

CHAPTER VIII.

TARIFFS FOR REVENUE.

Tariffs may embrace duties on exports as well as on imports; but duties on exports are prohibited by the Constitution of the United States and are now levied only by a few countries, such as Brazil, and by them only on a few articles. The tariff, as we have to consider it, is a schedule of taxes upon imports.

The word "tariff" is said to be derived from the Spanish town of Tarifa, near Gibraltar, where the Moors in the days of their power collected duties, probably much after the manner of those Chinese local custom-houses called "squeeze stations." But the thing is older than the name. Augustus Caesar levied duties on imports into Italy, and there were tariffs long before the Caesars.

The purpose in which tariffs originate is that of raising revenue. The idea of using them for protection is an afterthought. And before considering the protective function of tariffs it will be well to consider them as a means for collecting revenue.

It is usually assumed, even by the opponents of protection, that tariffs should be maintained for revenue. Most of those who are commonly called free traders might more properly be called revenue-tariff men. They object, not to the tariff, but only to its protective features, and propose, not to abolish it, but only to restrict it to revenue purposes. Nearly all the opposition to the protective system in the United States is of this kind, and in current discussion a tariff for revenue only is usually assumed to be the sole alternative to a tariff for protection. But since there are other ways of raising revenue than by tariffs this manifestly is not so. And if not useful for

protection, the only justification for any tariff is that it is a good means of raising revenue. Let us inquire as to this.

Duties on imports are indirect taxes. Therefore the question whether a tariff is a good means of raising revenue involves the question whether indirect taxation is a good means of raising revenue.

As to ease and cheapness of collection indirect taxation is certainly *not* a good means of raising revenue. While there are direct taxes, such as taxes on real estate and taxes on legacies and successions, from which great revenues can easily and cheaply be collected, the only indirect taxes from which any considerable revenue can be obtained require large and expensive staffs of officials and the enforcement of vexatious and injurious regulations. To collect the indirect tax on tobacco and cigars, France and some other countries make the trade and manufacture a strict government monopoly, while Great Britain prohibits the culture of tobacco under penalty of fine and imprisonment—a prohibition particularly injurious to Ireland, where the soil and climate are in some parts admirably adapted to the growth of certain kinds of tobacco. In the United States we maintain a costly inquisitorial system which assumes to trace every pound of tobacco raised or imported, through all its stages of manufacture, and requires the most elaborate returns of private business to be made to government officials. To collect more easily an indirect tax upon salt the government of British India cruelly prevents the making of salt in many places where the natives suffer from the want of it. While indirect taxes upon spirituous liquors, wherever resorted to, require the most elaborate system of prohibition, inspection and espionage.

So with the collection of indirect taxes upon imports. Land frontiers must be guarded and sea-coasts watched; imports must be forbidden except at certain places and under regulations which are always vexatious and frequently entail wasteful delays and expenses; consuls must be maintained all over the world, and no end of oaths required; vessels must be

watched from the time they enter harbor until the time they leave, and everything landed from them examined, down to the trunks and satchels and sometimes the persons of passengers, while spies, informers and "bloodhounds" must be encouraged.

But in spite of prohibitions, restrictions, searchings, watchings and swearings, indirect taxes on commodities are largely evaded, sometimes by the bribery of officials and sometimes by the adoption of methods for eluding their vigilance, which though costly in themselves, cost less than the taxes. All these costs, however, whether borne by the government or by the first payers (or evaders) of the taxes, together with the increased charges due to increased prices, finally fall on consumers, and thus this method of taxation is extremely wasteful, taking from the people much more than the government obtains.

A still more important objection to indirect taxation is that when imposed on articles of general use (and it is only from such articles that large revenues can be had) it bears with far greater weight on the poor than on the rich. Since such taxation falls on people not according to what they have, but according to what they consume, it is heaviest on those whose consumption is largest in proportion to their means. As much sugar is needed to sweeten a cup of tea for a working-girl as for the richest lady in the land, but the proportion of their means which a tax on sugar compels each to contribute to the government is in the case of the one much greater than in the case of the other. So it is with all taxes that increase the cost of articles of general consumption. They bear far more heavily on married men than on bachelors; on those who have children than on those who have none; on those barely able to support their families than on those whose incomes leave them a large surplus. If the millionaire chooses to live closely he need pay no more of these indirect taxes than the mechanic. I have known at least two millionaires—possessed not of one, but of

from six to ten millions each—who paid little more of such taxes than ordinary day-laborers.

Even if cheaper articles were taxed at no higher rates than the more costly, such taxation would be grossly unjust; but in indirect taxation there is always a tendency to impose heavier taxes on the cheaper articles used by all than on the more costly articles used only by the rich. This arises from the necessities of the case. Not only do the larger amounts of articles of common consumption afford a wider basis for large revenues than the smaller amounts of more costly articles, but taxes imposed on them cannot be so easily evaded. For instance, while articles in use by the poor as well as the rich are under our tariff taxed fifty and a hundred; and even a hundred and fifty per cent., the tax on diamonds is only ten per cent., and this comparatively light tax is most difficult to enforce, owing to the high value of diamonds as compared with their bulk. Even where discrimination of this kind is not made in the imposition of indirect taxation, it arises in its collection. Specific taxes fall more heavily upon the cheaper than the costlier grades of goods, while even in the case of *ad valorem* taxes, undervaluation and evasion are easier in regard to the more valuable grades.

That indirect taxes thus bear far more heavily on the poor than on the rich is undoubtedly one of the reasons why they have so readily been adopted. The rich are ever the powerful, and under all forms of government have most influence in forming public opinion and framing laws, while the poor are ever the voiceless. And while indirect taxation causes no loss to those who first pay it, it is collected in such insidious ways from those who finally pay it that they do not realize it. It thus affords the best means of getting the largest revenues from the body of the people with the least remonstrance against the amount collected or the uses to which it is put. This is the main reason that has induced governments to resort so largely to indirect taxation. A direct tax, where its justice and necessity

are not clear, provokes outcry and opposition which may at times rise to successful resistance; but not only do those indirectly taxed seldom realize it, but it is extremely difficult for them to refuse payment. They are not called on at set times to pay definite sums to government agents, but the tax becomes indistinguishably blended with the cost of the goods they buy. When it reaches those who must finally pay it, together with all costs and profits of collection, it is not a tax yet to be paid, but a tax which has already been paid, some time ago, and many removes back, and which cannot be separated from other elements which go to make up the cost of goods. There is no choice save to pay the tax or go without the goods.

If a tax-gatherer stood at the door of every store, and levied a tax of twenty-five per cent. on every article bought, there would quickly be outcry; but the very people who would fight rather than pay a tax like this will uncomplainingly pay higher taxes when they are collected by storekeepers in increased prices. And even if an indirect tax is consciously realized, it cannot easily be opposed. At the beginning of our Revolution the indirect tax on tea levied by the British government, without the consent of the American colonies, was successfully resisted by preventing the landing of the tea, but if the tea had once got into the hands of the dealers, with the taxes on it paid, the English government could have laughed at the opposition of the patriots. When in Ireland, during the height of the Land League agitation, I was much struck with the ease and certainty with which an unpopular government can collect indirect taxes. At the beginning of the century the Irish people, without any assistance from America, proved in the famous Tithe war that the whole power of the English government could not collect direct taxes they had resolved not to pay; and the strike against rent, which so long as persisted in proved so effective, could readily have been made a strike against direct taxation. Had the government which was enforcing the claim of the landlords depended on direct taxation, its resources could thus have been

seriously diminished by the same blow which crippled the landlords; but during all the time of this strike the force used to put down the popular movement was being supported by indirect taxation on the people who were in passive rebellion. The people who struck against rent could not strike against taxes paid in buying the commodities they used. Even had rebellion been active and general, the British government could have collected the bulk of its revenues from indirect taxation, so long as it retained command of the principal towns.

It is no wonder that princes and ministers anxious to make their revenues as large as possible should prefer a method that enables them to "pluck the goose without making it cry," nor is it wonderful that this preference should be shared by those who get control of popular governments; but the reason which renders indirect taxes so agreeable to those who levy taxes is a sufficient reason why a people jealous of their liberties should insist that taxes levied for revenue only should be direct, not indirect.

It is not merely the ease with which indirect taxes can be collected that urges to their adoption. Indirect taxes always enlist active private interests in their favor. The first rude device for making the collection of taxes easier to the governing power is to let them out to farm. Under this system, which existed in France up to the Revolution, and still exists in such countries as Turkey, persons called farmers of the revenue buy the privilege of collecting certain taxes and make their profits, frequently very large, out of the greater amount which their vigilance and extortion enable them to collect. The system of indirect taxation is essentially of the same nature.

The tendency of the restrictions and regulations necessary for the collection of indirect taxes is to concentrate business and give large capital an advantage. For instance, with a board, a knife, a kettle of paste and a few dollars' worth of tobacco, a competent cigar-maker could set up in business for himself, were it not for the revenue regulations. As it is, in the United

States, the stock of tobacco which he must procure is not only increased in value some two or three times by a tax upon it; but before the cigar-maker can go to work he must buy a manufacturer's license and find bonds in the sum of five hundred dollars. Before he can sell the cigars he has made, he must furthermore pay a tax on them, and even then if he would sell cigars in less quantities than by the box he must buy a second license. The effect of all this is to give capital a great advantage, and to concentrate in the hands of large manufacturers a business in which, if free, workmen could easily set up for themselves.

But even in the absence of such regulations indirect taxation tends to concentration. Indirect taxes add to the price of goods not only the tax itself but also the profit upon the tax. If on goods costing a dollar a manufacturer or merchant has paid fifty cents in taxation, he will now expect profit on a dollar and fifty cents instead of upon a dollar. As, in the course of trade, these taxed goods pass from hand to hand, the amount which each successive purchaser pays on account of the tax is constantly augmenting. It is not merely inevitable that consumers have to pay considerably more than a dollar for every dollar the government receives, but larger capital is required by dealers. The need of larger capital for dealing in goods that have been enhanced in cost by taxation, the restrictions imposed on trade to secure the collection of the tax, and the better opportunities which those who do business on a large scale have of managing the payment or evading the tax, tend to concentrate business, and, by checking competition, to permit large profits, which must ultimately be paid by consumers. Thus the first payers of indirect taxes are generally not merely indifferent to the tax, but regard it with favor.

That indirect taxation is of the nature of farming the revenue to private parties is shown by the fact that those who pay such taxes to the government seldom or never ask for their reduction or repeal, but on the contrary generally oppose such

propositions. The manufacturers and dealers in tobacco and cigars have never striven to secure any reduction in the heavy taxes on those articles, and the importers who pay directly the immense sums collected by our custom-houses have never grumbled at the duties, however they may grumble at the manner of their collection. When, at the time of the war, the national taxation was enormously increased there was no opposition to the imposition of indirect taxation from those who would thus be called upon to pay large sums to the government. On the contrary, the imposition of these taxes, by enhancing the value of stock in hand, made many fortunes. And since the war the main difficulty in reducing taxation has been the opposition of the very men who pay these taxes to the government. The reduction of the war tax on whisky was strongly opposed by the whisky ring, composed of great distillers. The match-manufacturers fought bitterly the abolition of the tax on matches. Whenever it has been proposed to reduce or repeal any indirect tax Congress has been beset by a persistent lobby urging that, whatever other taxes might be dispensed with, that particular tax might be left in full force. In order to provide an excuse for keeping up indirect taxes all sorts of extravagant expenditures of the national money have been made, and hundreds of millions have been voted away to get them out of the Treasury.⁶ Despite all this extravagance, we have a surplus; yet we go on collecting taxes we do not need because of the opposition of interested parties to their reduction. This opposition is of the same kind and springs from the same motives as that which the farmers of the revenue under the old French system would have made to the abolition of a tax which enabled them to extort two millions of francs from the French people for one million which they paid to the government.

⁶Just now (1886) the interests concerned in keeping up indirect taxation are urging a worse than useless scheme for spending enormous sums on iron-clad coast defenses.

Now, over and above the great loss to the people which indirect taxation thus imposes, the manner in which it gives individuals and corporations a direct and selfish interest in public affairs tends powerfully to the corruption of government. These moneyed interests enter into our politics as a potent demoralizing force. What to the ordinary citizen is a question of public policy, affecting him only as one of some sixty millions of people, is to them a question of special pecuniary interest. To this is largely due the state of things in which politics has become the trade of professional politicians; in which it is seldom that one who has not money to spend, can, with any prospect of success, present himself for the suffrages of his fellow-citizens; in which Congress is surrounded by lobbyists, clamorous for special interests, and questions of the utmost general importance are lost sight of in the struggle which goes on for the spoils of taxation. That under such a system of taxation our government is not far more corrupt than it is, is the strongest proof of the essential goodness of republican institutions.

That indirect taxes may sometimes serve purposes other than the raising of revenue I do not deny. The license taxes exacted from the sellers of liquor may be defended on the ground that they diminish the number of saloons and lessen a traffic injurious to public morals. And so taxes on tobacco and spirits may be defended on the ground that the smoking of tobacco and the drinking of spirits are injurious vices, which may be lessened by making tobacco and spirits more expensive, so that (except the rich) those who smoke may be compelled to smoke poorer tobacco, and those who drink to drink viler liquor. But merely as a means of raising revenue, it is clear that indirect taxes are to be condemned, since they cost far more than they yield, bear with the greatest weight upon those least able to pay, add to corruptive influences, and lessen the control of the people over their government.

All the objections which apply to indirect taxes in general apply to import duties. Those protectionists are right who declare that protection is the only justification for a tariff,⁷ and the advocates of "a tariff for revenue only" have no case. If we do not need a tariff for protection we need no tariff at all, and for the purpose of raising revenue should resort to some system which will not tax the mechanic as heavily as the millionaire, and will not call on the man who rears a family to pay on that account more than the man who shirks his natural obligation, and leaves some woman whom in the scheme of nature it was intended that he should support, to take care of herself as best she can.

⁷ "Tariffs for revenue should have no existence. Interferences with trade are to be tolerated only as measures of self-protection." —H. C. Carey, *Past, Present and Future*, p. 472.

"Taxes for the sake of revenue should be imposed directly, because such is the only mode in which the contribution of each individual can be adjusted in proportion to his means."—Professor E. P. Smith, *Political Economy*, pp. 265-268. "Duties for revenue . . . are highly unjust. They inflict all the hardship of indirect and unequal taxation without even the purpose of benefiting the consumer."— Professor R. E. Thompson, *Political Economy*, p. 232.