

Assigning A Purpose to Taxation

TAXATION FOR REVENUE ONLY is merely "a shopworn notion" to some. For instance, a writer in *The Harvard Business Review* has stated that "the primary function of consumption taxes should be to control production."

This may sound startling. Yet the thought that taxation is a social instrument is hardly new. "Parlor pinks" and philanthropically minded intellectuals have long recognized the fact that the power to lay levies on production enables the State to shape our economy.

What is not generally recognized is that taxation is itself an effect, not a cause. It is true that taxation depletes wages and interest—the returns to the productive factors of labor and capital—and that every such depletion gives rise to more taxes until ultimately labor and capital find the returns difficult, and social consequences ensue.

But that does not explain why taxation started in the first place. It is like saying that every man finally dies from "shortness of breath" without explaining what caused breathing to cease.

There are only two sources for government revenue: taxes and rent. When taxes are levied, production is discouraged.

When government takes of one's production, to that extent one is unable to demand in the marketplace the production of other workers. Thus a tendency toward unemployment is started. If the government warn that any increase in earnings will be taken away from one, the incentive for earnings is thwarted, and enterprise is discouraged.

If accumulations of earnings are threatened with taxation the natural reaction is to avoid accumulations that may be heavily levied upon; the mere threat to capital, the instrument which labor employs in production, is enough to discourage savings.

The collection of rent for social uses, however, has exactly the opposite effect. By discouraging land speculation it gives labor and capital access to the necessary source of production. It stops the monopoly tax which the owners of natural re-

sources can exact in the form of higher prices for the limited amount they permit to reach the market.

This monopoly tax has the same effect on production as a government tax. And the use of rent for social purposes—such as roads, sanitation and police protection—has the further effect of facilitating productive activity.

It follows, then, that when a people decide on taxation rather than rent as the source of public revenue the tendency toward a lowering of production sets in.



Once begun, although the process of deterioration may take centuries, the inevitable result is a lowering of the living standard of the people. That is, people have less and less satisfactions, less desire to work. This in turn produces social disharmony and political unrest.

Since long practice of the wrong principle obscures the right principle—like Gresham's law of money—it is not likely that rent will supplant taxation as the proper source of public revenue. Ignorance, plus vested interest, is against it. Not ignorance of the politicians and the professors, who merely reflect public intelligence, but ignorance of the people.

Therefore, when social unrest resulting from a lowered economy sets in, the instrument at hand, taxation, is resorted to, not for its original purpose of raising revenue, but for the purpose of alleviating the unrest. It becomes the means of controlling (instead of depleting) production; that is, of determining what and how many desires people will be permitted to gratify.