, offered say wheat (if the money equivalent is offered, our conclusion would be the same) taken in taxes for the desired linen, now it offers nothing. Both individual Canadian consumers and the Canadian government had been offering wheat for linen. Now only the former are doing so. The people of Ireland, if the Canadian wheat is necessary for them, must now buy as much wheat with linen (assuming them to have nothing else exportable) from

of the tax, or it might be considerably less than the tax. Thus, the equilibrium of trade might be restored when Canadian wheat had gone up to \$1.03 a bushel, and Irish linen down to \$0.96 a yard, making \$1.06 with the tax. Then Canadians would be paying 6 cents of the 10 cents tax on each yard, but getting back 3 cents of it in the higher price of wheat. Ireland would be paying the larger part of the tax, but Canada would have failed to shift all of it upon Ireland.

Two conditions, then, or sets of conditions, favor the tax-levying country in any attempt to shift the burden of the tax upon the country trading with it. In the first place, the tax-levying country is advantaged by

the Canadian people individually as they previously bought from individual Canadians and the Canadian government together. If the Canadian people, as individuals, have a comparatively elastic demand for linen, Ireland must offer them for their individual consumption, besides what their government gets, about as much linen as before per bushel of wheat or they will not trade to anything like the former extent. Ireland must therefore pay most or all of the tax. But Ireland will then only be getting the wheat she previously got from Canadians as individuals and will not be getting what she previously got as a result of her trade with the Canadian government. This additional amount she must now get (for we are supposing her demand to be inelastic) from Canadians as individuals, and to do so she must sell more linen. The result may be, even though Canada's demand for linen is somewhat elastic, that the marginal utility of linen to Canadian consumers falls, and that Ireland must offer more than before, per bushel of wheat, besides paying the tax.

It is true that if Canadians are released from a tax they themselves previously paid, they may want more linen than before, but the probability is that their greater prosperity so resulting would be enjoyed in other ways also and would but slightly affect their demand for linen. And unless the entire gain from remission of the taxes formerly spent by the government for linen were now spent by the Canadian people for additional linen beyond their previous individual consumption, the new demand resulting from their greater prosperity would not take the place of the former demand by their government.

We cannot safely conclude, therefore, that if the tax is collected in kind, Ireland cannot possibly lose more than its equivalent. As is shown in the text, any great shifting of taxes to foreign nations is rather a theoretical possibility than a practical probability, but if it is a theoretical possibility when collected in money, it is also a theoretical possibility, and to the same extent, when collected in kind.

having a very elastic demand for the goods of the other, coupled with monopoly of consumption of the goods of the other.<sup>1</sup> In the second place, the tax-levying country is aided if it has a monopoly of production of the goods it sells while the other country has an inelastic demand for those goods.<sup>2</sup>

In practice, the conditions under which a country can shift all or most of its import taxes upon another, are unlikely to occur, or, at least, are unlikely to occur in conjunction. To begin with, we cannot expect that, in general, the country exporting the taxed product will have an inelastic demand for the product or products of the taxing country. And, secondly, a very slight change in relative prices may bring additional articles within the demand of the taxing country, thus maintaining the equilibrium of trade nearly where it was before. To illustrate, a slight rise of Canadian prices and a slight fall of Irish prices may induce Canadians to buy potatoes, silks, and laces, as well as linen, in Ireland. Then equilibrium may result without a sufficient change in the rate of trade to throw upon Ireland much of the burden of the import tax.

Thirdly, and probably most important of all, the taxing country cannot ordinarily shift much of the burden of its import duties to another, because third countries offer to this other a competing or alternative trade. Thus, Canada probably cannot throw upon Ireland the burden of a tax on Canada's imports, because Ireland has the alternative of trading with India, Argentina, the United States, and other countries. If Canada buys less Irish linen because of the tax, so that money

<sup>1</sup> Bastable, *The Theory of International Trade*, fourth edition, London (Macmillan), 1905, p. 116.

<sup>2</sup> *Ibid.*, pp. 116, 117.

flows into Canada and Canadian prices rise, Ireland will buy wheat of India, the United States, Argentina, or Russia, rather than pay higher prices for Canadian wheat. In short, the Canadian wheat producers must take the same prices charged elsewhere, or export no wheat.<sup>1</sup> Likewise, rather than sell their linen to Canada for a much lower price than before, the people of Ireland would export more to other markets. Most, if not all, of the tax would be pretty likely to fall upon the people of the taxing country; and even if this were not true, the attempt to tax other nations is a game at which all can play.

The fact that other countries than Ireland and Canada are to be reckoned with, means, also, that the general price level in Ireland would probably fall very little as a consequence of Canada's tax. Though an inflow of money into Canada due to her decreased imports might somewhat raise the level of Canada's prices, any corresponding fall in Irish prices would make Ireland a good place to buy in and would cause money to flow from third and fourth countries into Ireland, even if Canadians were prevented by their import tax from buying in Ireland. The fall of prices would, then, if it took place, be distributed over several countries and would not probably be confined to Ireland. It would be very slight, therefore, in any country. The chief effect of the redistribution of gold consequent on Canada's tax would be seen in a rise of Canadian prices and not in a fall of Irish prices.

<sup>1</sup> The exact effect, in the absence of any disturbing factors, would be a transference, in part, of the Irish demand for wheat to these other countries; a very slight increase, generally, of the price of wheat, and, therefore, a very slight increase of the price of the Canadian wheat still exported; and a very slight decrease in the price received by Ireland for linen.

*The Ultimate Incidence of a Revenue Duty on Exports*

Duties for revenue may be levied on exports, if so desired, as well as on imports, though the present practice is to levy them on imports. Here, again, there are various possibilities as to shifting. Suppose that Canada levies a duty of ten cents a bushel on the export of wheat. The production of wheat, in Canada, for export, would be decreased, unless the tax could be shifted upon foreign consumers. If the tax could not be shifted, those wheat producers who were making but the usual return to industry (the marginal producers) would change to another line of production. If the wheat consumers of Ireland (and of other countries getting their wheat from Canada) should have an absolutely inelastic demand for wheat and could get wheat nowhere else, they would pay the higher price for wheat rather than not get the usual amount of it, and thereby would be paying the tax. In fact, if their demand were altogether inelastic, they would soon be paying more than the tax.<sup>1</sup> For the whole amount paid by purchasers of Canadian wheat, including the part collected by the Canadian government as export tax, goes to Canada. This means that if the wheat consumers of Ireland (and elsewhere) paid the tax in addition to what they were previously paying, there would be a flow of gold into Canada. Canadian prices would rise. Prices in Ireland would fall. Consumers in Ireland would then be paying more for wheat by the amount of the tax plus the amount of rise, (due to gold flow) of net price; while the fall of Irish prices would mean cheaper linen for Canada. A bushel of

<sup>1</sup> Mill, *Principles of Political Economy*, Book V, Ch. IV, § 6.

wheat, even after subtraction of the tax, would buy more linen than before.

But if Ireland's demand for wheat is decidedly elastic, or can be easily satisfied from other sources of supply, then the increased price resulting from the export tax will cause an immediate falling off of Irish purchases. Let us suppose this falling off of Irish demand to be sufficient so that, even with the addition to the price, of the tax, the money obligations from Ireland to Canada are less than before. Then a balance of gold will flow from Canada to Ireland. Canadian prices will fall and prices in Ireland rise. If Canadian demand for linen is comparatively inelastic, this flow and change of prices may go to a considerable extent before Canadian demand for linen decreases and Irish demand for wheat (and other Canadian products) increases enough to bring equilibrium. At any rate, the fall of Canadian and rise of Irish prices will mean that at least a part of Canada's export tax has been shifted back upon Canada. It is conceivable that Canadian wheat will fall so far in price that, even with the tax, Ireland gets it as cheaply as or more cheaply than before, while Canada pays more for Irish linen. In that case, Canada, so far from taxing another country or other countries, would herself lose more than the tax. If we assume Canada and Ireland to have different standards of value, our conclusions will be the same.<sup>1</sup>

It should be clearly understood that the loss to Canada (assuming the result just discussed) does not fall, if the taxed article is produced at nearly constant cost, on the producers of that article alone. For these producers would refuse to accept lower returns and remain in the

<sup>1</sup> Cf. § 3 of this chapter (III of Part II).

same business when other lines were more profitable. They accept the lower prices when and because the outflow of money makes Canadian prices, generally, lower.

But the goods taxed may be produced under conditions of sharply increasing cost (*i.e.* by some producers less advantageously than by others). This may be the case with wheat, chosen as our illustration of the taxed article. On this assumption, much of the loss due to the tax may fall on the owners of wheat lands. Those producing at the margin of cultivation (those just making enough to keep them in the industry) will refuse to bear this loss, and will cease producing. Those producing under more favorable circumstances (on more fertile or better situated land) may prefer to suffer considerable loss out of what would have been their surplus or rent,<sup>1</sup> rather than to cease wheat raising.<sup>2</sup> After the tax has diminished foreign demand for Canadian wheat, the more advantageously situated Canadian wheat producers can fill this smaller demand at lower net prices than before, and still realize, because of their advantages of soil and situation, a reasonable profit. A price sufficient to keep the poorer situated producers in business, plus the tax, will not be paid by enough foreign consumers to take the previous annual supply of Canadian wheat. The price will fall. Canadian owners of wheat lands will derive a smaller return from those lands. If there is a surplus flow of gold from Canada, because of excess purchases of Irish linen over sales of Canadian wheat, the price of the wheat will fall still further, along with prices of other Canadian

<sup>1</sup> Cf. Bastable, *The Theory of International Trade*, p. 114.

<sup>2</sup> Cf. Ch. II (of Part II), § 4.



goods. But it will still be true that a special loss has fallen upon the owners of wheat lands.<sup>1</sup>

As in the case of the import, so in the case of the export revenue tax, we must emphasize the unlikelihood that a country will be able to shift the principal part of its tax burden upon other countries. So soon as trade with Canada becomes, because of the tax, appreciably less profitable to Ireland, the latter country is likely to trade more with other nations and communities, and less with Canada. For this reason particularly, as well as the fact that the other country, Ireland, is quite as likely as the tax-levying country, to have an elastic demand for the goods it imports, there is a reasonable probability that the people of each country will themselves have to pay, in the main, the cost of running their own government and carrying on its functions.

### § 5

#### *Summary*

Revenue tariffs we have classified as import and export tariffs. A revenue tariff, as such, is expected to secure revenue for government with the least possible effect on industry. A protective tariff is specifically intended to turn industry into channels it would otherwise not enter.

Revenue tariffs on imported goods may fall on the consumers in the tax-levying country, or may, under certain hypothetical circumstances, fall upon the country (or countries) exporting the taxed goods. If the demand for the goods in the taxing country is elastic; if the

<sup>1</sup> In a similar way it might be shown that, even if Canada succeeds in throwing the main burden of the tax upon Ireland, owners of Canadian wheat lands might, as a separate class, have their prosperity decreased.

demand for the goods produced in it is in other countries comparatively inelastic; and if these other countries have no other place to sell their exports and buy the goods they desire; then the tax burden may be shifted in part, or in whole, or more, upon them. But in the actual commercial world, circumstances are not likely thus to favor the tax-levying country.

In the case of tariffs on exported goods, the hypothetically possible consequences are not dissimilar. A sufficiently inelastic demand from other countries, for the taxed goods, will throw upon them a burden perhaps equal to or in excess of the tax, to the advantage of the taxing country. On the other hand, the country taxing its exports may, if the foreign demand for the taxed goods is elastic while its demand for foreign goods is inelastic, not only pay, itself, the entire tax, but may also carry on its trade with foreign countries at a less favorable rate of interchange to it, than before. The general rule probably is that a government is mainly supported by those subject to it. If it were possible to support government by shifting taxes upon foreign countries, all nations would be likely to attempt it, with consequent cancellation or partial cancellation of effects.