

Review

Reviewed Work(s): *The Economics of Taxation* by Harry Gunnison Brown

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Source: *The Yale Law Journal*, Vol. 35, No. 2 (Dec., 1925), pp. 249-251

Published by: The Yale Law Journal Company, Inc.

Stable URL: <https://www.jstor.org/stable/789527>

Accessed: 01-01-2023 15:47 UTC

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law? Neutrals have not always been abandoned to the unrestrained violations of belligerents, as witness the Russo-Japanese war and many wars of the 19th Century. She is over-impressed by the fact that the United States abandoned its trusteeship over the rights of neutrals in the late war and by the violation by both sets of belligerents of the rules of maritime war. She gives to international law practically no weight whatever; in this she adopts a popular lay error. On the one hand, she decries the power and propriety of any superior dictating to any nation what it may do; on the other hand, she demands a "justiciable code of law" with the power of enforcement "such as will gain the respectful obedience of nations". What and whose power of enforcement? These questions are unanswered. Who is to be the "common superior"? The League? She says the League has stultified itself in too many ways, notably by its inability to maintain the "principle of compulsory jurisdiction as a condition of membership", the term "jurisdiction" being used in the sense of compulsory adherence to the League. Yet the "common superior", she avers, must be recognized, otherwise war is the only recourse. Her alleged reliance on "natural law" and the "higher law" as a guide for nations probably means little more than regard for the principle of "live and let live" in international relations, noteworthy, as she correctly indicates, by its absence from the policy of industrial nations. She has an exaggerated view of the place of treaties in American constitutional law.

That there is value in the suggestion that the sea and air should no longer be within the area of belligerent action and that this would aid in diminishing war will hardly be denied. She condemns the League theory that hereafter neutrality shall be a thing of the past and that the whole world should go to war against the politically condemned pariah. The phrase "aggressive war" probably comes from the vocabulary of propaganda, and not from law or political science. The author demands "law and order" in international relations as it approximately exists within the nations. The freedom of the sea and air in the wide sense in which she uses the term she wishes to see enforced by the "common superior", but is vague as to who that shall be, and how the enforcement is to take place. She would deny to every belligerent the privilege of sitting at the peace table, but would have peace terms declared and enforced by the neutral nations acting through the "court of commonage". She concludes that peace will not be possible until nations act on the principle of "*sic utere tuo ut alienum non laedes*."

She pays more attention to the immediate political firmament and the psychological factors governing policy than to the underlying economic factors. Emphasis upon these would not have changed her conclusion that the world is now organized on a more distrustful and competing basis than for some time, and that the growth of armaments reflects the growth of distrust. Perhaps experience alone will convince of the un wisdom of the present policies and bring about the result that the author desires to see adopted. Her book serves the useful function of stimulating thought along lines of possible solution without necessarily gaining adherents for the proposals advanced, or winning confidence in their practicability.

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*The Economics of Taxation.* By Harry Gunnison Brown. New York, Henry Holt & Co., 1924. pp. xxi, 344.

Written with the avowed intention of producing a purely deductive, theoretical study of the shifting and incidence of taxation, this volume by Professor Brown is remarkable for its comprehensive range and its felicity

of presentation. In the preface the author boldly justifies the appearance of an abstract study that is entirely devoid of any factual verification, and scathingly denounces the economist or statesman who is scornful or intolerant of a theoretical treatment of cause and effect relations in taxation. Early in the work we are assured that the author has no intention of advocating a special program of taxation or public policy; and this declaration is scrupulously adhered to throughout the chapters which follow.

Before the more familiar types of taxes are considered, monetary inflation is convincingly branded as an insidious and unconscionable form of taxation, and in turn government borrowing has its immediate and ultimate effects laid bare. Much space is devoted to the incidence of commodity taxes; and it is here that the theoretician may revel in hypothetical assumptions of constant cost, elastic supply, fluctuating price levels, decreasing cost, long run and short run shifting, competitively made goods, monopolistically produced goods, etc. Suffice it to say that the analysis here proceeds in a highly lucid and incisive manner, generously reënforced with orthodox demand and supply curves and supposititious buyer and seller schedules. Since each new set of assumptions brings its own conclusions, these chapters fairly bristle with results, the more important of which are assembled in a summary. There follows in rapid succession a chapter devoted to each of the following: the incidence of taxes on labor incomes, of workmen's compulsory insurance, of taxes on capital, of taxes on land, the shifting of taxes on loans, and finally a consideration of import and export tariffs.

The relentless insistence with which the tax burden is always pursued to its furthestmost lair, is best appreciated by sampling the method of treatment in a chapter such as that on the incidence of capital taxes. Taxes may be levied on capital discriminatingly, that is, on some capital to the exclusion of others, or on capital in general. Each of these possibilities is considered in turn. But there are further alternative assumptions of the tax affecting the supply of capital or of the aggregate volume of capital remaining intact. The incidence of a discriminating tax on capital in some uses is shown to bear on all capital owners, assuming that the tax produces no effect on the supply of capital. If, however, this assumption is unwarranted and the volume of capital is impaired, then allowance must be made for this effect manifesting itself either in terms of the volume of capital in a given taxing jurisdiction or in terms of the sum total of existing capital. If we choose to follow the latter of these two alternatives, we find ourselves confronted with another choice between (a) a possibility of the volume of capital being affected with no change in the rate of saving (*e. g.* through a decrease in the importation or an increase in the exportation of capital) and (b) a possibility of the change in capital volume as a consequence of a change in the saving habits of those who bring capital into existence. Again, preferring the second of the two assumptions, we discover our way obstructed by the well-nigh insoluble question: does a low rate of interest conduce to less saving than a higher rate? On reaching this quagmire of conjecture only tentative and highly qualified conclusions may be essayed—a difficulty readily conceded by the author. A tax which reduces the net returns to owners of capital, however, might conceivably result in a reduction of accumulated capital with a consequent rise in the interest rate, thus tending to shift part of the tax burden to capital users and laborers, but not to consumers as such. Of course, every implied ramification in this argument is subsequently explored; and the appended summary clinches the impression that the topic, if not exhausted, is at least satisfactorily surveyed.

Similarly the chapter on workmen's insurance is developed. Dissenting from the common conclusion, the author contends that the burden of the

premiums rests ultimately not on the consumers of the goods produced by the insured employees but upon the laborers themselves in their capacity as wage-earners. This conclusion is approached by distinguishing four possible cases: (1) when insurance is required in all trades or occupations; (2) when insurance is required in some lines and its advantages are realized by the workmen; (3) when insurance is required in some lines and its advantages are not realized by the workmen and where the demand for the products of these lines is inelastic, (4) as in the case preceding, but with the demand elastic. In general ". . . demand for labor, with an insurance premium added to wages, decreases as compared with what this demand for labor would be with the same wages directly paid and without the premium. Only as the additional expense for insurance is offset by decreased wages, can demand for labor be as large as it would be in the absence of the premium. The cost of the insurance may, in certain contingencies, fall on wages-in-general rather than on the wages of a specific group of insured workmen in an especially dangerous trade. But the cost tends to fall either on the particular wages of the insured employees or on wages-in-general." (Pages 176-7).

The sub-headings within the chapters, the sections, and the chapter summaries assist the reader materially in following the author's reasoning. Objections are skillfully forestalled and counter presumptions rebutted at strategic points in such a way as to lend considerable force to the argument. Unfortunately the income tax seems to merit no special treatment. This much-advertised and spectacular tax qualifies, like the general property tax and the sales tax, as a compound tax, and as such has its respective parts analyzed in the chapter on capital, or that on wages, or that on land incomes, etc. Even at the risk of repetition these scattered references might well be assembled in a special section or chapter and their treatment amplified. The student of economics will have no difficulty with the technical phrases used throughout the book; but such concepts as "the marginal physical productivity of capital" and "increased marginal labor efficiency" may disturb the layman. Much in the book can be appreciated, however, without any knowledge of these.

The validity of certain of the author's premises must inevitably provoke some disagreement. His assumptions are boldly, but not recklessly, handled, with frequent recognition of the doubtful certainty of some of his conclusions. Yet soritical reasoning frequently and extensively applied with no reference to empirical induction is bound to arouse the ire of the thoughtful but more mundane reader. Moreover, with insufficient data to guide the way, differences of opinion are traceable to differences in guesses, and as such are not to be reconciled. In spite of such apparent difficulties, there is a prominent place in the literature of taxation for just such a study as this. Until quantitative investigation can demolish theoretical conclusions, the latter are our sole means of progress and intelligent understanding. Without seeming to eschew the inductive approach, we can, in all consistency, utilize and appreciate the thoughtful theoretical study. Professor Brown's book is justly entitled to such critical consideration. And it can face it quite unabashed.

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*The Permanent Court of International Justice and the Question of American Participation.* By Manley O. Hudson. Cambridge, Harvard University Press, 1925. pp. ix, 389.

While the Permanent Court of International Justice is an institution of very recent date, the amount of literature which relates to the Tribunal is