PRINCIPLES OF TAXATION.

The object of the present article is to consider those features of our plan of taxation which stand in need of such light as may be shed upon them by political economy. Our attention will be confined to those points which seem of most practical importance in the present state of public opinion, and no exhaustive discussion of any special branch will be attempted. We shall begin with some practical hints respecting the objective points at which arguments on this subject are sometimes aimed.

Perhaps the most common error of current thought on the subject consists in considering special kinds of tax as being good or bad in themselves. If the question were tax or no tax, then each system of taxation could be separately disposed of on its own merits. But taxes of some sort must be levied in some way, because the support of government is a necessity. Our conclusions must therefore be drawn by comparing taxes of different kinds, and not by saying that this system is bad or that one good in itself. The only alternative of taxation in itself is borrowing; but this alternative is only temporary, because the money borrowed must eventually be paid by the levying of taxes. Hence it is not at all to the point to prove that any special form of taxation is bad: we may admit at the outset that every possible form is objectionable, without doing away with the necessity of making a "choice of evils."

The first subject which we propose to consider is that of the distribution of the burden under different systems of taxation. In ordinary language, taxes are divided into direct and indirect taxes. Direct taxes are supposed to be those levied on the individual himself, or his property, in such manner that he must personally bear the burden of all he pays. Indirect taxes are those levied on the products he expects to sell to others, and are therefore such, it is supposed, as he may charge to his customers. We frequently hear it said, in a very general and sweeping way, that whenever goods or services of any sort are taxed, the owner of the goods, or the performer of the services, has only to charge the tax to his customers, and thus free himself of its burden. But the power of doing this is something to be accurately investigated, and not taken for granted in the sweeping form it often assumes.

The question is, Out of whose pocket will any given tax ultimately come, or who will be the real sufferers, not only with respect to the money which they have to pay, but with respect to the relation between their income and the cost of the commodities they have to consume? The total amount of taxes contributed by each individual will comprise not merely the obvious items of money paid to the collector and increased cost of articles necessary to comfort, but also a possible disturbance of the demand for his commodities, or a change in his power of acquiring wealth from his fellow men. In fact, it not infrequently happens that the levying of a tax puts money into the pockets of individuals. A familiar instance of this is seen when a new or increased tax is levied upon goods already in the hands of manufacturers or dealers. In this case, the market value of the goods may be suddenly increased by the whole amount of the tax without any effort whatever on the part of the holders. It is evident, in such a case as this, that the consumers will at first be sufferers without the government gaining anything. I cite this merely as an illustration.

The power of charging a tax to customers will depend upon the nature of the things on which it is levied, or upon the subjects of taxation: a classification of tax-systems with respect to these subjects is therefore necessary. For our present purpose we may divide most of the taxes levied under our system into three distinct classes, namely:

a. Taxes levied on Individuals.

These include not merely poll-taxes, which are now nearly obsolete, but taxes of all sorts which are levied either on special persons or on every one, without respect either to the value of his property or of his income. The distinctive feature of such a tax is, that it is independent of the ability of the payer. The principal taxes of this sort now existing are the licenses required for the practice of particular trades or professions. It will be observed that the license required of a liquor-dealer or tradesman of any sort is not dependent upon the amount of his possessions or upon his ability, but is demanded of him simply as an individual engaged in a certain business. This is the peculiarity of what we may consider a personal tax.

β. *Taxes on Production.*

These include the excise and customs duties on productions of specified classes which, under our system, form almost the sole revenue of the General Government. Customs duties are included with those on home products because the fact that the production is that of a foreigner makes no difference in the application of the general principles we are to elucidate. The income-tax is to be included under this head, because each man's income is to be regarded as the equivalent of his entire productiveness, whether it is derived from his own powers or from an hereditary capital.

γ. *Taxes on Accumulated Property.*

There is this very important difference between a tax on production and one on accumulation: that the former is paid only once on each dollar of value produced, whereas, under the latter, every dollar saved has to make an annual contribution to the public treasury. No matter how large a percentage we levy on production, it can be borne, because the producer will always have the balance free from all future taxation so long as he chooses to keep it. But if the tax on accumulated capital should exceed the rate of profit to be derived from its use, there would be no object whatever in saving it, since the proceeds of everything one saved would have to be given up to the Government.

Taxes of each class are to be subdivided according as they are levied; firstly, on sums total expressed in money without respect to the particular things produced or possessed; or, secondly, on specially designated products. Among taxes on production an excise and customs duty is levied on special products—as tea, liquor, or tobacco. Such a duty, levied on the total product without respect to the things produced, would be in effect the equivalent of an income-tax. Again, we must distinguish taxes levied on special kinds of property, as real estate, bonds, or moneys, from those levied on the sum total of one's possessions without respect to the form in which those possessions are held. Thus, all three of the classes we have described may be divided into two orders: the one being those of which the subjects are sums total; the other those of which the subjects are specially designated persons or products. This double classification will be made more clear by presenting it in a tabular form.

CLASSIFICATION.	ORDER A.—Taxes on totals, or unlimited taxes.	ORDER B.—Taxes confined to designated subjects.
CLASS α.—Taxes on persons.	Tax on every one of a certain age or sex (poll-tax).	Taxes on designated occupations (licenses).
CLASS β.—Taxes on production.	Tax on total production of every individual (income-tax).	Taxes on designated products only (customs, excise, duties).
CLASS γ.—Taxes on accumulation.	Taxes on one's whole possessions, without regard to their character.	Taxes on designated kinds of wealth.

The reason of the distinction between orders A and B in all classes of taxes, is that when taxes are levied on totals of any kind, as in order A, they can not be lawfully evaded ; while, when levied on especial productions or especial kinds of property, as in order B, it may be possible for one to confine himself to the production of untaxed articles or to put his wealth into an untaxed shape. For instance :

A tax on all males over twenty-one years of age can not be evaded. But a tax on liquor-sellers can be evaded by the liquor-seller giving up his occupation. A duty on imported cloth can be evaded by ceasing to import it, and one on native cloth by the manufacturer engaging in some other pursuit. But a tax on gross or net profits can not be evaded by a mere change of pursuit. A tax on carriages can be evaded by putting money in something else than carriages, but, where gross capital is taxed, a mere change of investment will not bring relief.

In our consideration we shall begin with taxes levied on designated things (order B), because the effects of such taxes can be most readily traced. Let us suppose a certain commodity, no matter what, which we may call C. In an untaxed society a certain quantity of C will be produced and sold in a year. Let us call Q this quantity and P the price per unit of quantity, so that P is the untaxed price. The total value of the product will then be $Q \times P$. Now, suppose a tax to be levied on C. The common impression is, that the manufacturers of C will simply add the tax to the price P, and thus collect from their customers all that they pay the Government. But the producer may find a difficulty or disadvantage in thus increasing the price of his product. The subject seems to be thought of as if any producer could at will charge any price he pleased for his services. Now, we know that, as a general rule, the price at which any individual sells his services or his goods is the highest he can advantageously command. He may take into consideration not merely his own immediate interests, but also the future interest of his own trade or profession; but, whatever his objects, we may be sure that his price is the maximum which will be consistent with their attainment. Hence, before the tax is levied, the price P is the highest which the manufacturer can command for his product without incurring some disadvantage. It is also clear that he can not advantageously add the whole tax to his price unless his competitors, who are also making the commodity C, unite with him in charging the higher price. If he did his custom would go to them. We must, therefore, inquire how, under the varying conditions which affect the supply and demand of different commodities, the equilibrium of price, supply, and demand, will be restored when the tax is levied.

We may assume that, in the first place, all the producers of a taxed article will attempt to add the tax to the price. It this addition caused no falling off in the demand, it would be made without difficulty, and production and consumption would both go on undisturbed—the price being raised by the whole amount of the tax. But we know very well that this is not the rule. Every increase in the price of a commodity leads people to economize in its consumption, either by going without the gratification which it yields, or by substituting some cheaper commodity for it. If this falling off in the demand were the same for all commodities, the problem would be a comparatively simple one. But we know that it is not. There are some articles the consumption of which is but slightly affected by changes in price. Such are tobacco, stimulants, condiments, medicines, and in general all commodities the habit of consuming which becomes deeply rooted, and for which substitutes can not be found.

There are other commodities, the total consumption of which will fall off rapidly as the price is raised. Among these we may include all luxuries which people can dispense with and not suffer serious inconvenience. Articles of food for which substitutes can be found, and articles of clothing which can be made to wear longer, may be included in this class. These are the things on which people economize when they feel the pressure of hard times.

To give precision to our ideas, we may call those articles—the consumption of which rapidly diminishes when the price is raised—*sensitive*, and those of which the consumption is but slightly affected by changes in price, *insensitive*. Of course, we can not thus form two completely distinct classes, because different commodities have every degree of the quality which we call sensitiveness. The difference is therefore one of degree, not of kind. It is upon the degree in which a commodity possesses this quality that its taxability will depend.

In the case of insensitive articles there is no difficulty in collecting the tax from the consumer. The producers, on adding the tax they have paid to the price, find no falling off in the demand, and thus the levy of the tax causes no disturbance in the market. The economical questions connected with the taxation of such articles are therefore very simple, and the latter are in all countries the favorite subjects of taxation.

In the case of sensitive articles, the attempt on the part of producers to add the whole tax to the price will result in a falling off of the demand. One of two things must then follow: either the producers must submit to a smaller profit, paying the whole or a part of the tax out of their own pockets; or, the production must be reduced until the article becomes so scarce that consumers are willing to pay the tax. In the latter case some of the producers must seek another employment. Which of these alternatives shall be accepted will depend on the conditions of production. As a general rule, neither of them will be accepted in its entirety, but the compensation will be effected partly by the falling off of production, and partly by the remaining producers assuming a portion of the burden of taxation. But there may be any approximation toward one extreme or the other, and we have next to inquire into the conditions of final equilibrium.

Whether the equilibrium shall be restored by diminishing the number of producers, or by the latter paying the tax themselves and selling at the old price, will depend upon how far the elements necessary to production are, in an economic sense, monopolies. We call to mind that an economic monopoly consists not simply in a grant of some privilege, but in the possession of any special knowledge, faculty, device, or machine whereby one is enabled to gain larger profits than he could gain in any other pursuit. If the product is a complete monopoly—if, for instance, it is a patented article, or if it is a thing which only one person or combination has a knowledge how to make—one effect will be produced. If it is a thing of which every one can engage in the production without either legal or practical difficulty, another effect will be produced. We shall find the result to be that the more the production of the article is a monopoly, the greater the proportion of the tax which will be paid by the producer.

At first sight this may appear paradoxical. The ordinary idea will be that the producer of the monopolized article, being quite at liberty to fix his own price, can most readily charge the whole tax to purchasers, and that, therefore, it is upon a monopolized article that the tax will most surely be paid by the producer. But we must remember that without the tax the producer of the patented article is supposed to charge the highest price which he can command, or which it is to his advantage to charge. He will therefore find it to his disadvantage to increase the price by the whole amount of the tax. Possibly the falling off in the demand might be so great as to entirely destroy his business should he attempt such a course. Any one possessing a real and effective monopoly is, without the tax, making a more profitable use of his monopolized powers or privileges than he could make in any other business, and is therefore able to pay the tax without being driven out of business. On the other hand, where competition is entirely free, it is to be assumed that everything is being sold at the lowest price for which it will pay to produce it. Therefore, when we tax such productions, those producers who are making the minimum of profit will not be able to pay the tax at all, and, if they find by trial that they can not collect it from their customers, they will have to go out of business. Such a number will therefore go out of business that the diminished production shall correspond to the demand with the increased price.

The result to which we are led may be summed up as follows: There are two extreme cases in which a tax upon special products is paid entirely by the consumer, namely:

1. When the product belongs to the insensitive class on which the consumer will not economize, and in which demand is therefore undiminished by an increase of price.

2. When the products taxed are those of which the price is, by free competition, brought down to the lowest limit, so that producers can not afford to pay any part of the tax, and, when they find

demand falling off in consequence of increased price, will be compelled to betake themselves to some other business. But the agencies by which the tax is thrown upon the consumer are very different in the two cases. In the first case, there is no diminution of production and consumption ; in the second, the tax is added to the price through scarcity, so that in this case there is a diminution of production which does not occur in the other.

These two cases are each an extreme of a series. On the one side, they are at the end of the series of products possessing a continually diminishing degree of sensitiveness ; on the other side, they are at the end of the series of products marked by a continual decrease in the number and importance of monopolized elements entering into their production. The rule is therefore that while, in these extreme cases, the tax may be wholly paid by the consumer, in general a greater or less portion, depending upon the conditions of production and consumption, will have to be borne by the producer.

Our next problem is to consider the effects of taxes on gross amounts of production, without respect to the individual things produced. The levying of such a tax is extremely difficult, owing to obstacles in the way of learning what the gross production of the individual is. If each individual worked only on his own account, and sold nothing but his own products, he would himself have little difficulty in ascertaining the total amount. But such a simple case as this is entirely exceptional. Wherever production is carried on upon a considerable scale, many persons have to be employed and much money expended, not only for their labor, but in the purchase of raw material. We must, therefore, to determine the actual total production of the individual, go through a complex calculation, of which the result will always be uncertain. Hence, the more complex production becomes, that is, the more advanced the state of society, the greater the difficulty which must be experienced in determining what the actual production of an individual is. Economically considered, total production may be regarded as identical with the individual income. The tax on such production is therefore nearly the same as an income-tax. As this tax is frequently a subject of practical discussion, we may devote a little attention to it.

The first thing to be said of the income-tax is, that it is, in its aims, the most equitable tax of all. In fact, the very problem which the statesman has in view when he seeks to levy a tax is, to levy according to the wealth-producing power of the individual.

This power is measured by the individual income, and thus a tax on income is really what should be, in most cases, aimed at. Indeed, a tax on commodities, if assessed on everthing produced, would be nearly the same as an income-tax, because it would be distributed among society pretty nearly in proportion to incomes.

But when we consider the practical working of an income-tax, we find it to be the most unfair and demoralizing one that can be levied. It is one of the first requirements of a proper system of taxation that the amount which each man has to pay must be determined, so far as possible, independently of his own judgment. When the individual is called upon to communicate to the collector the data for assessing his taxes, a premium is offered for a failure to perform this duty. Every one knows that a not inconsiderable portion of the community will therefore fail to pay the tax. This knowledge will lead others not entirely devoid of conscience to fail also, because they know that if they make their returns they will really pay more than their share. The very fact that the tax requires a statement in which the individual is to be truthful at his own expense, renders it an unfair tax in the present state of society, and leads many who, in a better state of society, would scorn a delinquency in this respect, to consider that they are not bound to be any better than their neighbors. We may look forward to a stage in human progress in which every man will send the tax-collector semi-annually a check for the amount of his contribution, as determined by law, without the necessity of any assessment whatever. But we do nothing but mischief by assuming that we have reached this stage and acting accordingly.

This feature, however, of requiring the individual to levy his own tax, as it were, is one of the least of the difficulties in the way of a fair income-tax. How conscientious soever we may suppose every member of society to be, there is a difference between one's income proper and his income as generally understood by law. This difference is a matter of scientific interest, apart from any question of taxation; it is, therefore, worth understanding. The question turns upon the definition of income. Ordinarily, one's income is measured by the moneys which he receives from selling his labor or its product, after subducting that which he pays out for materials, or assistance in production. It might, in simple forms of business, be reached by a careful examination of accounts. But that this is not necessarily the actual income from an economical point of view will be evident if we reflect that an isolated family, possessing plenty of machinery and capital, may be able to supply nearly all its wants by the labor of its members, and thus be enjoying what is the equivalent of a good income, and yet receive very little in the form of money from others. The point of difference is this: One's real income is what he actually produces, no matter whether used by his own family or others. His income, as ordinarily measured, is one derived from what he receives in money by selling his goods. Thus, the latter omits all that portion of the products of labor which the individual, or the combination of individuals, devotes immediately to his own use. What this portion is depends upon the nature of the society in which the individual is placed, and the character of his pursuits. If there were no such thing as exchange, except between members of the same family, there would be no estimated income by the usual method. Where one's occupation is such that he consumes no appreciable portion of his own products, the two methods of determining the income become identical. This is the case with professional men, and indeed with people generally who live in cities. The lawyer does little or no legal business for himself personally, the physician saves little by attendance on his own family; the supplies which any dealer furnishes his own family form but a small part of their annual wants; and the laborer who works for hire or the clerk who serves on a salary, consumes none at all of his own products.

But when we go into the country we find the case to be quite different. Very frequently a family may be found living in comparative affluence with a minimum of taxable income. Their stud of horses, which, in the city, might represent a moneyed expenditure of five hundred dollars per year or upward, are supported from their own farm and by the labor of their own servants. A large part of their food is produced at home, and not obtained by purchase. Their servants are supported in great part from the products of the farm; if they do their work on shares, they may be entirely supported in this way without any expenditure of nominal income on the part of the owner. With the aid of their combined labor the owner continually adds to the value of his farm by repairing buildings, erecting fences, and fertilizing the ground, without paying out any considerable sums of money. He may thus have no taxable income whatever, although in reality wealthy.

Now, in reality, all this wealth produced and enjoyed on the spot is as much an income as if it were sold for cash. It must be taken into account to measure the wealth producing power of the owner. Hence, to levy the equitable income-tax which is desirable, it would be necessary, at least in the country, to determine not simply the value of the products sold by the farmer, but the value of everything produced upon the farm, and either consumed there without being sold or put into permanent improvement. The difficulty of distinguishing between improvements and simple repairs of loss would be such that the tax would be an entirely impracticable one. The general result is that an income-tax is, at least in this country, almost a pure fiction. When attempted, it is collected solely from certain classes of individuals, mostly dwellers in cities.

So far as we have yet considered the subject, the entire burden of taxation on any given article is borne entirely by the producers and consumers of that article, and not by the community at large. Will the distribution go further, or will it not? To take a concrete case: Let us consider the tax on tobacco. Will any part of this tax be paid by those who are neither producers nor consumers of the article? By the very theory on which this tax is levied, consumption is not materially affected. The smoker will have his pipe or cigar, no matter what he has to pay for it. A tax on tobacco is therefore paid in the first place entirely by those who smoke it, and no one else is affected. Is there any way in which the smoker can make his neighbor who does not smoke bear a part of his burden? Since, in the long run, the same total of taxes must be collected, and the only question is on what article they shall be levied, we must, in supposing the levy of an increased tax on tobacco, also suppose a diminution of the tax upon other products. Let us take food as typical of these other products. When we take the tax off of it, we make it cheaper to every consumer. Thus the consumers of food, for the moment, all gain by having to pay less money for it, while the smokers of tobacco lose by having to pay more for what tobacco they consume. The income of each class remains unaltered by the change, the effect of which is simply to increase the expenses of the smoker, and diminish those of the ordinary eater. If the former could make the latter pay his surplus to him without his giving any labor in return, the equilibrium would be restored, and the tax divided between the two. But this can not be done unless the smoker will change his habits, which, by hypothesis, he will not do. It is true that the eater must in some way spend the money which he saves by being relieved of taxation, and the smoker must go without some other articles, in consequence of the higher price which he has to pay for the tobacco. With this increased enjoyment of the eater and diminished enjoyment of the smoker we reach the end of the economical chain of causes as dependent on the change of tax. The general money equilibrium in the community is restored, but the eater has the sole advantage of the commodities he receives in exchange for the increased sum of money he can devote to other wants than those of food, while the smoker has to go without something. Thus the effect of the tax is that certain commodities, no matter what, which without the change of tax would have been consumed and enjoyed by the smoker, are now consumed and enjoyed by the eater. Clearly, the latter reaps the whole advantage. The smoker may indeed earn his tax back by increased labor, but the existence of the tax will not help him in the matter.

This same conclusion will be reached if we consider the relations of any other pair of commodities. Let us take food and sewing-machines, for example. If we take the tax off of food and levy it on sewing-machines, the eater is relieved in precisely the same way as before. What he gains is paid partly by the manufacturer and partly by the user of the machine on which the new tax is levied. The manufacturer is in the same position with the smoker just supposed, so far as his share of the tax is concerned. He is obliged to sustain the whole loss of the tax which he pays, because he can not levy it on any one else except he changes his occupation. This he will not do, because he is already making a larger profit, owing to the rights which he possesses and the skill which he has acquired, than he could make in any other occupation.

The maker's share of the tax is not, however, the whole tax, but the whole tax diminished by the increase of price which he puts upon his machines. This latter tax is paid by the user of the machine. The latter, however, will have the power to transfer it to his customers because, since the tax is levied on all sewing-machines, the price of everything a machine produces may be raised, and the wearers of shirts have to pay a higher price for them. We will notice that, in fact, a tax upon machines is effectively a tax upon everything which the machine produces, and is therefore divided among all the consumers of the product.

Thus we see that the popular opinion that taxes of all sorts are distributed among the whole community, no matter what articles they are levied upon, and that every one who is taxed can distribute a portion among his neighbors by charging more for his services, is altogether too hasty. A tax on each class of articles, so far as paid at all, is paid by the consumers and producers and by no one else. Some will see in this an argument in favor of taxing luxuries which the consumers will not dispense with ; others an argument against it. There is, undoubtedly, a strong and natural feeling that by making the consumers of wine and liquors pay more than their share of the expenses of government, we are administering a mild punishment for their appetites, which is all the more justifiable in that they are compelled to pay it only by gratifying the appetite. If we view this subject from the side of the let-alone principle, and admit that every man has an equal right to his tastes and appetites, and that it is nooody else's business how he indulges them, such a tax appears inequitable. But the natural way of thinking of the community is not in this direction. It is the old story over again of attacking the weak rather than the strong. The slave of his appetites, who is obliged to pay whatever is demanded of him as the condition of his gratifying them, is, in a certain sense, a weak man when compared with his temperate neighbor to whom nothing is a necessity. The very same impulse which leads us to levy upon the weak rather than the strong will justify making the consumer of whisky pay more than his share of the expenses of government.

The third class of taxes we have to consider are those levied on accumulated capital, or on the accumulations of the past in whatever form they may happen to be. The great difference between the effect of such taxes, and of those levied on production simply, consists in this : the tax on a thing produced is paid once for all, and the owner can thereafter hold it free for ever, while, when capital is taxed, the owner has to pay a perpetual annual penalty to the Government for possessing it. When, however, we consider the interest which all accumulated capital is assumed to be earning, we may regard this difference as one of degree rather than of kind. Excepting those luxuries which will both morally and economically pay a heavy excise, a tax of five per cent. on domestic productions would probably be considered a very heavy one. If, then, capital were taxed at only five per cent. on the net rate of interest it might be supposed to earn, the two classes of taxes would be equalized. Judging from the rate at which the public is now anxious to take Government four per cent. bonds, the actual net profit on capital, after deducting the expense of management and the risk, is only from four to six per cent. Five per cent. of this would be only from two to three tenths of one per cent. per annum. Such a tax would, however, among us, be considered an extremely moderate one. It is evident that, if the tax is equal to the whole rate of interest on capital, the producer is left no motive to accumulate, since all the results of his savings are seized by the Government, unless, indeed, he is able to add his tax to the regular rate of interest on capital. When he can do this the tax is distributed, just as it is distributed when taxed articles are sold at a higher price.

We have, then, to consider to what extent and under what conditions the capitalist who is taxed can collect his assessment from those whom his capital supplies. To reach an intelligent and well-grounded conclusion on this point, we must inquire into the circumstances which determine the accumulation of capital.

Considering an individual member of society as seeking merely his own gratification, the fact is very generally overlooked that the motives impelling him to save are not so urgent as those impelling him to consume. This is because he has no immediate motive to save, for the simple reason that, under our system, he can avail himself of the savings of others by paying the current rate of interest. If he is not able to build himself a house, he can rent one belonging to another at so low an annual rental that, considering simply his own chances of life, and of the future enjoyment of anything he might save, it will hardly pay him to save money to build a house. The same remark applies to nearly every form which the accumulations of past labor may take in order to be made useful at the present time. That propensity of the civilized man which is so commonly considered the essence of selfishness, the propensity, namely, to accumulate wealth, is in its actual effects more beneficent than any other human impulse. As a general rule, the most charitable purpose to which a man can put his money is to find for it the best paying investment he can. The interest which it pays him is an index of the amount of good his money is doing to his fellow men, and the more he receives the greater the good to others. When, in familiar parlance, he "spends his money freely," he spends it all on himself; when he invests it he allows others to reap all the benefits of it. Leaving out the morbid propensity to accumulate coin, which is now nearly unknown in civilized communities, the only motive one has for accumulating is the interest which he is thus to gain. When one comes into possession of a sum of money it is entirely optional with him to spend it on his immediate personal wants, of which he has a great number ungratified, or to save it for the future. If he can gain no interest on it, it is clearly better for him to enjoy it now while he can, because, at the best, he will get no more enjoyment out of it in the future, and may in the mean while lose it entirely—or die, and thus fail to enjoy it at all.

It is a curious fact in this connection, to which I have before called attention in this "Review," that the rate of interest has never permanently fallen much below the limit at which a young man would no longer be able to gain an interest equal to his capital during his probable life. Thirty or forty years ahead is about as far as the average man appears to look when he considers whether he shall enjoy his earnings now or save them for the future.

A general conclusion from this view of things is that the immediate cause of the increase of capital is the interest which may be gained upon it. Lessening this interest by a tax, we lessen the motive to accumulate in a far greater ratio than we would lessen the disposition to produce by levying a corresponding tax on production. The reason is that, to the individual, accumulation is less necessary than production.

Therefore, looking at the matter in the broadest light, the result is that a tax on accumulated property may be considered as paid by the owner, or by the public who get the benefit of the capital, according to our point of comparison. The capitalist may not be directly able to charge a higher rate of interest, and thus, considering only the immediate effects of the tax, he may have to pay the whole of it himself. But the result of this will be that the increase of capital will be discouraged; a scarcity will then result which will raise the rate of interest; and it may happen that the scarcity will continue until this rate is increased by the whole amount of the tax. It is of course impossible to lay down any exact law of the subject, like that which governs production. The very fact that the increase of capital is very slow and includes the work of a whole generation in its scope, renders our conclusions a little indefinite. But I think there can be no reasonable doubt that taxes on accumulated property do in the main act in this way. And, a point especially to be borne in mind is, that in our reasoning we have supposed the tax to be levied on capital universally, without any exception whatever. Of course, a tax levied specially upon capital employed in certain designated ways might be wholly or partially transferred to the consumers of the product in the same way as a tax on production.

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