

TAXATION

ITS PRINCIPLES AND METHODS

TRANSLATED FROM THE

“SCIENZA DELLE FINANZE”

OF

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WITH AN INTRODUCTION AND NOTES

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TOGETHER WITH A COMPILATION OF THE STATE TAX SYSTEMS
OF NEW YORK AND PENNSYLVANIA

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INTRODUCTION.

THE author of this treatise kindly sent me a copy of it in the year 1882. I had become interested in his work, through his "Guide to the Study of Political Economy," introduced to English readers by the late Professor Jevons. I, accordingly, had a translation of the *Scienza delle Finanze* made for my own use, but without any fixed intention of publishing it. The admirable brevity and comprehensiveness of Professor Cossa's statement of the principles of taxation, and the light thrown on the evolution of the science of public finance, and the want of any short treatise of similar scope in the English language, led me to believe that it would find an appreciative audience in this country. But the time did not then appear to be favorable.

During the past three or four years there has been a marked revival of interest in economic discussion, as is shown by the number of new works by American writers that have come from the press in that interval, and by the formation and regular meetings of two distinctively economic societies. Notwithstanding the shaking up that Political Economy has received in recent years, which

some people think has reduced the whole science to chaos, it is certain that it never had so many active, intelligent and persevering votaries in this country as now. Even those who consider the science a chaos always talk and write as though there were a considerable and pretty firm foundation to build on.

It is evident, too, that the public are taking a more general interest than formerly in the subject of taxation in all its bearings. Hardly a year passes that some State Tax Commission is not working on the problems of local revenue, while the question of national revenue, or perhaps we might better say national non-revenue, is the absorbing one in Washington City.

This work does not deal with customs duties except in their fiscal aspect. The dispute between protection and free trade is not touched upon, since the aim of protection is not to provide means for the support of government, but something quite different. The science of the finances does not deal with things which incidentally affect the revenue. A dry season may do that, but dryness and wetness are not financial considerations. While the tariff question, as it popularly presents itself, is not touched upon, the effects of taxes on imports, upon different classes in the community, are made sufficiently clear.

A few notes have been added to the text in

order to give local application and local interest to the abstract principles stated. For the same reason there has been added an appendix, giving in as brief form as possible the State tax systems of New York and Pennsylvania as they stand today. A compilation of the tax systems of all the other States would be interesting and valuable, but I would not advise anybody to undertake the task unless he has a great deal of unemployed time to dispose of.

A two-fold evolution is now going on in State taxation. There is a movement in the first place to drop real estate from the list of *State* taxables, and to remit it wholly to the lesser political subdivisions, the cities, towns and counties. There is also a movement to discontinue the attempt to tax floating capital, money at interest and the like, and to look only to those things which can always be found and which cannot get away, for the revenue of the State proper. Pennsylvania led the way in releasing real estate from State taxation. That State also led the way in adopting scientific rules for the taxation of corporations, although the system is still far from perfect. Further information will be found in the note on Taxation of Corporations.

Although the current has always run strongly in this country in favor of the taxation of movable personal property, and even yet affords a favorite

theme for windy declamation, I am convinced that that particular tax will slowly but surely disappear. The State of New York scarcely pretends to collect the personal property tax, although her laws require its collection. Other States that pretend to collect it meet with little better success, although they do cause a great deal of false swearing and hard feeling. The latest official report on this subject that can be called comprehensive is that submitted by Dr. R. T. Ely, of the Maryland Tax Commission. What he finds and what he says about the taxation of personal property coincides with the views of nearly all the accredited teachers of fiscal science in this country. It is true that Dr. Ely's colleagues on the Maryland Tax Commission do not agree with him on this point. In the first place, the Constitution of the State of Maryland requires that all property shall be taxed equally. But if it were otherwise, the majority of the Commission would still be in favor of taxing movable personal property. But they are in favor of exempting mortgages from taxation, although this is almost the only form of floating capital that can always be identified and located without any chance of error.

The report of this Commission came to hand after the body of this work had gone to press. There was accordingly very little opportunity to

avail of its certainly valuable investigations. One novel recommendation of the majority is that Maryland shareholders of foreign corporations be taxed or not taxed on their shares according as the State where the corporation is domiciled does or does not tax her own citizens holding shares of Maryland corporations.

This translation of Professor Cossa's *Scienza delle Finanze* was made originally by Mr. A. H. Gumlogsen, who is now, I believe, a resident of Chicago. The translator's want of acquaintance with the terms in use in Political Economy made extensive revision necessary. This was kindly undertaken by my friend, Mr. S. Dana Horton, to whom my thanks are due in an especial manner. While the work was going through the press, I learned that Mr. Eugene Schuyler and his nephew, Mr. Louis Bedell Grant—the latter, United States Consular clerk at St. Gall, Switzerland—were translating the same work into English for publication. I at once offered to surrender the honors to Mr. Schuyler together with the work already done, but he declined the offer and kindly undertook to revise the proofs by the help of his own translation, and the same were accordingly forwarded to him for that purpose. In the fourth edition of Professor Cossa's work it is stated that it had already been translated into the German, Swedish, Polish, Russian and Spanish languages.

A few additions have been made to Professor Cossa's Bibliography of the science. I am aware that further additions might be made, especially of works in the English language.

Thanks are due to the Hon. Alfred C. Chapin, ex-Comptroller of New York, and to Mr. Frank M. Eastman, law clerk in the office of the Auditor-General of Pennsylvania, for quite invaluable assistance in compiling the tax systems of their respective States.

H. W.

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PART I.

TAXATION—ITS PRINCIPLES AND METHODS.

CHAPTER I.

IDEA, LIMITS AND CHARACTER OF THE SCIENCE OF THE FINANCES.

MEN unite together and constitute domestic, civil and political society for the purpose of preserving and perfecting their physical, intellectual and moral faculties, as well as of attaining the highest ends of existence.

The principal forms of political society are the municipality, the province and the state, each of which possesses a judicial constitution and arrangement of its own, and which are severally governed by authorities which represent, defend and promote their interests and provide for the public needs.

In order to be able to fulfill such duties the several bodies politic have need of a sufficient amount of exchangeable material property (wealth); they must therefore create a special property or estate (*patrimonio*), which is called the public estate, from the public character of the bodies that dispose of it.

By public estate is understood that portion of the national resources which is set apart by law to provide for the wants of the government and of lesser political societies (the province, the municipality). The public estate, which comprises the fiscal domain and the proceeds of taxation, both general and local, must not be confounded with the property of private individuals, or, in the case of a monarchy, with that of the sovereign.

The Science of the Finances is the body of principles which relate to the public estate (*patrimonio*). It teaches the best method of establishing, managing and using it.

The object of the Science of the Finances is common with that of other financial studies, which also deal with the public estate, but regard it from a different point of view.

Such are the history of the finances, financial statistics and positive financial law, which investigate the public estate, either through its transformations in the progress of time, or in its actual conditions in given times and places, or in the legal relations that belong to it.

These studies, which are indispensable for gaining a deeper knowledge of the Science of the Finances, consider the public estate in its concrete manifestations, but always conditioned within time and space; while, on the other hand, the Science of the Finances deals with that which is universal and

permanent, and in this sense it belongs as much to the past as to the present and to the future.

Although the Science of Finances investigates the causes and effects of financial facts (for example: the effects of taxes and loans), its chief office nevertheless is to furnish the guiding principles for the proper management of the revenue of the state, of the province, or of the municipality.

The Science of the Finances forms a part of the science of public administration, which in its turn is a branch of political science in its wider meaning of the science of government.

At the present day, however, the Science of the Finances is generally studied as a matter altogether distinct from the other branches of administrative science by reason of the importance of its objects, the variety of its sources, and the extended scope of the doctrines which it embraces.

CHAPTER II.

SOURCES, DIVISION AND IMPORTANCE OF THE SCIENCE OF THE FINANCES—CLASSIFICATION.

THE Science of the Finances does not, as many are still inclined to believe, constitute a mere appendix to political economy. It is by no means restricted to the investigation of the economic consequences of fiscal provisions.

The general principles of law and political science are sources of the Science of the Finances as well as those of political economy. All financial questions should therefore be considered in the triple aspect of justice, convenience and social advantage. The knowledge of these three branches of study is accordingly an essential requisite to a clear understanding of the elements of the Science of the Finances.

There are other branches of learning auxiliary to the Science of the Finances, such as political arithmetic, government systems of account, technology, private economy (domestic and industrial), and notably the history, legislation and comparative statistics of finance, all of which contribute to the science valuable materials for the elaboration of its theories.

The Science of the Finances divides itself naturally into three parts, which treat of expenditure, of income, and of their relations to each other.

It forms a subject worthy of careful special study, by reason of the theoretical importance of its object as a part of general education, especially politico-legal education, as well as by reason of the practical utility of its teachings. In particular is it useful to those who, either directly (as magistrates, or as members of deliberative or of consultative bodies), or indirectly through the rights of assembly, and of petition, or through the press, exercise

an influence on the government of the State, or of political societies of inferior extent.

A necessary complément to the Science and the Art of the Finances is practice, which consists in effective action, and avails itself of the truths of science and of the principles of art, strengthening both with the results of individual experience.

Science, art and practice are the complements of each other, and it is a mistake to assume that one can take the place of the other. Science explains; art guides and counsels; practice acts and executes.

Neglect of any of these elements necessary for the profitable realization of financial thought leads to empiricism and the day-dreams of Utopia.

CHAPTER III.

HISTORICAL DATA OF THE SCIENCE OF THE FINANCES.

THE financial systems of Greece and Rome in ancient times, and those no less notable of Florence and of Venice during the middle ages, must be considered as luminous proofs of practical sagacity, and not as the product of scientific research, which in these epochs has yielded but a few fragments from classical writers (Xenophon and Aristotle), and certain maxims of financial morals buried in the theological, philosophical, political and legal works of the schoolmen.

Since the Renaissance various principles of finan-

cial policy show themselves, developed with some fullness in the writings of publicists here and there in the fifteenth (Carafa), and so likewise in the sixteenth century, the Frenchman Bodin ranking foremost among the latter, while among the Italians Palmieri, Guicciardini, and particularly Botero, distinguished themselves.

These principles were commented upon with more or less prolixity, but with little originality, in many works which saw the light in the seventeenth century, the work being undertaken in some cases from pure motives of erudition (Bornitz, Besold, Klock), in others with a view to administrative interests (Seckendorf and the German and English writers on excise). After a few decades, however, there appeared a number of authors who with greater boldness advocated general or partial reforms of the system of taxation in the interest of the public treasury (in Spain and Germany), or in that of the taxpayers in the endeavor to bring about a more equitable distribution of burdens (Boulainvilliers, Vauban and Boisguillebert; Pascoli and Bandini).

Of more distinct merit, from the scientific point of view, were certain English writers of the seventeenth century, among whom Hobbes, Petty, and especially Locke, were the first to discuss, although somewhat superficially, the difficult question of the incidence and the repercussion of taxes.

As a worthy parallel to these, other writers, also English (Davenant, Hutcheson, Barnard, etc.), appeared, who, in the early years of the eighteenth century, examined in its technical details the novel theory of the public credit, which, after the famous experiment of Law, was further investigated by Melon, by Dutot, and by other apologists or adversaries of that system.

A much wider horizon was opened to financial thought toward the middle of the last century. The little-known, yet methodical and important, treatise on taxation by the Neapolitan, Broggia (1743), was followed by Montesquieu's work on *The Spirit of Laws* (1748), which, with great penetration, explains the connection between political and financial institutions; and later came the much-prized political essays of Hume (1752), which, as it were, smoothed the path for the famous French school of physiocrats (Quesnay, the elder Mirabeau, Turgot, etc.), which, with a rigorous logic, derives the fiscal corollary of the single tax on the revenue of landed property (*impôt unique*) from the certainly ingenious yet fallacious theory of "net product" (1758 and following years).*

* It was a doctrine of the physiocratic school that since land alone yielded a "net product," *i. e.*, a surplus over the value of the labor spent upon it, therefore agriculture was the only productive industry and ought to bear the entire burden of taxation. To sustain this thesis it is necessary to assume that the agriculturist (meaning thereby the man who tills his own land) is outside of and superior to the law of competition, for if he is subject to

Almost contemporaneously with this systematic derivation of financial from economic theories in France, Italy and England an attempt is made at a simple, empirical co-ordination of several fiscal doctrines (Forbonnais, Genovesi, and especially Steuart), which reaches its climax in the works of the so-called Kammeralists of Germany, particularly in those of Justi and Sonnenfels.

The theories of finance finally obtain a much broader basis, a safer and more correct development, through the progress of political economy, which is raised by Adam Smith to the dignity of a true science by his memorable investigations into the *Wealth of Nations* (1776).

The financial principles of Adam Smith, as commented upon and discussed in the books of political economy (for example, in those of Say, Ricardo, Sismondi, Lotz, Rossi, Mill, Cherbuliez, Sidgwick, Vissering, Walker, Pierson, Nazzani), were further illustrated by special treatises on financial science, for example, in those of McCulloch, Matčkovitz, Kautz, Bilinski, De Luca, Marescotti, recently sur-

that law there is no more reason why he should pay all the taxes than why carpenters should do so. Whatever the condition of the world may come to be in the remote future, when all tillable land shall have been brought under cultivation, it is not now true that agriculture, upon the whole, possesses any advantages over other callings. And this is made manifest by the patent fact that there is no special eagerness to take up agriculture as a means of livelihood in the United States, even where land is offered gratis.—ED.

passed by Leroy-Beaulieu. Among these, the foremost place for critical penetration, breadth of erudition, and systematic arrangement is awarded to the German manuals of Jakob, of Malchus, Rau, Hock, Stein and Roscher, who (the four last mentioned particularly) are distinguished by a more complete and correct determination of the functions of the state, which, both by the disciples of Smith and the publicists who followed Kant, had erroneously been restricted to the function of merely juridical defence of person and property.

The Science of the Finances has likewise profited considerably by a goodly number of excellent monographs published in the present century, and chiefly bearing on the questions of taxes (Krehl, Tourguenieff, Hoffman, Vocke, Helferich, Meyer, Nasse, De Parieu, Pastor, Besobrasoff, Pierson, Pescatore, etc.) and of public credit (Hamilton, Nebenius, Massedaglia, Bunge, Newmarch, Capps, Baxter, etc.).

In recent times financial science in Germany has been achieving a new development under the influence of the historical school and of the many adherents of so-called social politics. The latter are, indeed, so far from regarding public loans as an evil often unavoidable, that they actually assign to them a normal function within the financial system. They, moreover, teach that taxes, so far from a mere fiscal expedient, should become a

means for bringing about a more equitable distribution of wealth. Ideas of this order, discussed in important works of Schäffle, Dietzel, Schmoller, Laspeyres, Held, Scheel, Neumann, Friedberg, Leser and Lehr, have now received in the (still incomplete) *Science of Finance* of Adolph Wagner and in the *Manual of Political Economy*, under the direction of Schönberg, a full and profound explanation, which is appreciated even by those who, like ourselves, do not admit such radical theories.

In Italy the fiscal reforms anterior to the French Revolution had very efficient precursors and scientific promoters in the Milanese, Beccaria, Verri and Vergani; in the Neapolitan, Palmieri; in the Tuscans, Neri and Gianni. Among the financial economists of the nineteenth century, besides those already mentioned, Bianchini, Fuoco, Pettiti, and especially Scialoja are to be noted.

Among the living votaries of the study of finance Ferrara, Busacca, Broglio, Minghetti, Boccardo, Magliani, Bäer, Lampertico, Luzzatti, Ellena, Boselli—not to mention many others—have published valuable monographs. Of the younger writers who give great promise by their talent, culture and activity, we record the names of Ricca-Salerno, Ferraris, Salandra, Piperno, De Viti de Marco and Pantaleoni. Praise should be given also to Alessio, Zorla and Errera.

PART II.

PUBLIC EXPENDITURE.

CHAPTER I.

THE IDEA OF PUBLIC EXPENDITURE.

PUBLIC expenditure is that which is made by the competent authorities, to satisfy the needs of the political society, by applying the funds coming from the national estate (*patrimonio*), of which, as has been already said, the public estate (*patrimonio*) is a part.

Public is distinguished from private expenditure,

1st. By the different duration (continuity) of the persons for whose advantage it is incurred.

2d. By the monopoly of sale and of purchase which bodies politic enjoy in respect of the production and consumption of certain goods.

3d. By the arbitrary fixing of the price of certain corporal and incorporeal goods, which are produced by the state, the province, or the municipality.

4th. By the sale of certain goods, which at times may purposely be sold below cost.

5th. By the less varied nature of the objects produced, which mainly depends upon the gen-

erally subsidiary character of all public expenditure.

6th. Through the different criteria with reference to which the compensation of the individual who gives his labor to public business is fixed, because :

(a) As there can seldom be any participation allowed in the profit, public production will generally be more expensive than private, by reason of this lack of individual interest on the part of public functionaries, who often depend on seniority and on political interest or recommendation :

(b) As certain guarantees are offered for the permanency of his tenure of office, for the order of promotions and for pensions, the compensation of a public functionary is almost always inferior to the salary of professional men who have received a similar scientific training.

There is, however, no noteworthy difference in results between public and private expenditure arising from the fact that public expenditures usually are made to secure benefits not material or corporeal in their nature.

It is therefore equally mistaken to blame all public services on account of the incorporeal form of the greater part of the benefits that are obtained by means of them, as to approve them all without taking heed of the objects to which they are directed.

CHAPTER II.

PUBLIC EXPENDITURE IN ITS JURIDICAL, POLITICAL
AND ECONOMICAL ASPECTS.

IN examining public expenditures in their juridical aspect, that is, in respect to their legitimacy, it is necessary to keep in view :

1st. The utility of the object, considered in itself and in reference to other eventually more urgent wants that have not as yet been satisfied.

2d. The universality of the need,

(a) Whether with regard to the territory (decentralization from a fiscal point of view),

(b) Or with reference to the various classes of society (the relation between the distribution of burdens and of political advantages).

3d. The impossibility of providing for it in any other manner (individually or through free associations), because the public authority must charge itself only with the performance of those services which private individuals

(a) Either ought not to perform, as in the case of certain functions, which by their nature are beyond the competence of private persons (such as national defence, administration of justice, etc.) ; or,

(b) Cannot discharge in a satisfactory manner,

from certain reasons of public order and of public security (such as coinage, posts and telegraphs, etc.) ;

(c) Or in many cases will not perform, whether from lack of the required knowledge, or of means, or of the spirit of association, or because when a monopoly is actually unavoidable the monopoly of bodies which are the legitimate representatives of social interests is in many cases preferable to that of associations having merely profit in view.

4th. The equality, or relation of correspondence, which should be, as far as possible, complete, between the sum total of public services and the sacrifice imposed on private individuals—the obligatory character of the contributions, or at least the arbitrary determination of the price, rendering more manifest any injustice in their distribution.

In this respect it must not be forgotten that the problem of the limits of competency, even of merely economic competency, between the individual and political societies—an arduous problem, which does not admit of absolute solution—does not at all belong to the Science of the Finances, which is simply the doctrine of the best means of obtaining certain pre-established ends, but must be judged by the light of all the social and political sciences.

In the political aspect, that is, in respect of the

relations between financial mechanism and the constitutional and administrative arrangements, the excellence of the political system has its effect on the financial system, and the quality of the latter, in its turn, reacts on the working of the former.

In this respect there are three fundamental rules, namely :

1st. The expenditures must be acquiesced in by those who furnish the means required to defray them (the tax-payers), either directly or by their representatives, in order that they may be able to compare equitably the amount of the benefit anticipated with that of the sacrifice required for its attainment.

2d. The authorities empowered to expend the sums voted by the tax-payers must be placed under the superintendence of other authorities, either superior in official rank, or at least must possess sufficient guarantees of independence.

3d. The publicity of the accounts and of the documents relating thereto, and the publicity of the discussions about them, whether these take place in political, provincial or municipal assemblies who deliberate upon the expenditures, or are made known through the press, are a necessary guarantee of the best satisfaction of the requirements of any civil association.

In the economic aspect, that is, in respect of the effects of public expenditure on private economy,

we have to guard against the erroneous conclusions of two schools radically opposed to each other.

There are those who maintain that all public expenditure is always advantageous, or at least harmless, when it is made within the limits of the State, because the money which is levied on the tax-payers with one hand is returned to them with the other in the form of salaries, emoluments, fees and profits, paid to those who furnish goods to the State, the province and the municipality, or who discharge the needed services.

This conclusion, however, is doubly erroneous. To the exploded notion that all exportation of money is injurious, it adds the strange sophism of the supposed restitution of money to the tax-payers; whilst it is clear that in public expenditure money is not returned to them in proportion to their respective contributions, but merely that either the tax-payers themselves, or other persons, acquire new products or advantages, corporeal or incorporeal, which, as everybody can see, is a very different matter.

On the other hand, another no less exclusive school regards all public expense as always injurious, because it resolves itself into a diminution of the income of private individuals, and hence into a loss to the industry of the community.

Yet this school forgets that while it may often happen that public expenditures are injurious, still

in the case of many others the injury resulting from the diminution of private income is largely compensated by the benefit obtained from the enhancement of the public resources.

The evident truth is, that we cannot approve or disapprove any public expenses in the abstract, but in order to judge them we must give heed to the purposes for which they are designed, purposes which may be either praiseworthy or blamable, either absolutely or in relation to the private employments which may be injuriously affected thereby. Generally, in the economic aspect, those public expenditures can be approved which do not diminish either existing capital or the possibility of its regular increase.

CHAPTER III.

CLASSIFICATION OF PUBLIC EXPENDITURE.

To judge of the merit of the various objects of public expenditure does not belong to the Science of the Finances. It must accordingly abstain from investigations which belong to other parts of the science of administration, and must confine itself to a simple classification of public expenditures. The principal criteria for distinguishing public expenditures are the form they assume, the place and the time in which they are made, their importance,

their economic effects, and finally the purposes for which they are incurred.

In regard to form, that is, in respect of the material in which disbursement is made, we have to distinguish :

1st. Expenditure in natural products (goods and raw produce), once customary but now exceptional.

2d. Expenditure in money, once exceptional but now customary.

These expenditures comprise :

(a) The remuneration of the services of public functionaries, civil and military ;

(b) The lease and rent of real property ;

(c) The acquisition of goods and chattels by the public administration.

In regard to place, that is, to the source of the means acquired, we distinguish :

1st. Foreign (external) expenditure ; that is, made beyond the borders of the national territory.

2d. Home (internal) expense, made within the aforesaid limits.

In regard to the time in which they take place, we distinguish :

1st. The ordinary expense which repeats itself in every fiscal period, whether in a constant or variable amount.

2d. Extraordinary expense, which does not occur constantly, nor with periodical regularity. The category of foreseen and unforeseen expenditures,

however, does not correspond with this distinction, because not all ordinary expenditures can always be foreseen, at least not in their precise amount, nor are all extraordinary expenditures always unforeseen.

In a somewhat different sense expenditure is called ordinary, the useful effect of which merely concerns the current fiscal year, and extraordinary, that which inures to the benefit of several successive periods.

In respect of importance, we distinguish :

1st. Necessary expense.

2d. Useful expense. Some do not approve of this distinction, maintaining that any necessary expense is also a useful one, and that any really useful one may, in almost all cases, be regarded as necessary.

In regard to economic effects, we have to distinguish :

1st. Productive expenditure, which is

(a) Either directly such, if it increases the public estate, or,

(b) Indirectly such, if it increases that of private individuals.

2d. Unproductive expenditure, in which the wealth consumed is not sufficiently repaid by the usefulness of the services for which it is incurred.

We must not confuse the utility of public expenditure with its productiveness. Unproductive ex-

penditure may be useful, or, indeed, necessary, when it satisfies any real and urgent want.

Finally, in respect of the purposes for which public expenditure is intended, the following classification may be made, which, however, may be varied in a thousand ways :

I. Constitutional expenditure; that is, for

(*a*) The head of the State, Emperor, King, President, etc., and in a monarchy, for his family (civil lists, endowments, appanages, etc.);

(*b*) The representative bodies, national, provincial, municipal ;

(*c*) The highest governmental departments with general powers.

II. Expenditure of administration; that is, for

A. The financial administration, and in particular for

1st. The public domain ;

2d. The collection of taxes ;

3d. The public debt (interest and redemption);

4th. The treasury and accounts.

B. The administration proper ; that is to say,

(*AA*) Administration for purposes of public security, and in particular for

1. External security, and hence, for

(*a*) War and marine ;

(*b*) Diplomacy (missions, consulates).

2. Internal security (justice); hence, for

(a) Repressive justice (contentions, civil jurisdiction, *i. e.*, law courts for civil causes and penal justice);

(b) Preventive justice (voluntary civil jurisdiction and police).

(BB) The administration of public well-being, and in particular,

1. Intellectual and moral well-being; hence,

(a) Public worship;

(b) Institutions of education and learning.

2. Material prosperity:

(a) Physical (public health);

(b) Economic; hence,

(aa) Charitable and provident institutions;

(bb) Public works;

(cc) Industries (agricultural, manufacturing, commercial, etc.).

But the practical distinction of public expenditure for departments, bureaus, divisions, sections, etc., will never exactly coincide in any State with the scientific classification given, or, indeed, with any other classification. It varies according to the extent, the historical traditions, and the political constitutions of the different States.

PART III.

PUBLIC INCOME.

THE public income by which the State, the province, the municipality provide for their own wants is divided into ordinary and extraordinary income. The former is collected regularly in every fiscal period; the latter is intended to provide for casual deficits.

The ordinary public income is subdivided into original and derivative, the former governed by the common law and the latter by statute. Notwithstanding notable differences the two coincide in the main, because they resolve themselves into two modes of setting aside a portion of the national wealth for purposes of public utility.

The following is a summary of the principal public receipts :

I. Ordinary income, which is :

A. Original income, arising from the property of the State.

B. Derivative income, and therein :

1st. The proceeds of taxation.

(*a*) Special fees, costs and charges.

(*b*) General taxes, commonly so called.

2d. Fines, penalties.

3d. Escheats.

II. Extraordinary income, namely :

A. The reserves of the treasury.

B. The sale of the fiscal domain.

C. Increase of taxation.

D. Public loans.

E. War contributions.

PART IV.

ORIGINAL PUBLIC INCOME.

ORIGINAL public income is that which the State, province and municipality derive directly from their own property, in contrast with the derivative income which they obtain indirectly from the obligatory contributions of private individuals.

The original income constitutes the fiscal domain, in the fullest signification of the term.

CHAPTER I.

IDEA AND DIVISION OF THE FISCAL DOMAIN.

THE fiscal domain comprises the wealth, movable and immovable, possessed by the State, the province or municipality, the profitable rights that they enjoy, and the industries carried on by the same, under the ordinary regulations of law, with a view of obtaining revenue, interest or profit, which are designed to provide for a part of the public expenses.

In reference to the mode of acquisition, of management and of sale respectively, of the domanial

property and industries, they are controlled by the rules of common law, and of the economic law of competition, which regulates both the cost and the value of the products obtained.

Distinct from the strictly fiscal domain, which by its nature is alienable, prescriptible and productive, is the public domain (unproductive, imprescriptible and inalienable) which the citizens enjoy individually and not collectively, and on which the State, province and municipality enjoy no true right of property, but only the right and duty of preservation and of protection. Such, for instance, are the roads, canals, harbors, coasts, fortifications, etc.

From the fiscal domain differ also the fiscal monopolies, which are industries exercised by the public authority independently of the ordinary rules of law and of competition, with a view of drawing a net product greatly superior to ordinary profit, and which, therefore, really includes an impost.

From the fiscal domain must further be distinguished those administrative services which the State, province or municipality undertakes, with or without monopoly, from motives of public usefulness, with a view of deriving, not indeed a profit, but a simple reimbursement, either partial or total, of the expenses incurred, and constituting accordingly a special tax. This frequently happens in

the managements of posts and telegraphs, and always in the manufacture of coins.

The fiscal domain comprises :

A. Property.

1st. Immovable (domanial property in a limited sense), namely :

(*a*) The public workshops ;

(*b*) Cultivated lands, forests, mines, etc., owned by the State.

2d. Movable, namely :

(*a*) Corporeal goods, as military implements (arms, ships, horses, etc.), furniture, documents, books, pictures, etc., and, in general, the contents of archives, libraries, picture-galleries, museums, national printing-offices, money in the public chest ;

(*b*) Incorporeal goods, as rights of hunting, fishing, etc.

B. Industries.

1st. Territorial and mining, connected with the ownership of real estate.

2d. Manufactories (as national printing-offices, tapestry, porcelain and arms factories).

3d. Commercial, namely :

(*a*) Ordinary commerce ; this is very rare in the present day ;

(*b*) Banking, which in our day is everywhere carried on, not by State banks, but by private banks, with or without special privileges, the government being able by means of taxation to exercise super-

intendence over the issue of notes payable at sight or to bearer, and to obtain a fiscal revenue from them ;

(c) Posts, telegraphs and railways, when they yield a profit.

C. Permits for hunting, fishing, etc.

CHAPTER II.

ADMINISTRATION OF THE FISCAL DOMAIN.

THE administration of the fiscal domain can be regulated by "regie" (direct official management), by contract, and (in the case of real estate) by lease.

In the first mentioned, a system once generally prevalent, the proprietor (the State, province or municipality) assumes the care and risk of investment in raw material, manufacture and sale of certain products, and intrusts it to public officers, who are paid by fixed stipends.

In this system, which has the object of securing to the proprietor the entire profit of the enterprise, the lack of personal interest on the part of the administrators is to be regretted, as well as the many drawbacks of a bureaucratic management, which is invariably slow, expensive, intricate, sometimes yields no profit, and even results in loss.

By the contract or farming system the proprietor

withdraws from all risks, and grants to others the use of the property or the exercise of the industries of the fiscal domain in return for a fixed yearly payment in goods or money.

In favor of the contract system may be adduced the saving which the proprietor is able to effect in the expenses of administration and supervision; the greater revenue that is obtained by private, free and diligent management; the greater security of a payment fixed as to time and amount, the possibility of improvements, and, in general, the increase of the gross and of the net produce, which also results to general advantage.

On the other hand, stress is laid on the possibility of conflicts of interest between the grantor, who is most concerned about maintaining the property intact, and the contractor, who wishes to derive the greatest amount of produce while the contract lasts; hence there may arise frequent litigation, and sometimes fraudulent bargains, between the contractors and the agents who are charged with making the contracts and watching over their fulfillment.

To prevent such mishaps, in part at least, there have been established certain precautions respecting the choice of the contractor (by private contract or at public auction), also in respect to the duration of the contract (at a fixed and relatively long term of duration), to the extent of the grant,

and to the guarantees for the strict fulfillment of the contract (bond, inventory, etc.), and concerning the regulations (which must not be too many or too vexatious) as to the methods of management.

Different from contract (in the case of real property) is also the so-called concession* in which the greater duration of the grant, the obligation of effecting improvements, and the smallness of the payment prove frequently of great advantage to the administration and the betterment of the property of the State, of municipalities and of charitable institutions, which in this manner avoid the trouble and risk of such improvements, and to which moreover is assured a small but safe revenue.

Still, under different conditions, the progressive diminution of the payment as equalized to money through the diminished value of the latter—the smallness of the payment itself no longer corresponding to the produce of the lands—together with the many controversies, especially in the case of an excessive subdivision of workable lands, have given rise to a decidedly unfavorable opinion in respect to this system of administration of the fiscal domain.

There are also mixed systems of administration. Among these there is the system of sharing, in which the fiscal agents are made to participate in

||* A very long, or perpetual, heritable lease at a fixed rent. (Rom. law.)

the profits of the undertaking, in order to stimulate their activity through the hope of obtaining greater profits.

In the so-called system of guarantee, which at one time was much in vogue, the fiscal agent, who is paid by a fixed stipend, warrants to the exchequer a minimum of product, and divides with it anything that may be obtained beyond this limit. But it has always been difficult to find persons possessing capital and endowed with high administrative capacity who would be inclined to charge themselves with the fixed burden of this guarantee in the hope of enjoying only a part of the greatest eventual profit.

CHAPTER III.

SALE OF THE FISCAL DOMAIN.

THE various systems of administering fiscal property and industries have almost always presented very grave inconveniences, which have induced the more civilized States to sell the greater part of the domain.

It is plain, if the matter be considered in its legal and in its political aspect, that the possession of a large fiscal domain may produce a conflict of interests between the public authority and the citizens, because the duty of the equal protection of every

order of persons and property is often forgotten, and through the system of privilege, private property and private industry are injured for the benefit of the exchequer.

Besides this the administration of the fiscal domain increases the number of public functionaries, heightens the influence of the executive power, and diverts a number of persons from the careers of private life. Nor should we omit to mention the danger contained in the fact that domanial wealth furnishes powerful means of financial resistance to the popular will expressed in the political deliberative assemblies.

Finally, in case of war the public estate is more easily exposed to devastation and confiscation by the enemy, which produce not only the most serious injuries, but also numerous legal conflicts with the buyers of confiscated property.

In the economic aspect the subtraction of a considerable quantity of property from private ownership constitutes a serious obstacle to industrial progress, and compels the citizens to much greater sacrifices than under a system of taxation would suffice to obtain greater revenues for the treasury.

In fact, when we consider the lack of individual interest in the public functionaries, the complications, the slowness, the expenses of book-keeping and of supervision,—no doubt indispensable, but frequently inadequate—when we consider the im-

perfection of the entire bureaucratic management, which is always adverse to reforms, and by its own constitution prevented from speedily effecting those small savings and profiting by those favorable occasions which so materially contribute to the increase of returns, it is not to be wondered at if the revenues of the fiscal domain prove small, or if at times they disappear entirely and are swallowed up by expenses. But the capital obtained from their sale, the amount of which will bear due relation to the greater revenue which private industry could derive therefrom, may be applied to a much more productive employment, as, for example, when used for the partial extinction of the public debt, the interest of which, often very burdensome, stands in marked contrast to the smallness of the income arising from the domain.

Hence the sale of the fiscal domain is, in general, to be recommended.

It may, however, produce the worse results if it is not made with suitable precautions. It is necessary to take heed of,

1st. The choice of what is to be sold, and of the regulation of the sale itself, in order that the sudden offer of a great quantity, especially of real property, may not result in loss to the exchequer (which would receive a lower price) or to private individuals, whose property might be lowered in value.

2d. The territorial extent of the property sold, which should be divided up in such manner as to invite the competition of buyers, due regard being paid to the systems of cultivation in different countries.

3d. The time of the sale, which ought to take place in periods of political tranquillity and of economic prosperity, in order to obtain good prices and to avoid the irreparable loss of a sale at an improper price.

4th. The persons to whom sale is made, in order to avoid as far as possible the evils of speculation.

5th. The guarantee offered for the punctual fulfillment of the contract.

6th. And above all, the use made of the proceeds of the sale, which must always be regarded as capital, to be employed either in the extinction of old debts, or to meet extraordinary expenses, for which it would have been necessary to incur fresh debts.

The desirability of making sale of the fiscal domain, which some advocate unconditionally, admits, however, of a few exceptions. It may, for instance, be important to retain the possession of certain public forests in mountainous localities or on the banks of certain rivers and mountain streams, from motives of public health, and for the protection of private property. Also, from yet different reasons, one may advocate the manufact-

ure at the expense of the treasury of objects necessary to the civil and military administration, and also, in countries of a less advanced civilization, the maintenance of certain lands and factories for purposes of instruction (model farms, manufactories of tapestry, etc.).

PART V.

DERIVATIVE PUBLIC INCOME.

DERIVATIVE public income consists of obligatory contributions produced by taxation, those sums which the public authority levies on the wealth of private individuals in return for the services rendered to them by the administrative institutions of the State, province or municipality.

Such contributions are distinguished from the fiscal domain, and from its products, both by their origin and their effects on the national wealth, and also by their character as obligatory loans, withdrawn entirely or partially from the action of competition.

Taxes are either special or general ; the former being more closely designated as fees, costs and charges, the latter as taxes merely, or as imposts. To the derivative public income belong also fines, pecuniary penalties, and in certain respects also escheats, or unappropriated goods. But by reason of the relatively small importance of the latter in modern financial systems, it may suffice merely to mention them here.

CHAPTER I.

IDEA, REASON, AND FORM OF FEES, COSTS, AND CHARGES.

IN scientific language, fees, costs, and charges are the remuneration for special public services which are rendered to private individuals at their request.

They differ, therefore, from ordinary taxes ;

1st. By their object, because the former refer to special services that have been voluntarily sought, and the latter to general services that are compulsorily offered.

2d. By the criterion of the assessment, which, as regards fees, etc., is the amount of expense incurred, and, as regards taxes, the amount of the property of the tax-payers.

As certain institutions that are administered by the public authority, either because essentially pertaining to its competency (as the maintenance of external and internal security, etc.), or because it can manage them better than private industry (mint, post-office, telegraph, etc.), yield two kinds of advantages, the one general and indeterminate to the whole body of citizens, the other special to certain classes and persons, it is conformable to reason that the necessary expenses for the maintenance of such institutions should be defrayed partly by general taxes and partly by special taxes, which means, in other words, that these expenses

should be defrayed in quotas proportioned to the wealth of the individual contributors, and to the greater expense caused by a portion of them. If such expenses were defrayed solely from the proceeds of general taxes, or solely from those of special taxes, there would result privileges favorable to some and injurious to others.

In order that any fee be legitimate, the service rendered must be a real one, and its amount should not exceed certain limits, fixed precisely by the expense occasioned by the one who pays it.*

Such is the criterion for the determination of fees in which no heed is taken of the economic condition of the contributors, except in the two following cases :

1st. Of absolute poverty, in which case exemption is allowed from certain fees, costs and charges to be paid for services which are certainly special,

* The State of Pennsylvania obtains net revenue of nearly \$200,000 per year from the fees of court clerks, recorders of deeds, and registers of wills. All these officers are required to report their fees to the Auditor General. When the amount exceeds \$2,000 per annum, they are required to pay one-half of the surplus to the State treasury, retaining 3 per cent. of the sums so paid. Notaries public pay 5 per cent. of their fees, and are charged \$25 each for their commissions. This method of obtaining a net revenue is incidental, not direct, and is quite unobjectionable. As it is never possible to adjust the fees precisely to the cost of the service rendered, or the expense occasioned, it is fitting that the excess received should inure to the benefit of the State. But the officers charged with the collection of the fees must have a sufficient pecuniary inducement to collect them in full and pay over the State's portion.—ED.

yet which should always be rendered in the interest of justice (court costs).

2d. In case of straitened means combined with signal merit, where exemption is allowed from certain charges for particular services of mere utility (as school taxes).

In the first case it is equivalent to an alms; in the second, to a prize awarded by the wealthier tax-payers to the poorer ones.

If we wish to distinguish special charges in their relation to the several administrative services that may lay claim to special remuneration, we obtain a classification analogous to that already given in the case of public expenditures.

We cite from the great variety of special taxes the following merely by way of example :

1. Public security.

(a) External (charges for exemption from military service, for passports, consular fees, etc.) ;

(b) Internal: 1st. Repressive justice (court costs and official fees, etc.). 2d. Preventive justice (permits for hunting, carrying arms, etc.).

2. Public prosperity.

(a) Intellectual and moral (school tax, charges for dispensations from observance of strict conditions with reference to mar-

- riage, for naturalization, decorations, honors,* etc.);
- (b) Material (charges on coinage, on weights and measures, for stamping precious metals, on railway service, posts and telegraphs, etc.).
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CHAPTER II.

CHARGES ARISING IN MATTERS OF JUDICIAL COGNIZANCE.

THOSE charges which require special mention may be divided into court costs and fees for certification, registration and copies of papers.

SECTION I. *Court costs.*

Court costs are charges which are paid in return for certain special services rendered by the State on the occasion of certain acts that are completed in the civil tribunals.

These concern lawsuits or litigious civil jurisdiction.

Their principal justification consists in the particular advantage which these judicial proceedings offer to certain persons, who ought not to be allowed to enjoy them at the expense of the mass of

* In nearly every country of Europe there is a tax on the orders or decorations bestowed by the sovereign, and on any rise in the official hierarchy which gives a distinct title. So also on patents of nobility.

tax-payers. Another reason, but subordinate and of a political character, is the need of putting some restraint on litigation.

Court costs, however, should not exceed certain limits, because otherwise :

1. They would become prohibitive or would greatly restrict the usefulness of judicial institutions, to the injury especially of the poorer classes.

2. They would diminish the very great and universal benefit which we derive from a proper administration of justice independently of special judicial aid.

Court costs have to be paid by the losing party in a suit in due proportion to the expenses which he may have caused.

In the absence of any established principle for fixing charges of this kind, rules may be framed indirectly, by reference—

1. To the rank and dignity of the magistrates who hear and decide ;

2. To the importance of their judgments ;

3. To the kind of questions brought before them.

The objections made by many to court fees are either founded on the false premise that the existence of the civil tribunals is not more useful to the litigants than to other citizens, and that taxes are levied on the oppressed poor and not on the rich oppressors ; or are only valid against arbitrary,

excessive and badly distributed costs—that is, against the abuse, and not the use, of fees or taxes of this kind.

SEC. 2. *Fees for certification and registration.*

These fees are paid in return for special services rendered by the State through the compilation, certification, preservation and multiplication of certain documents by means of which a right is established, insured, changed, transferred or extinguished.

In fact, both the civil judicial authority (in its non-litigious capacity) and the financial authority, as well as the other administrative authorities, often co-operate toward enhancing the value of such acts, by investing them with certain solemn forms, by ascertaining their date, by inscribing and transcribing them in public registers, and making authentic copies of them.

But in this category taxes on business transactions or contracts are not to be included, and not even registry and stamp taxes, because they happen to be collected in the same method, which may be identical in form both for official fees and for imposts on the transfer of property.

Official fees are essentially different from charges on transfers :

1st. By the object, which in the one case is the document and in the other is the property transferred.

2d. By the purpose, because the fees aim at ob-

taining a reimbursement of expense, while imposts aim at obtaining a net revenue.

3d. By the criterion of the assessment, which in one case is the amount of expense caused, but in the other is inferred from the nature of the transfer, from the value of the property transferred, and from the personal relations between those who make the transfer and those who receive it.

In the case of charges for official documents the effort is also made to ascertain the expenses caused by individuals by having recourse to certain indirect data inferred from the nature and importance of the transactions.

The distinction often met with in practice between fixed fees and fees proportioned to the values involved in the document is not a sufficient argument to justify the assertion that the fee has been converted into an impost, because within certain limits the proportion may be an indirect and approximate criterion of the amount of expense incurred for the special advantage of certain tax-payers.

SEC. 3. *Collection of charges arising from matters within judicial cognizance.*

Both court costs and charges for official documents may be collected according to various systems, which are either peculiar to them or are common to a few indirect taxes on transfers and on consumption.

The distinction is to be noted between the two

systems of direct collection (made by public officers) and of indirect collection (performed through a system of stamps).

The direct collection is made :

1st. By the obsolete, not very creditable and even dangerous method of so-called perquisites, or payments made by the parties concerned to the public officials, and accepted by the latter as a stipend or an addition to their salary.*

2d. By means of the so-called office charges (*diritti di cancellaria*), belonging to the public treasury, but collected by public officers, either salaried or remunerated with a share in the proceeds, who simply receive the document or compile it or make a registration of it.

The indirect collection, which is made by means of a seal or stamp, which in itself is not a tax,

* This discreditable and dangerous method of collecting fees and charges is by no means obsolete in the United States. Having been adopted at a time when the fees, by reason of the smallness of the business transacted, amounted to no more than a fair compensation for the officers' time and labor, the compensation increased with the growth of States and cities till in some cases it amounted to a princely revenue. Then it became a source of political corruption. Offices of a merely clerical and perfunctory sort have become prizes of such magnitude that political parties and "bosses" have quartered their favorites and henchmen upon the nominal holder of the offices as the price of nomination and election, and have levied "assessments" upon them corresponding to the aggregate amount of the fees. Every attempt to reduce the fees or to turn the excess, over and above a fair compensation, into the public treasury, is fiercely opposed by the politicians who divide the "spoils," but the tendency of opinion and of legislation is now strongly in favor of the system prevailing in Pennsylvania, mentioned in the note to page 37.—ED.

offers the advantage that the contributor is bound to co-operate at his own risk and peril in the collection of the fees, that the secrecy is better maintained, and that the collection is rendered more speedy, less costly and more consonant with the dignity of the public functionaries.

The forms in which this collection is made differ as follows :

1. The stamp or seal may be affixed by a public officer upon papers prepared beforehand, in which case we return to the system of direct collection.

2. Stamped paper prepared by the State is sold at a profit by officers expressly appointed, and has to be used for the compilation of certain documents.

3. Separate stamps are manufactured and sold for account of the State that have to be affixed to instruments drawn upon unstamped paper.

The adoption of this latter system, which is the most recent, and also the most convenient as well as least expensive, is daily gaining ground, although many precautions are required to prevent frauds, consisting in counterfeiting the stamps, delay in affixing them, and in affixing the same stamp successively to different instruments.

CHAPTER III.

CHARGES ON THE MEANS OF EXCHANGE AND
OF TRANSPORT.

AMONG the charges imposed for administrative services which relate to public prosperity, the first place belongs to those on the means of exchange and transport, which serve to defray the expense required for the maintenance of certain economic institutions, which for reasons of public utility remain in the hands of the State. These comprise charges :

1. On coinage.
2. On the verification of weights and measures and on the marking of the precious metals.
3. On railroads, posts and telegraphs.

SECTION I. *On coinage.*

The manufacture of coins, for which the State provides either directly by government management or indirectly by contract, forms a legitimate title for the exaction of charges to reimburse a part of the corresponding expense.

Gratuitous coinage, which would seem to realize the idea of what money should be, by creating identity between the value of the metal and the value of the coin, would be somewhat dangerous in practice, because it would continually promote

the melting and exportation of new coins, and thus encourage the speculations of goldsmiths, money-changers and bankers to the injury of the public, who would receive only worn and light coin.

On the other hand, to extract from the coins a net revenue over and above the reimbursement of the expense of coinage, which was once practiced by systematic alteration of the coins (in weight, fineness and value), must be considered the worst of all taxes, because it nominally raises prices, compromises the certainty of contracts, injures private creditors who had made bargains in the old coin, and finally ruins the treasury, for whose benefit the impost was intended.

The best system is that in which the State is satisfied with a partial reimbursement of the expenses of the mint, and which may be effected :

1. By causing an equivalent of the expenses for assaying and coining, to be paid by those who bring metal to the mint to be converted into coin.
2. By turning to account the gain which it derives from the minting of the subsidiary coins, to which it will generally affix a nominal value higher than their metallic value.

The expense caused by the withdrawal and remelting of worn coin has, on the other hand, to be borne by the tax-payers (by means of imposts), because it is not in accord with equity that they

should be borne wholly by the person who may have received them last.

SEC. 2. *Charges on weights and measures, and on marking.*

The authority of the community should provide for the establishment and maintenance of a system of weights and measures which should be generally obligatory, and should satisfy the conditions of intrinsic merit, of consistency within itself, of application to the whole territory, and of invariability. For this reason the same authority should be charged with the task of the verification of weights and measures, on which occasion there are also levied certain taxes, originally paid by the manufacturers, but which are afterward periodically levied on tradesmen.

It is only proper that these taxes should be paid by those who have the direct benefit of the official verification, and who, at all events, are able to reimburse themselves through the price of the merchandise sold.

The trade in the precious metals (gold and silver) and in the objects manufactured from them becomes sometimes the subject of a charge which is collected by means of the application of a stamp (obligatory or optional) impressed by a public officer who certifies to their weight and fineness. This charge is also provided for by the manufacturers and the tradesmen; but they obtain reimbursement

from the buyers, who in this manner are fully guaranteed in respect of the fine metal contained in the articles, which they would not be able to verify for themselves with equal ease and accuracy.

SEC. 3. *Charges on railways, posts and telegraphs.*

The ownership and operation of railways are by the very nature of things, in fact if not by right, almost wholly removed from the beneficial action of competition.

Instead therefore of being branches of industry, they are institutions of public utility, necessarily subject to an effective control on the part of the State, which in many countries assumes the property of them, and in some even works them.

When the State works the railways, reason demands that it should obtain the reimbursement of the greater part, if not the whole, of the working expenses and interest on the fixed and floating capital invested, by means of charges which are to be paid by those who avail themselves of the railroads for the transportation of their persons and goods, and so derive a special benefit from them.

But when, on the other hand, the operation of the railroads is in the hands of companies under State inspection and control, the State usually levies an impost on the persons and things transported, either in express or slow trains, which im-

post is anticipated by the companies, which obtain their reimbursement by raising their rates in due proportion.

For still stronger reasons the postal, and now also the telegraph service (except the submarine) are becoming almost everywhere concentrated in the hands of the State, which, by means of charges on the transmission of letters and dispatches, obtains the total or partial reimbursement of the expenses of plant and administration.

The system of postal and telegraph charges becomes every day more simple, uniform and economical, a process promoted by frequent international conferences and conventions.

Prepayment by postage-stamps, the notable diminution and simplification of rates, the introduction of postal and telegraphic money-orders, and the more recent one of postal cards and postal packets, are the most important features of reforms, which, however, admit of still further development.

The postal and telegraph charges, in which regard is had to weight (for letters) and to the number of words (for dispatches) are now more uniform, and not, as formerly, graduated according to distances. The latter system was too complicated and costly, as well as incompatible with equity, since it has been ascertained that the element of distance, imperfectly estimated according to the plan of the so-called "postal and telegraphic

zones," has in reality but little relation to the cost, which falls off considerably with the increase in number of letters and telegrams, the latter effect being in great measure due to the reforms above mentioned.

CHAPTER IV.

THE IDEA, REASON AND RULES OF GENERAL TAXATION.

A TAX is that part of the wealth of private individuals, which the authority of the State, province or municipality appropriates in order to provide for the public expenses incurred for the advantage of the general body of tax-payers.

The reason of a tax is evident. In order to satisfy certain collective wants, where it is quite impossible to decide what are the expenses caused by individual citizens, and where the direct performance of personal services, which would prove to be uncertain, inconsiderable and badly distributed, would be of no use, there will be required a common fund, to establish which voluntary contributions would not be adequate.

To the right of the public authority to levy taxes there corresponds the duty on the part of private individuals of paying them. Hence we

must condemn the tolerance with which certain moralists encourage the selfish aversion which some citizens entertain against payments of this kind, extenuating the offences of those who defraud the treasury ; as if such delinquencies were less reprehensible or less injurious than those in private life.

The science of finance furnishes a few juridical, economic and political rules for the regulation of imposts.

SECTION I. *Juridical rules.*

The tax must above all possess the requisites of legality, of certainty, of legitimacy, of equality and of morality.

In fiscal matters, as in others, juridical considerations should prevail over economic and political ones. As, however, the rigorous application of the principle of justice meets very serious difficulties, both in the selection and the valuation of taxable objects, and by reason of the incidence and of the repercussion of taxes, which cannot always be exactly calculated, it follows that in practice we must be satisfied with an approximation to equity.

A tax is legal when it has been decreed by competent authority with all the solemnities of legislative enactment, and hence, in free States, with the previous assent of the contributors, expressed either directly by their votes or indirectly through their representatives.

It is certain, that is, not arbitrary, when the law with precision and clearness determines its nature (subject, object, extent), the means of determining its distribution, the methods of collection, the fines and penalties in cases of delinquency, the authorities that are to decide in practical administration, and ultimately the judicial remedies in case of complaints from the tax-payers, etc.

It is legitimate when its proceeds are effectively employed for the advantage of the whole body of contributors, an equitable relation between the sum total of the taxes and that of the public expenses being thus attained.

The equality of the tax relates to the justice of its apportionment among the contributors, and is the fiscal application of the principle of equality of the citizens before the law. The tax will be equal not only in name but in fact, when it is at the same time universal and rightly graduated.

The universality of the tax consists in the exclusion of every privilege, real and personal, because it is not equitable that any person or corporation should enjoy a share in the benefits of political society, and at the same time be exempt, wholly or partially, from the corresponding burdens. The exemption of the poor from certain taxes is a necessity based on a fact, which resolves itself into a special form of public charity.

The graduation of taxes consists in a corre-

spondence between the tax and the economic condition of individual contributors. If the tax should be uniform, notwithstanding the economic inequalities between the citizens, it would not only be unjust, but also impracticable, for, considering the smallness of the separate contributions, which is necessarily implied by uniform taxes, the revenue derived would be altogether insufficient for the needs of modern civil societies.

Admitting the justice of graduation, it will be necessary to find an equitable and practical criterion to carry it into effect.

The criterion of equivalence between the tax and the services rendered individually to the contributors is neither just nor possible, because the value of these services cannot be determined even approximately, and because such a system would tend to oppress those who, through weakness, ignorance or poverty, stand in greater need of the protection of society, and accordingly derive greater advantages from it.

Nor is it just or possible to set up the criterion of equivalence between the tax imposed and the expenses caused by the contributors individually, or, in other words, the principle, which should govern in the case of fees, costs and charges, etc., because there are a great number of public services concerning which it is impossible to decide what

portion of the aggregate expense is caused by each contributor.

And, finally, it is neither just nor possible to treat the impost as a premium of insurance for social protection, because the public authority does not limit its action to the defence of property, but extends to personal security also, and to the promotion of moral and intellectual well-being. Even in respect of property, the social authority does not assume any real guarantee, but only binds itself to the protection of private property, and to the punishment of crimes committed against it.

We must also consider erroneous the theory of those who, in order to avoid the defects of the criteria of the value of services rendered, of the expenses caused, and of the premium of insurance, declare that the best way of applying these criteria is to apportion the taxes according to the total wealth of the contributors. It is erroneous simply because the hypothesis is wrong which assumes that in this manner services, expenses and premium would become exactly proportional to wealth; for this theory also leaves out of view the fact that the action of the public authority is not limited merely to property, and that in the matter of insurance the premium must be proportioned not only to the value of the goods, but also to the kind of risks against which the property is to be insured.

In accord with the more equitable and practicable scheme of graduation the burden on the contributors should be assessed in proportion to their means, estimated, in the opinion of some, according to their estates; in the opinion of others, according to their income. Yet, either of these principles being admitted, the advocates of proportional, and those of progressive or graduated taxation differ among themselves as to the methods of actual application.

A tax is called proportional, when the relation between one's property and the amount which he pays is invariable for all contributors, so that the individual quotas increase in perfect correspondence with the increase of wealth.

On the other hand, a tax is called progressive where its rate varies with the variation of the wealth itself, so that the quotas increase more rapidly than the wealth increases.

The adherents of progressive taxes, who in our time are very numerous, and not all of them socialists, start from the idea that taxation should, above all other considerations, perform a social function. Taxation, they say, should prevent the accumulation of wealth in few hands, or at least should bring it about that the burden should press equally upon the tax-payers; in other words, it should consider what is left to the tax-payer and not merely what is paid, and should bear upon what is super-

fluous rather than upon what is necessary. They thereupon seek to prove that fiscal legislation furnishes a great many instances of at least the partial application of this system, as when a minimum is fixed of property which is to be exempt from direct imposts, and when rents are taxed progressively according to rental value.*

* The progressive tax system has been in force in the city of Basle, Switzerland, upwards of fifty years. Incomes derived from property pay on an ascending scale, viz.:

\$200 per year, about 2 $\frac{3}{10}$ per cent.			
400	"	"	3 $\frac{3}{5}$ "
600	"	"	4 "
800	"	"	4 $\frac{1}{2}$ "
1200	"	"	5 "

and so on to \$12,000 per year, when the tax is ten per cent. After this the rate of increase is very slow. Incomes derived from earnings are also taxed progressively at about one-half the rate of income from property. There has been a gradual but steady increase in the progressive feature of taxation at Basle, accompanied by further exemptions of the smaller incomes, until now the returns show that 500 persons, in a total population of 60,000, pay eighty per cent. of the taxes. The democracy of Basle are apparently making experiments to see how far the progressive principle can be carried without causing a disastrous emigration of capital. It is certain that capital is not now increasing in Basle. There was a slight decrease from 1884 to 1887, but whether this was due to temporary or to permanent causes is doubtful. See *London Economist*, July 9, 1887.

Progressive taxation has been adopted recently in the Canton Vaud, Switzerland, differing in some details from the system in force at Basle, exemptions being allowed in proportion to the number of children in the family. There has been some emigration of capital from Lausanne in consequence of the progressive tax, but whether it amounts to a serious loss it is too early yet to determine.

The advocates of the progressive tax have scarcely been heard in the United States, all the talent that would naturally be applied to it being absorbed in the effort to enforce the proportional tax by causing personal property to bear its due share of the public burdens.—ED.

The advocates of proportional taxation, on the other hand, deny the justice and expediency of any act of the treasury which aims directly at changing the distribution of wealth. They object to the fixing of a progressive scale as being arbitrary, since its increase, in order not to confiscate the entire fortune of the greater contributors, must necessarily stop short somewhere and precisely at the point where the rigor of the principle would seem to require greater severity in respect of a superfluity of property which has become colossal. They moreover observe that progressive imposts would cause capital to emigrate or to disappear; that it would discourage saving to the injury of the poorer classes, and that it would be the occasion of many frauds (fictitious sales, divisions and transfers), all seeking to elude its rigor. They conclude finally that the alleged partial application of progressive taxes is really a favorable testimony to the system of proportional taxation. And in fact the exemption granted from direct taxes accorded to persons of small means is a compensation for the greater burden to which they are subjected through the faulty distribution of the indirect imposts on consumption; while, on the other hand, the progressive taxation of rental value is made on the hypothesis that this is the best method of taxing proportionally the wealth of the contributors, which is estimated by its outward indication in

order to avoid the serious difficulties of direct investigation.

The morality of an impost must not be understood in the sense that the taxation of certain articles aims at preventing certain injurious or vicious acts, because in order to reach such a result the impost would have to be made prohibitory and hence would be devoid of fiscal effect ; but merely in the sense that the impost itself must not be immoral :

1st. In its object, as if it distinctly taxed the gains of vice, which should neither enjoy exemption, nor be subjected to any special imposts.

2d. In its effects, as if it should incite to gambling, divert attention from labor, and from habits of saving, or encourage idleness, ignorance and superstition.

3d. In its application, as when the impost, by its excessive amount or by uncertain, onerous or exceedingly lax methods of collection, offers an incentive to smuggling, thereby sacrificing the honest to the dishonest tax-payer.

SEC. 2. *Economic rules.*

The principal economic rules of taxation are the two following :

1st. It should, when possible, tax the income only, whether national or individual, but spare the estate itself.

2d. It should cause the least possible disturbance of the natural development of industry.

The former rule indicates the economic limit of the impost, and points at its true source (the income); for it is bound to protect and not to diminish the property of private individuals, in order that the sources of the public receipts may not be imperiled.

The rule, however, has no absolute character, for in normal conditions the imposts must remain a great deal below that extreme limit, while in abnormal cases the limit may be exceeded in order to avoid greater evils.

This principle relative to the source was by some applied to the subject matter, that is, to the basis of the impost, the contention being advanced that imposts should be regulated, not according to property but according to income. This is not true in an absolute sense, because the effects which an impost produces on the property depend on the fact and not on the quality of the impost. In fact a light impost may leave the property intact even when based upon property, while an onerous one may diminish the property even when it is based upon income.

The second rule enjoins such an arrangement of the impost as shall cause the least possible disturbance in the production, circulation, distribution and consumption of wealth. By this it is not pretended that all injurious effect from the impost can be guarded against, for, by reason of the objects

which it taxes, the systems of collection and the guarantees required always produce certain restraints, that are more or less opposed to the liberty of the citizen.

SEC. 3. *Political rules.*

The political rules of taxation refer to its sufficiency, to its flexibility and to the means of collection.

The tax should in the first place suffice for the needs for which it is intended, and be capable of adaptation to the essentially variable nature of the public expenses.

The means of collection is the sum total of the acts by which the amounts due by the contributors pass from their hands into those of the fiscal authority. The collections should be made by competent persons, and according to convenient methods.

In respect to the persons charged with the collection we have to distinguish the two systems of "regie" or direct government management and of contract (farming of the revenue), as also their combinations, among these especially the so-called "co-interested regie," and the collection guaranteed or executed by the local communities even in case of State imposts.

Public opinion in the past was decidedly adverse to the contract system, and is not even now entirely agreed as to its merits.

Against this system may be mentioned the rapacity, arbitrary acts, scandalous fortunes and unpopularity of the contractors; whilst in favor of the "regic" system it is maintained that it is naturally lenient, not bent on private gain, and that it moreover affords the advantage of showing the cost of collection accurately in the balance sheet.

In favor of the contract system, particular stress is laid on the advantage of being able at given times to obtain fixed sums, whilst the profit of the contractors is compensated by the saving of expenses growing out of the inducement of profit, which is wanting in the agents of the treasury. It is observed, moreover, that the abuses of the old contract system, although greatly exaggerated, are rather to be attributed to the inherent faults of any tax system than to the particular methods of collection; for the contract system, when controlled and regulated by wise laws, has even lately yielded excellent results in the collection, notably, of direct taxes, and it has frequently been opposed merely from a desire of administrative centralization.

In respect of methods, the collection should cause the least possible inconvenience to either the exchequer or the contributors; in other words, it should be prompt, safe, economical, and not vexatious.

The collection will be prompt, when it is so arranged that there are no arrearages left, and that the sums collected are forthwith deposited in the treasury.

The collection is safe when it is subject to a system of accounting and to a board of control possessing sufficient guarantees to prevent or at least to promptly detect any mistakes or fraud.

The collection will be economical, when a minimum of difference is reached between the amount turned into the treasury and that obtained from the contributors.

Finally, the collection will not be vexatious :

1st. When the convenience of tax-payers is consulted in respect of time, place and form of payment.

2d. The process should be simplified as far as possible, useless formalities should be avoided, as well as any abuse of oaths, examinations, exhibition of documents and other practices which cause loss of time to the contributors, undue restrictions of individual freedom, invasion of domiciles and of business secrets.

CHAPTER V.

REPERCUSSION OF TAXES.

WE call the repercussion (*ripercussione, rimbalzo, traslazione*) of a tax that process through

which certain persons affected by the tax succeed, by proportionally increasing the price of their goods or of their services, in getting reimbursed by other persons, who are therefore the real taxpayers.

Such a shifting, which is difficult to be determined exactly in individual cases, is variously judged by theoretical writers. Some deny it, or consider it vague and unimportant; others (pessimists) believe it to be an unavoidable disturbing element in every financial system; still others (optimists) insist that it is beneficent, and repairs the inevitable inequality in the incidence of taxation.

We must not confound that repercussion which has been foreseen and desired by the law-making body, and which allows the adoption of more convenient methods of collection (*e. g.*, in certain imposts on consumption), with the shifting of a tax to persons whom the treasury wishes to spare. In this last case justice in the distribution of taxes is really impeded.

A good system of taxation should take care, as far as possible, that there should be only that repercussion that is desired and intended, and no other. For repercussion is often very hurtful, because it frequently is effected by concealed means (*e. g.*, by deteriorating or adulterating the goods sold).

The displacement of the economic consequences of a tax by means of an improvement in the system of production, which reduces its expenses, is far different from repercussion, and is always beneficent in its effects.*

CHAPTER VI.

CLASSIFICATION OF TAXES.

TAXES may be divided into classes according to different criteria, some of which are theoretically and practically important.

In respect of the kind of property that the tax to be paid consists of we have to distinguish:

1st. *Imposts in kind* (provisions, merchandise, services), which once were the rule, but now are an exception, and to be avoided as far as possible;

2d. *Pecuniary imposts* (in coin, money), which were once the exception, but are now the rule.

In respect of the rules of assessment, we have

* The question of shifting of taxation is not always sufficiently considered by law-makers, as it frequently enables the manufacturer to make a higher profit. For example, the tax on matches in the United States and England caused each box of matches to be sold at a higher price than the mere addition of the tax would have caused, because the tax was less than the unit of the currency. In France it resulted in a very great deterioration of quality. Similarly with the tax on railway journeys and railway tickets.

the distinction, already alluded to, of uniform imposts and of graduated imposts, whether graduated proportionally or progressively.

In respect of the permanent or transitory character of the imposts, we have to distinguish :

1st. The ordinary imposts which form an integral part of the financial system, and are constantly repeated in every fiscal period ;

2d. Extraordinary imposts that are levied to meet exceptional wants (as, for instance, in war), and which cease with their disappearance.

In respect to the nature of the property subjected to taxation, we have the well-known distinction between direct and indirect imposts ; a distinction, however, which is variously understood both in science and in practice.

Some, in fact, call those imposts direct which, either effectively or according to the intent of the legislator, are a charge upon the person who pays them ; and indirect those that are provisionally paid into the treasury by certain persons, who secure the reimbursement of them from others, that is, from the real contributors.

Others again call those imposts direct that are founded on essential and permanent relations between the contributors and the treasury, which provides for their collection at fixed times by means of a roll of names ; and those indirect that are founded on relations merely accidental and

temporary, and which, therefore, are usually collected by means of tariffs.

Others, finally, and, as it seems, with more reason, call those imposts direct that are levied on wealth in its immediate manifestations (persons, income, estate); and indirect those that are levied on the secondary manifestations of the wealth of the contributors, such as transfers and consumption.

In respect to the manner in which the sums to be paid are determined, especially in the department of direct imposts, are to be distinguished:

1st. Imposts of apportionment or quota, where the public authority, having first fixed the sum which it intends to exact, distributes it, or causes it to be distributed, among the various subdivisions of the territory (quotas for the district, the province, the municipality, etc.), and finally among the single contributors, without fixing the individual quotas in advance;

2d. Imposts of fixed assessment, in which the public authority without more ado fixes the amount to be paid by each individual subject to taxation, without determining in advance the sum to be paid in the aggregate.

Where there happens to be available an exact list of property the difference between the system of apportionment and that of assessment is rather a matter of form than of substance.

The system of apportionment answers the interests of the exchequer better, because it assures a fixed return ; that of assessment seems in general more conformable to justice, although it opens a wider door to frauds.

Direct imposts are divided into :

1st. Real (objective, impersonal), when they are levied on property, without regard to the personal condition of the owner, and hence, without taking his debts into account.

2d. Personal (subjective), when they are levied on persons :

(a) As such (poll tax).

(b) Or with reference to their economic condition, as a basis for the calculation :

(aa) In respect of income, or,

(bb) Of property, or, as some less correctly put it, of capital.

In respect of the mode of ascertaining the property, we distinguish :

1st. The rigorous or exact systems, which require a precise determination of the value of the thing subject to taxation, which may be made,

(a) By the payer (declarations).

(b) By the fiscal agent (official appraisements).

(c) With the co-operation of both (verified declarations).

2d. The approximative systems, that are satisfied with simple indications, or legal presumptions,

concerning the value of the objects subject to taxation.

In the matter of direct personal imposts on income, we may inquire into :

1st. The actual income of the last fiscal period (for instance, during a year).

2d. The average income of a short definite period, the variations being thus more or less compensated (for instance, the average income of five or three years).

Direct objective taxes, and among the personal taxes those on income and on property, may be general or special, that is, relating to all, or only to a few classes of income and of property.

In the following chapters we shall inquire into :

1st. Direct objective imposts on the produce of real property ;

2d. Direct personal imposts on income from movable property ;

3d. Direct imposts on transfers of property ;

4th. Indirect imposts on consumption ;

5th. Direct personal imposts on income and on property in general.

CHAPTER VII.

OBJECTIVE IMPOSTS ON THE PRODUCE OF REAL
PROPERTY.

THE impost on the produce of real property (called also predial, land and territorial Tax) was at one time the most important, and at times the only one, among direct imposts, and still retains to-day an important place in systems of taxation. It is subdivided into the two imposts, on the land and the buildings, which generally are regulated by somewhat different rules.

SECTION I. *Imposts on the produce of land.*

The land impost is levied on the gross or net produce of cultivated ground of every kind.

In order to determine well the subject of this impost, we must know its nature (quality) and amount (measure).

If we consider the nature of agricultural produce, it comprises :

1st. The rent, in the technical sense of political economy, that is, what the land yields by itself ;

2d. The product of the capital invested in the land, that is :

(a) Of the capital permanently invested in the land for improvements of every kind ;

(*b*) Of the working capital which serves for the cultivation, without being inseparably connected with the land (machines, implements, tools, provisions, etc.).

3d. The product of the agricultural labor (of the farmer and his hired hands) as such.

By summing up the rent and the product of the capital expended in improvements we obtain the so-called proprietary revenue; by summing up the produce of the active capital and that of agricultural labor, after deducting the wages of the laborers, we obtain the produce of the enterprise, that is, the agricultural profit.

In some systems, especially in those founded on lists of real property (cadaster) the tax on the lands is only levied on the proprietary revenue, whilst the agricultural profit either remains exempt from direct imposts, or is subject to personal imposts on the income of movable property.

If we consider the measure of the produce of the lands, the imposts may be levied on either the gross or the net produce. The former method is the more simple, but unjust, and has now been abandoned, because it overlooks differences of fertility and of tillage. By the second method we do not inquire into the actual produce of the year, but rather into the average produce of a long period (for instance, of a decade), and, more frequently still, the usual produce of land cultivated with

ordinary diligence according to the systems of the country ; the variations are neglected, both as regards the quantity of the harvest and the price of the crop, and the debts with which the property is incumbered are subtracted.

For the ascertainment of the amount of produce subject to impost, there are three systems, viz., estimates, lists and declarations.

The system of estimates is founded on the datum of an imperfect measurement of the land combined with inferences drawn from the amount of capital employed (plows, animals, seeds, etc.) ; it is accordingly inexact and exceedingly unjust ; in fact, it became entirely unbearable with the increase of the impost, and by degrees was changed into the system of descriptions and of summary appraisements, which serve as a transition to the more perfect method of cadaster (list, census).

The cadaster (by regular survey of parcels) takes as a basis of the impost the exact topographical description of the property, inquires concerning the respective proprietors, and makes a careful estimate of the produce of all the separate pieces of land.

In some countries the cadaster, besides its fiscal and statistical purpose, performs also the juridical service of a basis for the ascertainment and transmission of real property.

The operations of the cadaster are technical and economic.

The technical operations comprise :

1st. The measurement of the ground, based on the geodetical survey of the territory in general, or, rather, of the single taxable district.

2d. The topographical maps (plots), which are the graphic exposition of the results of the measurement, and which describe the grounds in their several parcels or plots, distinguished according to ownership, collocation, and tillage.

3d. The delineation of the boundaries and the ascertainment of ownership.

The economic operations (estimates) consist in the pecuniary valuation of the taxable product. In order to avoid the difficulty of individual estimates of the single plots, this is executed according to a system of classification ; whence, having made the correct estimate of the average produce of a few specimen plots in every census district, and having compiled the relative scale of the prices of crops, the other plots are divided into classes, keeping in view the different kinds of cultivation and degrees of fertility.

The estimates are thereupon completed :

(a) According to the indirect or approximative method, which is based either on the purchase price of the landed property (combined with the datum of the normal rate of interest), or on the

customary rental value. These data, however, are very often insufficient, constantly changing, and not always exactly proportional to the produce.

(b) Or by the method which some regard as rigorous and scientific, of direct inquiry into the value of the property subject to impost, through estimates, made by experts, of the average or normal produce. The first instance of this was furnished by the famous Milanese census in the last century.

The cadaster with all its documents (maps, registers of property and owners) must be continued; that is, must be kept up to date according to every change, whether in the persons or the property; it must also be corrected periodically, in order to show modifications required by the introduction of new elements, by the elimination of old ones, and by the correction of material errors. The basis of the estimate, however, must always be maintained, except in the case of extraordinary revisions (perequations). But the adherents of the so-called "consolidation of the land tax" raise very grave doubts as to the justice and convenience of these, because they maintain that in progress of time the impost is converted into a rent charge which is no burden to the owners who already have discounted it in a capitalized form in the purchase price of the property.

The system of cadaster, which in some countries

was at one time unquestioned, has now strong opponents. They complain of the slowness of the operation ; the excessive expenses ; the inexactness and inequalities caused by the decisions of the experts ; by the different periods in which the operation is performed, and by the uncertainty of the classification ; finally, of the unjust privilege enjoyed by certain owners of real property, the income from which, being augmented by successive improvements, is subject to relatively trifling imposts. They accordingly desire to substitute for the system of cadaster that of declarations of the proprietors, revised by appointed commissions of control, a system which they regard as prompt and economical, having yielded satisfactory results in the impost on buildings, and which, in accordance with the requirements of justice, is levied on the actual income, and not on the normal produce, which is a mere abstraction. In this manner the tax on the land would become a personal tax on the income.

But the system of declarations has likewise not a few opponents who fear the bad faith of the contributors, the difficulty of control and of application, especially in countries where property is much divided, where intellectual culture is slight, and agricultural book-keeping imperfect. They maintain that the system of cadaster is a wise legacy handed down to us by our sires, and if not abso-

lutely perfect, at all events does not afford opportunity for arbitrary proceedings; that we are not justified in abandoning this system, considering its many advantages, other than the purely fiscal ones, that well repay the expense it causes, and that finally the revisions made at reasonable intervals diminish its dangers, which are, in fact, unavoidable in any system of taxation.

SEC. 2.—*Imposts on the rent of buildings.*

The impost on buildings falls on the gross or net revenue of all kinds of structures.

The direct impost on the rent of the buildings must be distinguished from the indirect impost on dwellings. The former is levied immediately on the mere income from buildings; but the latter falls indirectly on any wealth inferred from the evidence of the so-called rental value of the house, whether inhabited by the owner or not.

Exemptions, total or permanent, are allowed for buildings, which serve for any purposes of public defence, of worship, of beneficence, and partial or temporary exemptions to new structures.

If we consider the nature of the rent derived from buildings, it comprises :

1st. That of the ground, perfectly analogous to that of cultivated grounds, and which is extremely variable.

2d. That derived from the construction (from the building in a strict sense), to wit, the interest

on the capital invested in the building—an element, as a rule, but slightly variable.

If we consider the measure of revenue derived from buildings, the impost will fall on either the gross or on the net revenue, which latter is obtained by deducting from the gross receipts the expenses of repair, insurance, and the yearly fund for reconstruction.

In imposts on buildings, the various purposes for which they serve are often kept in view. Hence we should distinguish :

1st. Farm dwellings, cottages intended for the use of laborers, for the housing of cattle, for the storage and first manipulation of agricultural products.

2d. Town habitations in the more populous centres.

3d. Manufactories, in the case of which we must keep in view the large deductions required for repairs, insurance, etc., etc.

Farm dwellings are usually subject to the land tax (forming generally a part of the cadaster), because they are considered as intended for the production of an income from cultivated land.

For the ascertainment of the taxable income we may adopt as in the case of the land tax the three systems of signs, official estimates and declarations.

The system of signs, although once common, is very imperfect, because it infers the amount of the

revenue from the uncertain criterion of the number of hearths, or of rooms, or of openings (doors and windows) toward the street. Even irrespective of the inconveniences which, without any profit to exchequer, the tax on doors and windows may produce, especially in the case of houses inhabited by the poorer classes, it remains certain that the aforesaid elements are anything but correctly proportional to the income.

In the system of official estimates we may adopt the approximative method, based on the data of purchase price, of cost of construction, or better still on that of the rent; or the more rigorous method of estimates by experts, simplified as in the cadaster of landed property by means of classification.

The houses inhabited by their respective owners which give them a latent revenue (saving of expense) should also be subject to taxation.

Also houses, or the parts of them, which are not inhabited, and which do not yield any return, are frequently charged with an impost, because the lack of income is considered as only temporary.

The system of declarations, although dangerous and on this account opposed by many theorists, still finds greater favor when it is applied to constructions and not to the soil.

It is, in fact, to be observed :

1st. That for town buildings the declarations of

the owners can easily be verified by the datum of the rents.

2d. That when the declarations are revised at certain intervals (leaving aside the abstraction of "normal produce"), the impost may keep pace with the very appreciable variations of the effective income.

3d. That at all events the system of the official estimates, proceeding by classes and averages, under normal conditions at least, presents dangers that certainly are not less than those of the system of declarations.

By the system of declarations accordingly the tax on buildings may be entirely or partly transformed into a personal tax on income.

CHAPTER VIII.

PERSONAL IMPOSTS ON INCOME DERIVED FROM MOVABLE PROPERTY.

IN a perfect system of direct imposts we should tax the income from personal property, which in our time has greatly increased.

This income is divided, in respect of its source, into :

1st. Income from capital.

2d. Personal income.

3d. Industrial income.

SECTION 1.—*Imposts on income derived from capital.*

The impost on the returns of capital falls on the gross or net income, average or actual, verified or presumed, obtained from movable property, independently of the exertion of the owner.

Income from capital is distinguished according to the person (individual or collective, public or private), according to its duration (perpetual or temporary), and according to the character of the payment (interest or annuities, and the latter annuities for life or for a fixed term).

Against impost on income derived from capital, whether general or special, many objections are made, and stress is laid particularly on the injustice of the double taxation of the same thing (as for instance the mortgaged land and corresponding credit),* the repercussion of the impost from the lender to the borrower, which alters its character ; its dangerous effect on existing capital, and on the accumulation of new capital, the unavoidable inequality of treatment, according to the degree of facility with which it can be concealed, the continuous changes of the amount of income derived

* See Note on Taxation of Mortgages p. 136.

from it, and the inevitable imperfections of the method of collection.

But these objections (in part utterly erroneous) are untenable when confronted with reasons of justice, which condemn any form of privilege, and which must prevail over the apprehension of uncertain and indeterminate repercussions, and over fears of the destruction of capital, which are admissible only in the case of imposts which are excessive or unfairly distributed. The difficulties are certainly real, but not insurmountable, nor at all greater than those met with in the taxation of other receipts from movable property.

The impost should fall on the full returns of the capital (interest or annuity) without the deduction of either premium for risk or of the sinking-fund comprised in the annuity. Otherwise it would unduly favor uncertain and temporary incomes, and it would be forgotten that the lesser duration of the impost corresponds with the lesser duration of the income.

This impost usually falls on the actual or average income of a relatively short period (for instance, of three years), and the amount of the tax is less than that of other direct imposts. But such inequality of treatment does not find sufficient support in the reasons of convenience that are alleged in its favor.

For the application of imposts on income de-

rived from capital, we must distinguish between two different systems; that of the indirect taxation of the debtor required to be reimbursed by his creditor, and that of the direct taxation of the latter.

In favor of indirect taxation may be adduced the greater facility and simplicity of collection, the avoidance of publicity, the less danger of double taxation, and also the possibility of taxing the capital of strangers.

Against indirect taxation, on the other hand, there are the difficulties of exercising the right of retention granted to the debtor; the difficulty of putting in practice the exemption, which, however, is necessary, of the smallest incomes, and finally the impossibility of its falling on capital invested in foreign countries, or lent to persons who do not pay other direct taxes.

Direct taxation takes place either by means of official estimates or on the basis of declarations supervised by appropriate commissions; but these methods present much greater defects than those already noticed in their application to the land tax.

In practice, certain eclectic methods have been at times adopted with varied success, in which the proceeding is partly by retention (indirect taxation), and partly by declarations verified by the fiscal agents, and by commissions of honest, experi-

enced men, keeping in view the different kinds of income, and not infrequently with the assistance of certain presumptions (for instance, that of rental value).

The taxation of the public funds (the public debt of the State, the municipality, etc.) has long formed the subject of controversies that have not been completely nor everywhere settled.

The opponents of such taxation proclaim that it is unjust because it confiscates a certain amount of capital corresponding to the impost; because it resolves itself into a disguised partial bankruptcy of the debtor government, which arbitrarily reduces the interest and violates the agreement of exemption from tax solemnly entered into with the creditors, and because it deals a deadly blow at the public credit, and prevents the negotiation, at tolerable rates, of loans that may be needed hereafter. They, moreover, observe that the embarrassments caused by the problem of the taxation or exemption of foreigners, the inefficiency of the means of collection by declarations that are escaped by those holding obligations payable to bearer (coupons), and the vexations of a method of collection enforced by means of retention, are sufficient to dissuade altogether from an impost of this kind.

Still the advocates of this impost (which, moreover, is daily gaining ground), with better reason,

as it seems, base their assumptions on principles of justice and equity, which are opposed to fiscal privileges in favor of the creditors of the State, who should not be released from the fulfilment of the duties of citizens. They observe, moreover, that the assurances of exemption that have been given are either null and void, if they grant an absolute and general privilege, or must be interpreted as simple promises of exemption from *special* imposts on the evidences of the public debt; that a moderate impost does not produce the anticipated evils, because the tendency toward a decline of the public credit may be balanced by a tendency toward a rise owing to financial improvement, partly due to the impost itself; and finally, that the alleged pretext of the difficulty of collection cannot make head against the principle of justice; in a word, that this kind of difficulty is common to every direct impost on personal property, and not peculiar to that on the public funds.*

* The author here gives an apparent sanction to the argument in favor of the taxation of public securities, even though an express agreement has been made that they should be exempt. I cannot agree with this view. The State should set no questionable example to the citizen. Granted that the exemption was wrong in the beginning and ought not to have been decreed: granted that taxation ought always to be equal, or as nearly so as human contrivance can make it: still, the highest public interest is, that the State shall not seem to be a cheat.

The earlier acts of Congress, under which our war debt was authorized, exempted the bonds of the United States from State and municipal taxation only. The act of July 14, 1870, under which the outstand-

The duty of foreigners to pay the impost may be open to considerable discussion, if it be a question of personal impost ; but on the other hand it seems admissible if we look upon this as an objective impost ; that is, levied on the sum total of products obtained from the country. In this way we may overcome the serious practical difficulty, incident to the exemption of foreigners, namely, that it affords to natives the opportunity of avoiding the payment of the impost by having their interest drawn in foreign countries.

Against the system of retention, opponents allege the inflexible character by which it is distinguished, and which changes the original nature of the impost ; the difficulties which it presents, both in the calculation of the sums due and in the exemption of the smallest incomes, and, finally, also in its application to provincial and municipal imposts, where the collection is made through the treasury of the State.

But the advocates of retention do not admit that a simple method of collection can change the nature of the impost ; they allege the little or no result which the impost would yield without retention, and the facility of its application, which re-

ing 4 and 4½ per cents were issued, went a step farther and exempted these issues from "all taxes or duties of the United States," as well as from all local taxation, and these exemptions are printed on the face of the bonds.—ED.

solves itself into a mere balancing of credits and debts ; and they observe that it is possible to remedy, at least partially, the other notable defects by applying measures that have been adopted by those States which already practice, with signal success, the system of retention.

SEC. 2.—*Imposts on personal income.*

Personal incomes are those derived from labor, past or present, and are divided into salaries and pensions (of public functionaries), fees (of those who follow the so-called learned professions), and wages (for manual labor).

These incomes are certain or uncertain (as to duration), and fixed or variable (as to amount) ; both kinds should be subject to tax, for no reason can be adduced in favor of exemption.

The arguments frequently adduced in support of the exemption of salaries and pensions are, that the impost would seem to be an arbitrary diminution of the agreed compensation ; that it would be injurious to the service by reason of the temptations to which the public officials would find themselves exposed when they are not sufficiently paid ; and that to take away with one hand what has been given with the other is to bring about a useless and costly complication of accounts. These arguments are insufficient.

In point of fact, the State has not merely special duties toward the public functionaries, but it is

also in general committed to a fair apportionment of taxation, because any favor granted to one class results only in a burden unjustly laid on others. Besides, imposts do not prevent the fixing of salaries at a fair rate, nor can it be regarded as a useless complication, because in a good administrative system salaries are not frequently changed; because in this way the appearance of privilege is avoided, and because finally a faithful mirror is thus obtained of the receipts and expenditures relating to salaries and pensions.

But neither the ease of collection, nor the difficulty of repercussion, nor the impossibility of concealing the amount of income can at all justify a less rate of taxation on salaries and pensions; indeed, it is hardly a creditable course to diminish the charge of certain contributors merely on the hypothesis that there may be others who fraudulently evade the burden.

Professional incomes are frequently made subject to imposts in company with industrial incomes rather than with other personal receipts.

Incomes from manual labor must also be subject to impost, because an exemption would be contrary to proportional equality, except only in the case of incomes that are barely sufficient for the support of the workman.

On the other hand, it may be questioned whether it is more suitable to subject this class of incomes

to personal tax (in the strict sense), or to the indirect tax on consumption.

These personal imposts, which, in the stricter sense, aim at persons independently of their property, are called special when they are levied on a definite class of contributors; and are called general when they tax all the adult male contributors who are able to earn a living.

And in respect of their assessment they are uniform (as the poll tax or the hearth tax), or graduated, when, deviating somewhat from their original character, they admit of a classification of the contributors based on their rank, or better still, on their general economic condition, if not in exact ratio with their wealth.

If we compare general personal imposts, and those on the consumption of certain products of universal use, considered as a means of causing the incomes derived from manual labor, and in general those of the poorer class to contribute to the impost, we find that both plans, regarded alone, without reference to the tax system in its totality, have the fault of inequality, and even that of being odious. By advancing the comparison a little further, we find that personal imposts also have the special defect of difficulty and excessive harshness in execution; they yield but a small revenue by reason of the many and necessary exemptions; they cause serious discomfort to a considerable

number of tax-payers, who will not, or do not know how to keep in reserve the sums that must be paid at fixed times. On the other hand, indirect imposts are collected more easily; they are mixed with the price of certain articles of daily use, and are even (when they spare objects of absolute necessity) to a certain extent voluntary, at least in their amount. Again, we cannot overlook their signal merit in avoiding personal contact, not always desirable between fiscal agents, who are often hated, and contributors not properly convinced of the benefits conferred by the government, but, on the contrary, impressed with the apparent injustice of taxation that is seldom exactly proportioned to the means of those who have to pay.

In general, we may also observe that the various degrees of intellectual culture, of morality, of patriotism and foresight, as well as the more or less widely spread consumption of certain products, are all very important elements in deciding in a given case to which of the two systems the preference should be given.

SEC. 3.—*Imposts on industrial income.*

Industrial incomes are those derived from the business of manufacturing or trade. They accordingly comprise the return for invested capital, compensation for the work of direction and of constant attention on the part of the *entrepreneur*, and the

premium for the risk inherent in the enterprise. Such incomes are also called mixed, because they are derived both from capital and from labor. When they are derived from joint undertakings, exercised by stock-companies, they are called dividends.

We cannot admit as valid reasons for the exemption of industrial incomes from taxation, either the alleged repercussion upon the consumers, nor their constant variability, nor the apprehended discouragement of industry, nor even the difficulty of collection, by some denounced as arbitrary, or such as to impair the credit of the managers, to whom secrecy is a matter of business necessity.

The impost should fall on the net income, and should accordingly allow the necessary deductions for the replacement of the capital consumed in production and in the payment of interest and wages for capital and labor. On the other hand, deductions must not be allowed for the interest of passive capital not invested in the enterprise, and which accordingly does not assist in producing the income, still less for the sums required for the support of the proprietor and of his family.

The tax on industrial income inquires into the actual income, or the average or normal (ascertained or presumed) income for a certain short period (for instance, of three years).

In the practical arrangement of this impost, two

systems of investigation contend with each other for preference—that of indirect and that of direct inquiry into the income subject to taxation.

By the former, which, especially in the past, obtained a wide application, the income of the various individuals following a trade is determined by a system of presumptions, taking as a basis certain criteria established by law.

The principal among these criteria are the nature of the industry, the actual population of the place in which it is exercised, the rental value, the fixed and circulating capital, the number of the workmen engaged in the undertaking, etc. Taken singly, these criteria have but little value, but some legislative systems have learned how to combine them in such manner that they have yielded relatively satisfactory results. This system, in fact, excludes the arbitrary measures and personal vexations which are almost unavoidable in the plan of direct inquiry, but it does not sufficiently recognize the variableness of the income, and by resorting to classification, which must always be imperfect, it weighs heavily upon the poorer contributors.

To remove these defects, some advocate the system of direct inquiry into the actual income, which seems more conformable to the principle of proportionality, because it closely follows the fluctuations of industrial success ; yet in its concrete

applications (official estimates and verified declarations), it presents many difficulties and dangers that are both serious and manifest.

Hence, there are not wanting instances of legislative systems that have resorted to eclectic methods, in which the attempt is made to combine in various ways the indirect and direct modes of inquiry into the income, yet almost always giving preference to the former over the latter, as it happens, for instance, when the indirect system is made to serve for the allotment of the general assessment among the various territorial divisions of the State, whilst to the direct system is assigned the more limited task of determining individual quotas.

But direct taxation of the income of agricultural industry still forms a lively and ever-interesting topic of controversy. Some accept it; others reject it, because they maintain that agricultural profits have already been taxed by the impost on the land; there are still others who only admit it partially, when applied to profits obtained by agriculturists who are not the owners of the soil.

The question, being to a great extent connected with the economic problem of rent, cannot be solved in the abstract. In fact, it must be evident that both the ordinary argument of repercussion, and the argument of special protection due to agriculture, and of the difficulty of applying a scheme

of taxation of agricultural profits in poor countries, and in the case of property greatly subdivided, cannot be regarded as valid, because too general and too indefinite, and because they are in some respects contrary to the supreme reasons of justice, and in due degree must yield to other more important economic considerations.

It will, however, be useful to ascertain whether in reality the land tax falls effectively on agricultural profits, which has been gratuitously asserted to be the fact by some, and gratuitously denied by others. In other words, it is desirable to know whether in the case of the farm products subjected to the land tax, deduction has or has not been made of the farmer's profits; in the former case the application of a special impost on the income of agricultural industry would be equitable, but in the latter it would not.

The solution of these difficulties is accordingly connected with the rational re-arrangement of the land tax of which in some States there is urgent need.

CHAPTER IX.

INDIRECT IMPOSTS ON TRANSFERS OF OWNERSHIP.

THE indirect imposts on transfers of ownership, which, like those on consumption, are indirect because founded on secondary and external manifes-

tations of the wealth subject to tax, are levied on the transfer of real property, and of certain productive personal property, whether made between living individuals, or on the occasion of death, and either upon valuable consideration, or as a gift. They not only concern transfers of property (successions, purchases, sales, etc.), but also those of use and enjoyment, especially of real estate (leases, etc.).

Imposts on transfers comprise—

1st. Those on transfers made upon valuable consideration.

2d. Those on gratuitous transfers.

3d. Those levied on the property of institutions and of industrial companies in lieu of a transfer-tax.

SECTION I.—*Imposts on transfers made upon valuable consideration.*

These imposts on transfers are levied on purchases and sales, exchanges, leases (especially of real estate) and on loans at interest.

The ever-increasing needs of the State, the difficulty of augmenting direct taxes and those on consumption, the facility and economy of collection when the contributor has at hand the means of paying, are reasons which serve to explain and to justify the very general prevalence of such imposts in modern times.

Yet the often excessive proportions which im-

posts on transfers upon valuable consideration have assumed in certain States have added to the already formidable number of their opponents. The latter observe that imposts of this kind are contrary to equity, because they are levied on transfers which are symptoms of poverty rather than of wealth; and also because they look only at the capital value of the property transferred without taking any account of the return, or of the debts that may exist to diminish it; and, finally, because the variation in the number of transfers of property of equal value which take place in a given time contribute in no small degree to heighten the injustice referred to. They deplore, moreover, the vexations, frauds, arbitrary acts, controversies and lawsuits which these imposts so easily provoke, and the injury inflicted upon private credit, upon public morality, and upon the interests of the treasury itself.

Hence, when absolute need compels recourse to imposts of this kind, it will be necessary in their application to use all due precautions, in order that the burden may not prove too heavy, but may be fairly distributed among the contributors. This result is obtained :

1st. When the measure of the impost is moderate.

2d. When a graduated scale is made on the basis of the value of the property transferred, and of the nature of the transfers.

3d. When necessary exemptions are granted to persons of small means.

4th. By omitting all acts through which the payment may prove either inconvenient or embarrassing to the movement of property (*circolazione*).

5th. When the expressions of the law are clear, and the methods of collection not too complicated.

6th. When the penalties imposed upon the contributors are moderate, and distinction is properly made between cases of culpable transgression and those of involuntary error or excusable ignorance.

SEC. 2.—*Imposts on gratuitous transfers.*

Imposts on gratuitous transfers comprise—

1st. Necessary transfers (in case of death), to wit, successions, both testamentary and by operation of law.

2d. Voluntary transfers (*inter vivos*), namely, gifts which, as is evident, have a smaller economic and fiscal importance, but which must be regulated by the principles that are adopted for successions.

Against imposts on gratuitous transfers, and particularly against those on successions, objections are made :

1st. That they often (for example, in the case of succession in direct line in families of moderate means) fall, not on an increase, but rather on a

devolution of the wealth, which does not bring the least gain to the heir, who entertained a reasonable expectation of this property, and who, perhaps, already enjoyed it while living with the deceased person, and since it frequently happens that the inherited patrimony scarcely suffices to fill the void left by the cessation of the personal or industrial income which the deceased person used to earn.

2d. That they necessarily diminish the patrimony by their generally high rate, by the shortness of the time allowed for payment, by the many expenses with which the heir is charged, and especially by the absence of an incentive to induce the latter to restore even slowly the capital absorbed by the impost, which as a rule is obtained either by partial sales of the inherited property or by loans. On the other hand imposts on income have the virtue of stimulating the tax-payer to obtain a reimbursement of the sum paid to the exchequer by renewed labor and saving.

The advocates of imposts on successions do not omit to adduce the gravity and urgency of the public needs, and the almost insuperable difficulty of providing for them by other means ; they moreover lay stress on the fact that such imposts do not in the least fetter the freedom of industry, and do not produce any disturbing repercussion. To the arguments of its opponents they present the following reply :

1st. That in the cases of succession in direct line only a very mild impost is reasonably admissible, from which, further, the property should be exempted in cases where it is too small to bear the burden.

2d. That except upon the hypothesis, which is quite unjustifiable, of an excessive impost required to be paid without the necessary delay, it cannot be absolutely maintained that the impost on successions need diminish the patrimony of the heir, because the possibility of replacing the capital paid to the exchequer depends on the intellectual and moral qualities, the means and methods of the heir, and not on the character of the impost.

These arguments seem sufficient to justify the impost when its amount is moderate, fairly distributed, founded on laws that are clearly expressed, and applied by means of ascertainment and of collection that are efficacious without being vexatious.

In respect of the criteria of assessment, it seems necessary to abandon the once common distinction between successions by will and by operation of law, as well as between personal and real property, and to adopt instead the principle of the proportional taxation of the inheritable estate (exclusive of debts), yet with a different rate according to the nearer or more distant relationship of the heir to the deceased person. Thus, for instance, suc-

cessions between collateral branches should be subjected to a heavier impost than those between parents and children, and the tax on the succession of strangers should be heavier still.

SEC. 3.—*Imposts in lieu of transfer-tax.*

These impost (which are sometimes called complementary to those on the transfers of property already described) are applied, for the purposes of equalization, to certain property, especially real estate, which either by reason of the character of the ownership, or for other reasons, legal or economic, is not transferable, or which could not, without grave inconvenience, be subjected to impost on transfers by the ordinary methods of ascertainment and collection.

Imposts in lieu of transfer-tax accordingly relate to :

1st. The property of benevolent institutions and of other ecclesiastical and lay corporations ;

2d. The property of industrial and commercial companies.

To property in the first category, which under the political system of certain States is made inalienable (mortmain), special impost are applied, which are collected periodically on the basis of a record expressly prepared for this purpose.

Such impost, notwithstanding the diversity of title and purpose, have therefore the character and form of taxation additional to the ordinary direct

imposts. Their amount is calculated on the average of what other property, the transfer of which is unrestricted, pays upon transfer of title within the given period.

Imposts of this kind on the property of industrial and commercial companies (not to be confounded with the direct imposts which they pay upon their profits*) are exacted periodically or by means of a proportional duty which falls on their shares.

This is an expedient adopted for the purpose of avoiding the payment which must otherwise be made for every single transfer of such instruments and which would prove too inconvenient or entirely incompatible with the multiplicity and rapidity of circulation of modern fiduciary instruments. Such imposts are generally exacted by means of a stamp, proportional to the nominal or real capital of the instruments issued by the company, and sometimes also by means of annual subscriptions stipulated between the indebted company and the public treasury.

CHAPTER X.

INDIRECT TAXES ON CONSUMPTION.

INDIRECT taxes on consumption are levied on the expenditures of the contributors, and are founded

* See note on Taxation of Corporations, p. 143.

on the presumption of their proportionality to their respective incomes.

This presumption within certain limits is reasonable, because there unquestionably exists a relation between wealth and consumption, income and expenditure. But it still remains very imperfect, because it does not take into account that important part of the individual income which is not spent, but saved; whence it results that the expenditures are not rigidly proportional to the income.

It is also to be observed that by reason of the practical impossibility of embodying in acts a general and proportional impost on all consumption and of finding an article of consumption that can be regarded as a safe and exact indication of the total income of citizens, resort must be had to the still more faulty expedient of the combined taxation of various objects of consumption, forming, so to speak, a system; but this answers still less to the supposed ideal proportion between income and expenditure, and presents also the misfortune of an excessive burden upon the less wealthy classes, to whom accordingly we must grant by way of compensation a reduction, and sometimes even a complete exemption, from other taxes.

SECTION 1.—*Classification of imposts on consumption.*

In respect of the kind of objects most frequently taxed, there are to be distinguished:

1st. Imposts on articles of food (salt, cereals, meats, sugar, etc.) ;

2d. Imposts on beverages (wine, beer, spirits, coffee, tea, etc.) ;

3d. Imposts on various objects (tobacco, building materials, fuel, clothes, almanacs, playing cards, etc.).

In respect of the intensity of the need which these objects satisfy, and hence the extent of their consumption, the distinction is to be observed between :

1st. Imposts on objects of prime necessity (salt, cereals, soap, certain combustibles and fabrics, etc.) ;

2d. Imposts upon objects of general consumption, but not indispensable (tea, coffee, wine, beer, tobacco) ;

3d. Imposts upon objects of luxury (silks, costly ornaments, carriages, horses, etc.).

This distinction can neither be precise nor absolute (for every time or country), but applies only as an approximation.

In respect, finally, of the methods of collection we distinguish :

1st. Government monopolies, when, in order to secure the impost, the State reserves to itself the exclusive right of the production and sale of the taxed objects ;

2d. Imposts on consumption in a strict sense,

which fall on objects of free production. These latter are subdivided into :

1st. Imposts collected directly from the consumer (as the taxes on dwellings, servants, carriages, etc.).

2d. Imposts collected indirectly, which fall on products before they reach the consumer, to wit :

(a) In the act of manufacture or sale ;

(b) During their circulation within the State (internal duties, *octroi*), or from one State to another (boundary or customs duties).

Generally speaking, and especially in very rich countries, impost on objects of general consumption are preferable, by reason of their large amount, because all classes join in paying them, because up to a certain point they are voluntary, and because this is really a case of consumption which increases with the increase of wealth; while, on the other hand, impost on objects of luxury that are sometimes required by reason of equity yield but very scanty returns; and impost on objects of prime necessity—which cannot, it is true, be wholly dispensed with, since they afford the readiest means of causing the poorer classes to share in the tax—have still the defect of being proportional to the need and not to the means, and they accordingly require, by way of compensation, the reduction of other impost as regards this class.*

* See note, Taxes on Consumption, p. 150.

But, inasmuch as the good fiscal result of imposts on consumption depends in great measure on knowing how to find the proper rate of taxation, which in its turn is relative to the nature of the object, and the means of the consumer, it must not be forgotten that the raising of the rates frequently produces a lessening or displacement of consumption, and an increase of smuggling, even to the injury of the treasury, whose revenue diminishes or at least does not increase in the expected ratio.

SEC. 2.—*Fiscal monopolies.*

Fiscal monopolies consist in the exclusive right of the manufacture and sale of certain products, which the State reserves to itself with a view of deriving a greater revenue than it could obtain from the same products if left to private industry. Monopolies do not constitute a special category of imposts, but simply a method of collection of certain imposts on consumption.

To the objections against other fiscal industries, fiscal monopolies add those which are common to all monopolies; for which reason their abolition should, in principle, be favored. Still, in the case of certain industries that are naturally exercised on a large scale and limited to a few points of the territory, or that can be concentrated artificially within a limited number of places, without a difficult and complicated process of production and

sale, monopoly becomes economically tolerable, when there are other motives, which counsel us to maintain it as an exceptional case.

Among fiscal monopolies still subsisting in many States, the foremost are those of salt, tobacco, lotteries, and other games of chance, to which in the past were added the manufacture of gunpowder, playing-cards, etc., and at the present day that of lucifer matches, etc.

The salt monopoly, which is more or less complete and absolute, according as it comprises the gathering, preparation and sale, or leaves some of these functions to private enterprise, has always had many opponents, and in practice is steadily losing ground in the richer countries.

To the arguments adduced against every impost having salt for its object, which condemn its manifest inequality, its injurious effect on the food of the poor, its injury to agricultural and manufacturing industries in which salt is used as an auxiliary element, there are added the capital economic objections against all monopolies.

Still, the advocates of this monopoly, with a view to the urgent needs of the poorer States, and to the serious difficulty of finding another yielding an equal revenue even at a low rate, observe that the impost on salt, having once entered into the customs of the people, is paid almost unconsciously, being confused with the price of an ar-

ticle of daily use ; and they maintain that the impost once existing, the application of the monopoly is very convenient to the treasury, and that provision has been made for the accommodation of industries by the production of salt of inferior quality and price, and which cannot be used as an article of food.

More generally approved is the impost on tobacco, and to a certain extent also the State tobacco monopoly, this being an article which, if not hurtful to all, is certainly not indispensable, whilst by its voluntary consumption, every day more and more spreading among all classes, it is fitted to yield an abundant revenue. This revenue increases greatly through monopoly, or by other restrictive measures (as for instance, the prohibition of cultivation, combined with high duties on importation) that are best calculated to prevent smuggling ; this being unavoidable when industry is left free at home, and an impost is laid on the soil planted with tobacco, or on the manufacture, sale, or importation of its products.

The monopoly of lotteries and other games of chance is generally condemned, and is, indeed, already abolished in many countries, notwithstanding the considerable, yet always varying revenue, which may be derived from it. It obviously produces grave evils in this, that it is based on the ignorance and superstition especially of the poorer

classes ; it diverts them from useful work and habits of thrift, stimulates covetousness, and impels to idleness and dissipation. This happens more in the great lotteries than in the smaller ones, in which there is found a greater freedom and simplicity of combinations, which are preferable also by reason of the smallness of the risks, the frequency of the drawings, and the greater number of lottery offices.

In this case, however, all fiscal considerations should yield to the supreme reasons of morality, to which it is revolting that the State, instead of controlling as far as possible the wretched passion of gambling, should foment it for base purposes of gain.

SEC. 3.—*Imposts on manufacture and sale.*

Imposts on manufacture and on sale, which are much employed in some countries, present serious difficulties in their application. In fact if, on the one hand, it is desirable to tax products at a stage not too far removed from the consumer in order to avoid the trouble and risk of repercussion, still it must happen that the objects to be taxed are collected together in great quantities in the hands of the manufacturer or of the retail dealer.

Imposts on manufactures (also called excises) are adapted especially for objects whose production takes place on a large scale, and is naturally concentrated at a few points, so that collection

and supervision is rendered easier and less annoying ; they may be collected either on the raw materials, or on products that have been wholly or partly subjected to the modifications of manufacturing industry. Such are the imposts on sugar, beer, brandy, and other kinds of spirits ; in some countries, also, on the grinding of cereals, the slaughter of animals, the making of wine, etc.

The introduction of machines and certain special instruments (alcoholometers, saccharometers, counters, and weighers) has facilitated the collection of these imposts.

Imposts on sales are generally applied to objects which by their subdivided production do not admit either of monopoly or of imposts on their manufacture, and which by the universality, promptitude, and variability of the consumption and the ease of concealment do not admit of collection directly from the consumer. Hence, resort is had usually to a duty on the sale (sometimes at retail) of those articles especially which do not serve as raw material and are sold with a certain publicity, and generally at known prices, such, for instance, as wine and meat. But waiving all arguments concerning the nature of such articles, these imposts are impracticable in countries where the taxed products are made and consumed at home, without having recourse to intermediaries.

SEC. 4.—*Internal customs duties.*

Octroi duties (also called duties on consumption in a limited sense) are imposts levied on certain products (usually not manufactured), at the moment when they are introduced into the towns, which are called "closed" because they are furnished with barriers and watched by fiscal agents.

These imposts are in many States one of the principal sources of income for the municipal treasury, and are every day extending, and being better arranged in respect of their mode of collection. But they also count many opponents, who have succeeded in some cases in obtaining their abolition.

These maintain that such imposts restrict commercial freedom; they adduce as objections to them the annoyance which is caused to the inhabitants of the neighborhood of the inclosed towns; the inequality of treatment between these and the open towns; the heavy expenses of collection; the incentive to smuggling; the injury to certain industries that are taxed on their raw materials; and they show that on account of the dearth of provisions and of labor, industries are prevented from being established in the towns which would otherwise be their natural home.

To this, the advocates of octroi duties reply that the inconveniences complained of can easily be reduced to tolerable proportions,—even more so than other imposts on consumption. This may

be brought about by a careful selection of the articles taxed; by the exemption of raw materials required by industries which are not purely local; by the lowness of the rates, and by combining an effective supervision with necessary facilities for payment; and finally, by omitting all vexatious and annoying practices.

At all events it is inadvisable to abolish an impost that has already entered into the usage of many countries, at least until another has been found to replace it, presenting actually fewer defects, and while other taxes exist which, in respect of the possibility of radical reforms, present a far stronger title to be abolished, or made less onerous.

SEC. 5.—*Customs duties.*

Customs duties are levied on certain products, which enter the State, leave the State, or pass through the State; they are accordingly, divided into duties on importation, on exportation, and on transit.

These duties, which sometimes have the special economic purpose of protecting national industry against foreign competition, have now in many countries an exclusively fiscal purpose, which latter is the only one we propose to consider.

Duties on exportation and on transit being exceedingly unfavorable to national industry, are becoming obsolete, and therefore destitute of importance.

Duties on importation, on the other hand, yield considerable revenue, even in countries that have in principle adopted the system of free trade.

Fiscal duties on importation are now applied to a small number of products, capable of yielding a large revenue. It is usual to admit free or only to tax lightly the personal effects of travellers, medicines, food products of prime necessity, especially cereals, raw materials, and materials important as auxiliaries in manufacturing, and the tools used in carrying on the industries prevailing in the country. On the other hand, it is customary to tax heavily what is sometimes called colonial produce (tea, coffee, cocoa, drugs, etc.), and certain articles of consumption (especially beverages), not matters of the first necessity (sugar, wine, spirits), which are likewise burdened with internal duties in some countries; also certain manufactured products (yarns, cloth, etc.).

The tariff or schedule of duties contains an enumeration of merchandise subject to tax, with a list of the respective rates of duty.

The experience of customs reform in our day has proved that a few duties with moderate rates yield better returns than many onerous ones, because they allow the cost of collection to be reduced, and lead to an increase of consumption, as well as to the diminution of smuggling.

In respect of the graduation of duties, the system

of so-called specific duties, which takes note of the number, measure, and more frequently of the weight of the several articles, is being generally substituted for the system of ad valorem duties, which are so called because based on the declared value of the goods taxed.

Specific duties, while they are more simple, more readily collected, less likely to vary in amount and less open to controversy or frauds, are open to certain objections when applied to very fine goods, and in general to those that have many gradations of quality and value; but as a rule, they are preferable to ad valorem duties, the boasted equity or proportionality of which, is more apparent than real, by reason of the little reliance to be placed on the declarations of the importers, and because of the lack of knowledge on the part of fiscal agents, and by reason of the variability of the value of the goods; whilst in their application to articles that are bulky and vary slightly in quality, ad valorem duties are unquestionably defective and vexatious.

When the lists are simple and are for the use of the Treasury merely, the alphabetic order of the articles is preferable to a systematic arrangement.

Custom-house procedure, which was formerly complicated, costly and vexatious, has by slow degrees been improved in the common interest of the Treasury and of the contributors. The object is to provide that the declarations, verifications, pay-

ment, and supervision shall be arranged so as to attain their end as far as it is possible to do so. The establishment of entrepôts, docks, and bonded warehouses, by means of which (the merchandise being registered) delay is obtained in the payment of duty until it is withdrawn for internal consumption, and also the so-called procedure of assignment from one custom-house to another, as well as other facilities accorded for the payment, constitute notable reforms, which are susceptible of still further improvement. The bonded warehouse is generally taking the place of the free port (free city or free station), which, beside the advantages already mentioned, enjoys also the privilege of forming a territory into which merchandise enters exempt from all custom-house examination, and which accordingly very readily becomes the active seat of smuggling.

But customs duties, or rather fiscal duties on importation, are by no means free from faults. Among the defects of this mode of taxation may be numbered the obstacles which they put in the way of the free circulation of goods; obstacles which are the more felt by reason of the rapidity of modern means of transport; the economic, political and moral evils of smuggling which is systematically practiced on the frontiers; and, finally, the heavy expense of collection, which increases in proportion to the extent and exposure of the frontiers.

On the other hand, we cannot seriously entertain the proposal which has frequently been made for their complete abolition, because, irrespective of the enormous gap which would be made in the public receipts, we must bear in mind that the abolition of custom-houses should be preceded by that of almost all the other indirect taxes on consumption, which display these faults in a higher degree than customs duties, and have other and greater faults of their own. Hence, even in the case of a marked reduction of public expenses, which could be followed by a corresponding diminution of imposts—a sufficiently improbable assumption—it is certainly not upon the custom-houses that the hand of reform should first be laid.

SEC. 6.—*Imposts of immediate collection.*

These imposts are levied directly on the consumer, on certain material or immaterial objects which are considered as an indication of a corresponding income.

They partake, however (to outward appearance), of some of the characteristics of direct taxes, because the duration of the objects to which they refer enables the collection to take place at fixed periods and on the basis of lists of names.

They must not be confused with imposts on property, because, although they tax objects that may form a part of it (dwellings, furniture, etc.), they are not founded on property but on consump-

tion and expenditure (the houses of others, hired furniture, etc.).

The immediate collection of imposts on consumption is more rational, more easy, and more economical than the secondary. It is, however, applicable only to certain products, the possession of which can easily be verified either by reason of the nature of the object, where it cannot easily be concealed, or because of the duration of use, or the slowness of consumption. If it were extended to other objects that can easily be concealed or be rapidly consumed (food, drink, clothes, etc.), it would afford an opportunity for innumerable frauds which it would be impossible to prevent, even by a course of procedure which would be an intolerable annoyance.

Hence immediate collection is usually applied to imposts on dwellings, on the service of domestics, on private carriages, horses, dogs, and on a few other objects, the use of which is to be regarded as a luxury.

The most important of these imposts is unquestionably that on dwellings, being different from the direct imposts on buildings, which taxes the property and the special income from it previously ascertained, but not the expenditure as a sign of the whole income. This impost, by reason of the form which it now most commonly assumes, is also called the impost on rental value.

The impost on dwellings, which can be made to yield a large revenue to both general and local government, commends itself through the ease of the arrangements required for assessment and for collection, and because there really exists a relation between the income and the expenditure incurred on account of the dwelling. It is, however, plain, upon closer view, that there is no lack of causes of inequality in its operation, such, for example, as the notable diversities in rental value in different centres of population, and the multiplicity of individual and social circumstances (number of children, vocation, inclinations, tastes, opinions), on account of which expenditure for dwellings fails to increase in exact proportion to the income of the tax-payer.

These evils are remedied, although only in part, by exempting the smallest house-rents from taxation, and likewise rooms intended to be used for manufacturing; taking local differences into account by means of the classification of cities and boroughs according to population, and finally by applying the tax at rates increasing with the rental value. When these expedients are adopted in practice the impost tends to become less imperfect.

CHAPTER XI.

DIRECT IMPOSTS ON INCOME AND ON PROPERTY IN
GENERAL.

GENERAL imposts on income and property, by their essentially subjective and universal character, differ from those direct imposts, whether objective or personal, which have been hitherto considered. By some they are admired as the model method of taxation, which should replace all others; but by others they are considered as complementary parts of a rational system of taxation, direct and indirect.

SECTION I.—*General tax on income.*

This impost is levied on the total income of the contributors, irrespective of its nature or of its source; hence the income from personal and real property, from property which is perpetual, fixed, certain, and from that which is temporary, variable and uncertain.

The adherents of this impost recommend it—

1st. From the legal standpoint, as universal, easily graduated, capable of reaching certain incomes (as the public funds) that escape special imposts; necessary exemption of the smallest incomes, thus constituting altogether the simplest

and fairest method of requiring the citizens to fulfil their obligations to the public treasury.

2d. From the economic standpoint as an impost which, better than any other, can adjust itself to the continuing fluctuations of wealth without producing any injurious repercussion and without restraining industrial freedom, which is the case with imposts on consumption.

3d. From the political standpoint as the most natural, most direct and least costly of all imposts.

The adversaries of this form of taxation oppose it—

1st. In its legal aspect, because once given the existence of a good system of special imposts, the general impost on income becomes merely an unjust repetition; because the exemption of the smaller incomes leads to the progressive taxation of the greater; because finally the direct contact of the tax-payers with the collecting officers, and the publicity given to the economic condition of the former, suppose such a condition of knowledge, morality, and disinterestedness as can hardly be found in actual life;

2d. In its economic aspect, because its boasted adaptability, which after all belongs also to direct special imposts, implies the existence of safe methods for ascertaining not merely the measure of reduction, but also of increase, in the various parts of the wealth subjected to taxation; because

freedom of industry can be respected also by direct special imposts; and finally, because the apprehended repercussion would not fail to take place if what is superfluous be taxed in equal measure with what is necessary;

3d. In its political aspect, because the simplicity of the provisions required for imposing the tax is in contrast with the variety of the sources of income, which should be treated upon different methods; and because the cheapness of collection is offset by the inconvenience to the treasury of payment by small installments, and the risks of ascertainment, which afford too much opportunity for arbitrary and vexatious proceedings, and for fraud.

By these various arguments the general income tax is either absolutely rejected or is allowed only in case of extraordinary and urgent needs, in which the consideration of certainty and speediness of payment prevails over every other reason, especially in view of the many difficulties which in such circumstances stand in the way of an increase of the other direct or indirect imposts.

Yet the problem cannot be solved practically by keeping in view only the advantages or disadvantages of the income tax. We must also consider the necessity of its application concurrently with other modes of taxation, and it is equally necessary that intellectual and moral culture, political and social circumstances, should help to spread the con-

viction of the usefulness of the income tax, and of the duty of all to pay it.

If such conditions are realized in sufficing measure, an income tax may be imposed at a low rate, even in ordinary times, in order to fill certain gaps, and to compensate certain disproportions in the special imposts. On the other hand, in case of extraordinary needs the rate may be raised, in order, if possible, to avoid loans and the increase of other taxes slower in their operation or less safely collected.

In the application of such an impost, beside the problems of graduation of exemption of the smaller incomes, and of the best mode of collection, of which we have already treated in speaking of imposts in general, and of other direct imposts in particular, serious difficulties present themselves concerning :

1st. Taxation of the different sources of income, as a whole, or under separate heads.

2d. Discrimination between, or the equal treatment of, incomes of like amount, but of different origin and duration.

In respect of the former question, we observe of the special taxation of single incomes at their source, namely, in the hands of those who earn them (as the tenant, the manufacturer), without considering into whose hands they may fall, and in what manner they are subsequently distributed,

that if on the one hand it may seem to disturb the unity and simplicity of the collection, on the other hand it corresponds better with the essentially varying nature of the several kinds of income and to the exigencies of practical life, which require that methods of collection should be modified according to the nature of individual cases, and do not authorize the abandonment of the safer methods (as for example, the method of retention), for the mere reason that they cannot be applied to all incomes. Nor should it be forgotten that, by the method of special taxation, many frauds are avoided, and, moreover, secrecy is observed as to the economic condition of the contributors.

Far more difficult is the question concerning the application of equal or varying rates to incomes, which differ in their origin (incomes from labor, or from capital, or mixed incomes), or as to their duration, perpetual or temporary, and the latter either certain or uncertain.

The advocates of the system of the so-called discrimination of such incomes maintain that in order to apply the impost equitably to them, we should take into account the foregoing differences; and they thereupon propose various expedients in order to reduce the total income to a taxable income, so that the burden of the impost may actually be proportional to the real condition of the single contributors.

In support of the system of discrimination, it is particularly to be observed that it has nothing in common with that of progressive taxation, because the latter requires the application of a rate differing as regards the amount of income, whilst the former predicates the need of different treatment of incomes on account of their different character or derivation. In addition to this, it would be unjust to tax in equal measure incomes that are different as to their origin, duration and certainty; the temporary incomes should, on the contrary, be equalized with the permanent ones, by capitalizing them for the purpose of comparison. It is to be observed, lastly, that account should also be taken of the smaller need for saving, which the recipients of incomes derived from capital have in comparison with those who only live by the produce of their labor. The latter, in order not to fall sooner or later into distress, must provide for the possible event of illness, slackness of work, or incapacity for work, by saving a considerable part of their income.

On the other hand, the advocates of the equal treatment of incomes see in the system of their adversaries a tendency of hostility toward capital, and an erroneous idea of taxation. In their opinion, taxation should not alter the natural distribution of wealth; and they maintain especially that there is no difference between permanent and

temporary incomes, so far as the tax is concerned, because if the impost is permanent for the one, it is temporary for the other, and to capitalize the income without also capitalizing the impost in the same sense, reduces itself to an arithmetical sophism. They also lay stress on the fact that the income of capital frequently embraces a charge for replacement, which the adherents of discrimination should take into account. They observe, finally, that the latter method is exposed to insurmountable difficulties in its application; that it inevitably proves arbitrary, because it lacks a safe rule for the reduction of the total income into taxable income, as is proved by the never-ending controversies among the advocates of discrimination.

SEC. 2.—*General impost on the entire estate of the tax-payer.*

This impost has for basis not the income by itself, but the material sources from which it is derived, to wit, the possessions, the substance, the property (such as lands, mines, quarries, buildings, machines, and implements, merchandise, money, furniture and domestic utensils, etc.).

This impost on property has many points of analogy with that on income; it accordingly partakes of many of the defects and advantages of the latter, and it likewise has the tendency to tax individuals with reference to their economic condition considered in its totality (the debts having been

of course deducted), that is, after an exact verification of the property subject to taxation.

Yet this impost on property differs from that on income, because,

1st. It taxes also the unproductive part of the property (as parks, furniture, books, pictures, etc.), which is exempt from the tax on income.

2d. It taxes at equal rates, properties that yield different incomes if they happen to have the same capital value.

3d. It spares personal earnings altogether.

These differences between the two imposts exist, however, only when they conform to their ideal type. In practice they are often less, because in the case of the income tax the burden is often applied to unproductive property, which is considered as producing a latent revenue (saving of expense), or as capable of yielding a future income, and on the other hand, in the impost on the entire property, personal income is sometimes taxed by capitalizing it.

The advocates of the system of general imposts on the entire property, who are somewhat less numerous than those of the system of general imposts on income, extol it as possessing a more certain, stable, and evident basis ; they maintain that it is less exposed to frauds, because it avoids the almost insuperable difficulty of a precise ascertainment of incomes. They further praise its beneficial

influence upon labor and the impulse which it may impart to the conversion of unproductive into productive property, and the consequent repression of waste and luxury.

The opponents of the general impost on property do not acknowledge either its safety, its stability, or its simplicity of collection ; they observe that the physical evidence of the taxable material should not be confounded with the economic evidence of its value, that this impost presents no less difficulties of ascertainment than those relating to income, but in some cases even greater ones, as for instance those appertaining to the assessment of personal property possessed by individuals. They further declare that the parity of treatment of productive and unproductive property is in itself unjust ; while under any circumstances the forced conversion of unproductive property into productive would either be illusory or unjust, tyrannical and disturbing. They say, finally, that the exemption of personal earnings is unjust, because this fiscal privilege, which is not always advantageous to the poorer classes, would discourage saving, and prevent that increase of capital at which the system especially aims.

It seems, therefore, that imposts on the entire property, offering as they do but few advantages, and all the disadvantages of imposts on income, are of inferior merit to the latter by reason of their

special and very serious defects from a legal point of view ; and hence should never be applied except in case of extraordinary need, and with due precautions, tending to compensate their deficiencies (in respect of personal earnings), and moderating their rigor by ample exemptions, which sometimes (as in the case of household effects) are required by the methods of collection. A rational combination of the two systems of taxation is not, however, impossible. Some propose, for example, that the poorer classes should pay a tax on income only, but at a higher rate, while the richer should pay in addition a tax on property, which is easier to establish, more equal and exact for the determination of the taxable amount, and which, with regard to economic conditions, takes into account the personal element as well as that of real estate.

For the success of such a system, however, it is indispensable to have a good political and fiscal administration, conscientious, educated and zealous officials, and moral and enlightened tax-payers.*

CHAPTER XII.

COMPARISON OF DIRECT WITH INDIRECT TAXES.

IN favor of direct taxes is adduced :

1st. The certainty of their product in ordinary

* See Note on Taxation of Personal Property, p. 139.

times, and the great probability that in abnormal times the proportional increase of the revenue will correspond to the increase of the rates ;

2d. The economy and ease of collection, the simplicity of superintendence, and the smaller number of controversies ;

3d. The greater possibility of farming them out on contract, to the local governments or to private individuals, without incurring any considerable risk ;

4th. The encouragement to production which results from the fixed or less variable character of such imposts, and in particular of certain forms of the same ;

5th. The greater openness and publicity of a system which does not depend upon the verification of certain facts, constituting more or less uncertain indications of wealth, but which taxes it directly, and at fixed periods calls for a definite proportion of the wealth itself.

Against direct taxes may be adduced :

1st. The insufficiency of their total product in comparison with the needs of modern budgets ;

2d. The trouble which is caused especially to the smaller contributors by being inexorably required to pay, at fixed epochs, relatively large sums of money ;

3d. The injustice of a fixed payment at the beginning of a fiscal period, notwithstanding the eventual shrinkage of the property taxed ;

4th. The danger resulting from immediate contact with fiscal agents in which many contributors are placed, who do not appreciate the equitableness of the charge or the usefulness of the purpose for which the impost is levied.

In favor of indirect taxes may be mentioned :

1st. Their very great elasticity, which produces a natural equilibrium with every movement of wealth ;

2d. Their considerable product, being capable of taxing the smaller fortunes, as in justice they should do, to which direct taxes, with their too rigid methods of exaction, are scarcely applicable ;

3d. Their almost imperceptible, or at least very light burden, the payment being often voluntary, and as it were mingled with the prices of the articles taxed, which, as a rule, are freely purchased.

Against indirect taxes may be adduced :

1st. Their great disproportion to the means of the contributors, notwithstanding the apparent proportion as gauged by certain criteria, which are, however, a very imperfect indication.

2d. The uncertainty of the proceeds and the slight prospect of an increase corresponding with the raising of the rates in the case of extraordinary needs ;

3d. The expensive, difficult and vexatious mode of collection, which leads to many frauds and very serious controversies ;

4th. The greater oppression of the poorer classes, however much it may be sought to exempt necessities and to bear heavily on luxuries.

By weighing these arguments and having regard to practical exigencies, we may conclude that neither of the two types is perfect ; that, although in the abstract direct imposts (always presupposing a satisfactory arrangement of them) correspond better to the general canons of taxation, still it becomes necessary to resort to the indirect, in order to fill the void left through the operation of direct taxes, and to remedy some of their defects ; and, finally, that we ought to establish a just balance between them, in such manner, however, that any further tax reforms may be turned in the direction of establishing a duly perfected system of direct imposts, as being the principal basis of a true system of finance.

CHAPTER XIII.

COMPARISON BETWEEN THE MULTIPLE TAX SYSTEM AND THE SINGLE TAX SYSTEM.

THE majority of writers, in accord with the uniform practice of civilized States, hold a well-regulated and complex system of varied imposts to be necessary, as avoiding the danger of a unity which is defective or only apparent, and providing im-

posts graduated according to the diverse nature of the articles taxed, and thus attaining the purpose of giving them the necessary range and flexibility, and of deriving from them all that is needed for public wants, and by means of their variety rendering the burden less oppressive to the tax-payer.

Still, in the past there have been many, and at present there are not wanting some, who, taking an ideal view, and cherishing the belief that a considerable reduction of public expenses is possible, maintain that we should substitute a rational and progressive single impost system for the empirical one of multiplied imposts.

They observe that the single impost, and it alone, is perfectly just, because it asks the contributor once for all for that proportional share of his means which is necessary for the needs of civil society; that in this manner the restrictions on the production, circulation and consumption of wealth are reduced to a minimum, while in the case of multiplied imposts these restrictions are almost insupportable; that, finally, by means of a single impost we obtain the greatest simplicity and economy in the mode of collection, because we lessen the amount of book-keeping and superintendence, and the staff of officials is reduced, with great advantage both to the exchequer and to the citizens.

But when they come to the application of their idea, the advocates of the single-impost system are

not at all agreed. Some, who share an opinion notably entertained in the past, desire that the impost should fall on the rent of land, while others prefer to tax consumption ; others, the entire property ; others, and they are the majority, prefer to tax income.

The single impost on landed revenue was at one time advocated as a consequence of the supposed exclusive productiveness of the soil, and therefore of the incidence of every impost on the net produce derived therefrom ; others sought to justify it by adducing a supposed repercussion of the impost on the consumers of agricultural produce. To answer these arguments, it is enough to observe that modern science has fully exposed the error of these premises by demonstrating that such an impost would ruin the landed interest, and would accord an unjustifiable privilege to the other social classes, without even yielding sufficient revenue for the present wants of political societies.

The systems of single impost on consumption, or on the entire property, would be equally unjust and impracticable. The former takes no notice of the considerable part of wealth which is saved and put aside in varying proportions by individuals, it being furthermore quite impossible by means of this system to tax all kinds of consumption, or to find any that have even a sufficiently close correspondence with individual incomes ; the latter system

adds to the defects which it has in common with the single impost generally, as has already been seen, faults of its own, which tend to render it in the highest degree defective.

Most of the advocates of a single impost at the present day contend for the tax on income. Even in case it be admitted that, given the practicability of a single-impost system, that upon income answers better than any other to the ideal of a system of taxation, it must not be forgotten that its perfection rests upon the hypothesis of a sufficient knowledge of individual incomes; while, on the other hand, the inequality of the assessment—an unavoidable consequence of defective systems of ascertainment—would in the case of a single impost assume such proportions as to render its execution far from desirable.

To conclude this comparison of the two systems of single and multiple impost, it is to be observed:

1st. That supposing a concatenation of circumstances through which at the same time we should be enabled to obtain a very great reduction of public expenses, and also to know with sufficient exactness the relative amount of wealth of the contributors, in such case a single impost (with the reservation, however, of certain fees, for the remuneration of special services rendered to the citizen), would seem to answer to the ideal of a system of taxation.

2d. That, as the facts stand, present political and social conditions render a single impost impracticable. In most States, the necessity of keeping up an armament, and the vastness of the public debt, prevent any considerable reduction of outlay ; nor are honesty, patriotism, intelligence, culture, the spirit of order and economy, sufficiently diffused among the multitude of tax-payers to inspire them with the candor and self-denial which are the necessary basis of a system which, laying its tax in only one way and under one head, must needs rely on the punctual payment of very considerable sums. It is therefore necessary to resort to multiple imposts, seeking to arrange and reform them in such manner as to substitute the most simple and rational combination possible in the place of complexity and disorder.

3d. That a single-tax system, though it cannot be established under the present conditions of civilization, is not altogether devoid of either theoretical or practical value. It in fact constitutes an ideal which, perhaps, may never be attained, but which for all that should not be forgotten, although the optimist, who believes that all ideals should be put in practice, is not less to be blamed than the empiric, who absolutely contemns them all.

CHAPTER XIV.

LOCAL TAXES.

MUNICIPALITIES and provinces, in order to provide for their needs, incur obligatory expenses, and expenses imposed by their own will. The former meet obligations of general interest imposed upon them by the State for reasons of decentralization, and for the relief of its own finances; the latter relate to objects of local concern. The kind and amount of the voluntary expenses are determined by the local authorities, with the co-operation of their own deliberative assemblies, within certain limits fixed by the State, and varied according to the rule of the greater or lesser autonomy granted to the minor political societies.

Although the receipts of municipalities and provinces (ordinary and extraordinary, original and derivative,) are governed fundamentally by the same principles which obtain for the State, it may prove useful to indicate in general certain rules concerning local imposts, which are the most important among their ordinary receipts.

Local taxes are either called additional to those imposed by the State or entirely different from those. The latter answer correctly to the prin-

ciple of autonomy which in free States is enjoyed by minor political bodies, and also to the special nature of the expenses incurred by the local authorities, and especially by those of municipalities. The latter, in fact, may be said to constitute associations rather than States on a small scale, being based on a joining of interests, mostly of an economic character, which necessarily leads to some modification of the rules relating to the assessment of their taxes.

In fact, it must be evident that the special advantages which landed property derives from municipal institutions justify the existence of distinct imposts on the property itself in addition to other local taxes which are levied on wealth in general. On the other hand, the increased influence of the lower classes in the administration should equitably be balanced by an increase of their relative burdens, which can be obtained by means of suitable imposts on consumption, arranged in a manner not to cause too great disturbance of the national production and circulation.

The advocates of imposts additional to those of the State (surtaxes) lay stress on the ease of ascertainment, and economy of collection, and they plead the inconvenience of radical changes in systems which in many countries have been sanctioned by the custom of ages. On the other hand, the advocates of purely local imposts observe that these

facilities encourage a tendency to extravagance ; that in the confusion of local with general imposts they deprive the tax-payers of the distinct and exact knowledge of the sacrifices which they must make, and that they accordingly lessen the chance of an efficient control over the local budget.

Financial reform of the provinces and municipalities, which above all supposes the execution of corresponding administrative reforms, the reduction of public expenses, and the exertion on the part of the State of a controlling power, vigorous, but entirely compatible with local freedom, must at the same time be consonant with national traditions, and must also take into account the notable difference that exists between the economic condition of cities and that of villages.

A good system of municipal taxation may be constituted by a special impost (in urban communities on dwellings, in rural communities on families) ; by an additional percentage to the land-tax of the State, and by imposts on articles of general domestic consumption, with the eventual final addition of some other imposts on the consumption of articles of luxury.

TAXATION OF MORTGAGES.

TAXATION of mortgaged land without deduction of the amount of the mortgage, and taxation of the mortgage also, are a crying evil in the fiscal systems of American States. There is great contrariety of legislation and of judicial decision on this subject, and nothing in the whole range of fiscal practice has given rise to more bitter and heated controversy. The origin of this double taxation may be easily traced. Owing to the difficulty of finding and taxing personal property, and especially "moneyed capital" in its modern forms, it is necessary that landed property should supply the largest share of the revenue for local purposes. Revenue must be had somehow, and accordingly the law lays its hand first upon whatever is immovable, and makes the tax the paramount lien upon it. To allow deduction for mortgages is to authorize a lien paramount to the tax, which may swallow the entire revenue and leave the State empty-handed. To forbid this is philosophical, and it cannot be called unjust, since it is a condition that has run with land titles from the beginning, every purchaser having taken account of it and included it in the price he was willing to pay for the land.

On the other hand, the determination to tax personal property equally with real estate amounts to a frenzy in most parts of the country, and it happens that mortgages are among the few forms of "moneyed capital" that cannot be concealed. In order to be valid security, they must be recorded. The mortgage is property in the hands of the holder. Why, it is asked, should the lender on mortgage not bear his share of the public burdens? What are his merits, that he should be favored at the expense of all other taxpayers.

Yet there is a wrong here which ought to be righted, since there is double taxation of the same property, as a very simple illustration will show. Leaving the confusing element of money out of the reckoning, let us consider a case where the lender, A, happens to have exactly the kind of property that the borrower, B, wishes to acquire by mortgaging his land, to wit, cattle. B has land worth \$2,000, and A has cattle worth \$1,000. A transfers the cattle to B and takes B's note, secured by mortgage on the land,

for \$1,000. He might take any other security that he considered satisfactory, as, for example, the endorsement of a third person, C, or he might be satisfied with B's unsecured note, in which case the taxing officers would have no *prima facie* evidence that any such debt existed. The whole amount of property in any case is the land \$2,000, and the cattle \$1,000, total \$3,000. But if a mortgage on land is given to secure the debt, the total property becomes \$4,000 in the eye of the law, viz., land \$2,000, cattle \$1,000, mortgage \$1,000, a palpable absurdity, no less than saying that two and one make four.

The State of New York palliates this absurdity by authorizing the mortgagor to deduct the amount of the mortgage from the value of his personal property. This is in pursuance of a general provision of the State law that all persons may deduct their debts from the value of their personal property. If all personal property were assessed for taxes—in other words, if the ideal system that the New York law contemplates were carried into practice—there would be no double taxation to complain of. In the case cited the mortgagor would pay the full tax on the land, but no tax on the cattle. The mortgagee would pay the tax on the mortgage, which represents the value of the cattle. If the borrower on mortgage chooses to erect buildings or to buy other land, *i. e.*, to convert his borrowed capital into more real estate, which is also subject to tax, or to send it out of the State and into the jurisdiction of another taxing power, he does so on the presumption that he can make better use of it than to keep it at home or to invest it in personal property from which the amount of his mortgage debt can be deducted. He makes his election, and he has nothing to complain of. If, after borrowing money on mortgage, he loses it—if, in the case cited, his cattle die and he has not sufficient personal property to offset the debt on the assessment rolls—there is double taxation, the land being still taxed at its full value and the mortgage being taxed after the tangible property which it represents has disappeared. But such cases are rare, and the law cannot provide for them, because it is impossible for the State to keep track of individual losses.

The New York law I conceive to be perfectly fair in principle. The law of any State which taxes both land and mortgage without allowing deduction of the debt from the mortgagor's personal estate is indefensible.

The question may be asked, does not the lender of money on mortgage take the tax into consideration and make it a component part of the rate of interest? Does he not charge a rate high enough to recoup himself for the tax he has to pay, in addition to the prevailing return on capital? The common belief is that he does. The truth is that he does if he can, but otherwise not. The prevailing return on capital will itself vary with the tax, which is simply one of the expenses of production. The rate obtainable for

loans depends first and foremost upon the profit that the borrower can realize. If he has to pay a tax, his profits are so much less, and his ability to pay interest on borrowed capital is so much less. Putting a clause in the mortgage requiring the borrower to pay all taxes, as is customary in Pennsylvania, or passing a law authorizing the mortgagee to add the tax to the rate of interest, as is the case in Connecticut, does not really determine anything. It merely prevents subsequent disputes. It does not tell us whose pocket suffers by reason of the tax. The elements of the problem are too many and too variable for dogmatic treatment. My belief is that the mortgage tax, however laid, falls upon both parties, but the proportions are indeterminate.

The present law of Massachusetts (Public Statutes, 1882, Chapter 11) provides that the mortgagor and mortgagee shall be joint owners; that the land shall be taxed in the name of the mortgagor for its value, less the amount of the mortgage; and that it shall be taxed in the name of the mortgagee for the remainder. The assessors are required to give a bill showing the interest of both. The whole tax is a lien on the land, which is promptly sold in case of default. In theory, therefore, if A owns a house taxed for \$10,000, subject to a mortgage of \$6,000, given to B, a tax bill is to be rendered A for \$4,000, and to B for \$6,000. In practice, however, no such thing happens; for the same law exempts from taxable *personal* property "any loan on mortgage of real estate taxable as real estate." This exempts the debt from taxation; so all that the mortgagee has to do is to take an agreement from the mortgagor to pay all the taxes on the land, which, being what he always has done, he is perfectly willing to do still. As an additional safeguard against a change of the law, the mortgagor is also made to agree to pay the tax on the debt itself, in case the law should again make it taxable.

The Maryland Tax Commission in their recent report (January, 1888) recommend that no tax be imposed on mortgages, being convinced that the tax will in every case be shifted upon the mortgagor, and that even if it could be collected from the mortgagee the effect would be to drive capital away from the State which cannot be spared.—ED.

TAXATION OF PERSONAL PROPERTY.

THE taxation of personal property is one of the greatest of all puzzles in fiscal science, and the source of never-ending controversy. The opponents of such taxation rest their case upon two grounds: first, the impossibility of finding and identifying the ownership of such property with any approach to equality; second, the inexpediency of discouraging or driving away movable property whose presence or juxtaposition adds so greatly to the value of real estate. Both of these objections are stated in their greatest force and with the fullest illustration in the two reports of Mr. David A. Wells and his associate Commissioners to revise the tax laws of the State of New York.

The first criterion of any tax system is justice. It is certainly opposed to justice to allow any kind of property to escape its share of the public burdens. But any criterion that cannot be put in practice is an abstraction and a delusion. The experience of American communities has shown that personal property cannot be taxed equally with real estate. Notwithstanding the repeated and ever-renewed attempts to reach those forms of personalty that are grouped under the head of "moneyed capital" in the hands of private persons, little headway has been made. The amount of such property is rapidly increasing, while the public revenue derived from it is not increasing, but in some States is diminishing, and this without any change in the laws applicable thereto. In the State of New York, for example, the amount of personal property on the assessment rolls for the year 1871 was \$452,607,732. In 1886 it had fallen to \$335,898,389—a decline of \$116,709,343. These figures carry their own comment.

Two facts conspire to defeat the attempt to tax personal property of this description. These are (1) that the property cannot be found by the assessor unless the owner co-operates with him; (2) that if it is found, and if the tax on it becomes inconvenient, the owner can shift his residence to some community which offers the inducement of exemption, or of low taxes, or of lax administration, in order to attract capital and population to itself. For purposes of residence, there is no choice to be made between the different

States of the Union as regards any of the rights of citizenship. As between adjoining States, there is little difference in the matter of educational, religious, or social advantages. There is no reason why a person should prefer New York as a place of residence rather than New Jersey, or Illinois rather than Wisconsin. But the less wealthy and populous State will be apt to offer advantages in the way of low tax burdens in order to draw people to her own borders, and the State which perceives a drain of this sort setting from herself to her neighbor will either change her own tax law or relax her administration of it. The situation of New York City, lying as a wedge between the States of New Jersey and Connecticut, is such that very slight inducements of a pecuniary sort will determine whether a person doing business here shall make the city his place of domicile and taxation or not. Accordingly a practice has been adopted by the taxing authorities of New York to assess personal property at no higher rate than is considered the equivalent of the cost and trouble of moving to New Jersey or Connecticut. For this practice the law furnishes facilities by not requiring the tax-payer to return any schedule of his personal property. A deputy tax commissioner of the city of New York, while giving testimony in a lawsuit a few years ago, explained the method of arriving at the value of personal property. The City Directory, he said, was first examined in order to find the names of persons to be assessed, and an estimate of each one's property was inferred from the nature of his business and his place and style of residence. "Our rule is, then," he continued, "to let the amounts remain from two to three years; that is, everything under \$20,000. Larger amounts we do not crowd up much, unless we have specific information about persons, but on \$20,000 or \$25,000 we do not often increase; but if an amount is smaller than that, once in about three years we increase it from say \$10,000 to \$12,000. A person assessed \$1,000 we should not increase to \$3,000, but we would increase one from \$3,000 to \$5,000 after it had stood two or three years." In other words, personal property in New York City, other than that of banks and incorporated companies, is practically exempt from taxation.

Nor can we see any injustice in this fact as applied to cities, since the value of real estate depends altogether upon the accumulation of personal property upon it. The advance in the values of building ground is caused by the growth of population, which is made possible by the growth and concentration of capital. It is not unjust, therefore, that building ground should bear the chief burden of taxation. It would not be unjust if personal property were exempted from municipal taxation altogether. But the case is widely different as regards agricultural land. The accumulation of personal property and the growth of population in New York add nothing to the value of farms a few miles away from the city. Flour and beef can



be brought hither from Dakota, and vegetables from Norfolk and Savannah, almost as cheaply as from Long Island. But building lots cannot be imported from either place. In other words, town and city lots have a monopoly character, which farms have not.

The question recurs, Is it worth while to make a pretence of taxing a kind of property that we cannot tax with any approach to uniformity, and that we do not tax even so far as we might, lest it take to itself wings and fly away? Is the first criterion of taxation, *i.e.*, justice, satisfied by laws that are not enforced? We think the answer must be in the negative, and that it would be better to abandon all attempts to tax movable and intangible things and look for revenue, for State and local purposes, exclusively among those things that are fixed and ascertainable.

It cannot be admitted, however, as an economic truth that taxes on land diffuse themselves over the community so that personal property pays its share in an indirect way. A tax on land is paid by the land-owner alone. He cannot shift a penny of it upon anybody else, for the reason that he can add nothing to the rental value of land or to the selling price of farm products by reason of the tax. These are governed by the law of supply and demand. Suppose that A's building lot or B's farm is taxed \$100 this year. If the tax is raised to \$200 next year, A cannot get any higher rent (population remaining the same), nor can B get any better price for his wheat and bacon. Both must accept the market value quite irrespective of the tax. In the case of agricultural products, the market value may be, and generally is, fixed by transactions taking place in foreign lands many thousand miles distant, and over which the producer has no more control than he has over the phases of the moon. Building ground is space to dwell and work in. Its rental value is the resultant of competition in the strictest sense. If all taxes were abolished to-morrow, the land-owners would not on that account lower their rents, nor would renters pay more if the taxes were doubled. They would still pay what the competition of bidders for space required.

It is said, however, that if the land-owner finds that taxation reduces his profits below the customary return on capital in other trades, he will sell out and invest his money in other things, and that thus the land tax will be diffused over the whole community. But the buyer will take the tax into consideration also. The tax will be capitalized and shaved off the price of the land. It will be "diffused" in the pocket of the seller, and nowhere else.

These remarks do not apply to buildings, which are in their nature perishable, requiring repairs and renewal. A tax on buildings is in general paid by the consumer of buildings, *i.e.*, the tenant, because buildings will

not be erected unless the return for the capital employed is sufficient to reimburse all the charges—interest, insurance, repairs, renewal and tax. This principle is not altered by merging the ownership of both building and ground in the same person, although the incidence of the tax is less easily traced in such cases. The land tax is paid by the owner, and the building tax by the occupier.—*New York Evening Post.*

TAXATION OF CORPORATIONS.

It cannot be affirmed that the taxation of corporations in the United States is grounded on any well-defined principles. The reason why incorporated companies are taxed by rules peculiar to themselves is that corporations partake of the nature of both real and personal property. They are like real estate, in the sense that they are immovable, and always within sight and reach of the taxing authorities. On the other hand their property is to a large extent personal, *i.e.*, movable, circulating. A body of law has grown out of this mixed condition, but it is in a very chaotic state. For example, it is still undetermined whether a tax on capital stock is a tax on the franchise or a tax on the property. The highest courts of New York and of Pennsylvania have come to diametrically opposite conclusions on this point, the former holding that it is a tax on "franchise or business," and the latter that it is a tax on "property and assets." The question is now pending in the Supreme Court of the United States.

The New York law of 1881 taxing the capital stock of corporations described the impost as a tax on the "corporate franchise or business." If it were really such, it would be immaterial in what part of the world the property was situated, or the business carried on. A great deal of confusion and litigation arose under this law, the corporations contending that they were not taxable on that portion of their capital employed in other States. The State Comptroller conceded this point as to certain corporations, and denied it as to others. The Court of Appeals held that it was a franchise tax, and that it applied to the entire capital stock of the Western Union Telegraph Company, although the property of the company was situated in all of the States of the Union, and in several foreign countries. The injustice of such a tax was strongly animadverted upon by the court in rendering the decision. The legislature, accordingly, in 1885 changed the law by limiting the tax to "the amount of capital stock employed within this State," thus giving a legislative interpretation to the tax different from that given by the court, and different probably from that intended by the

legislature of 1881, which passed the act in question. In Pennsylvania, the tax was simply imposed on "capital stock," and the courts in that State have always held that this means "property and assets," as distinguished from franchise, or the right to transact business in the particular way described in the act of incorporation.

There is a great variety of taxes in the United States that go by the name of franchise tax, although their legal classification may be more or less open to dispute, viz. :

1. A premium on the granting of the charter, which is paid in whole or in part before organization.

2. An annual tax of several kinds :

a Based on capital stock in proportion to the amount of dividends paid or declared.

b Based on capital stock according to its actual or market value, when there are no dividends.

c Based on the earnings, gross or net.

d Based on total value of property, tangible and intangible, whether represented by capital stock or bonded debt, or both together. This is usually measured by mileage in the case of transportation companies.

e Based on the business done—as in Massachusetts, on the average deposits in savings-banks and trust companies, and on the number of telephones used by telephone companies ; as in Tennessee, on the number of parlor and sleeping cars run by a parlor car company ; as in New York, on the average deposits of foreign banking companies ; as in Pennsylvania, formerly, on each ton of coal mined ; as in Texas, on each telegram sent by a telegraph company.

f Based on the capital, at par, regardless of value, as in New Jersey and Massachusetts, for certain classes of corporations.

In the year 1879 a Committee of State Railroad Commissioners, consisting of Messrs. C. F. Adams, Jr., W. B. Williams and J. H. Oberly, made a report on the taxation of railroads and railroad securities in the United States and in foreign countries. They found almost every conceivable variety of method prevailing in the several States. They found that the States of Michigan and Wisconsin had adopted a very simple and workable plan of taxing the gross receipts of railroad companies, exempting them and their share-holders from all other taxation, either State or municipal, except on their real property not included in their right of way. They accordingly recommended this plan for general adoption, but they added :

"The apportionment of a levy on gross receipts among the several

States through which a single railroad may run is in this country undoubtedly attended with much difficulty, and the committee have given careful consideration to the subject. The conclusion at which they have arrived is that it should be made a matter of mutual understanding among the States, and that, as the levies must be independent, they should be apportioned according to mileage."

Additional force was lent to the last paragraph above quoted by a decision of the Supreme Court of the United States rendered in May, 1887, to the effect that all State taxes on gross receipts from interstate or foreign commerce are unconstitutional. It thus appears that what the committee found to be difficult in practice is impossible in law, and that anything which has its foundation on the mutual understanding of the States has no foundation at all. The case before the court was that of the *Philadelphia and Southern Mail Steamship Company v. Commonwealth of Pennsylvania*. It arose under a law of the State of Pennsylvania, passed in 1877, which taxed the gross receipts of all transportation companies incorporated by or doing business in the State, irrespective of the place where the earnings were made. The Steamship Company pleaded that no part of its earnings was made within the State of Pennsylvania, but that all were made from interstate and foreign commerce. The decision of the court was based upon that clause of the Constitution which gives to Congress the power "to regulate commerce with foreign nations, and among the several States, and with the Indian tribes." It not only holds that the tax on the gross receipts of this company is unconstitutional, but the argument goes to the point that any State tax on the internal traffic of the country, which traffic crosses the boundary of a State, is unconstitutional. While, in other words, a State may tax the gross income derived from the transportation of flour coming from Buffalo to New York, it cannot tax that of flour coming from Minneapolis by way of Buffalo to New York.

That the public authorities of Pennsylvania so understand the decision is evident from the fact that they are now taking steps to abolish the tax on gross receipts of transportation companies altogether, and to substitute a property tax in place of it, estimating the value of railroads by adding together their entire funded debt at par and their capital stock at its actual value, and taxing this aggregate sum in the proportion that the mileage in Pennsylvania bears to the whole mileage operated. This plan, which is already in force in Connecticut, involves the taxation of a company for its debts, and is in reality a mixing together of objective and subjective taxes. A tax on a locomotive is an objective tax. The assessor can ascertain its value, and can seize and sell it, if the tax is not paid. The State is not bound to inquire whether the person using it has paid for it, or whether

he is in debt for it, in whole or in part, or whether the debt is secured by mortgage, or not secured at all. The locomotive, the object, the visible and tangible thing is taxed.

A subjective tax is a tax on persons and corporations, because they are worth so much money. Of course they are worth only the amount of their possessions, minus their debts. The proposed law of Pennsylvania, like the present law of Connecticut, taxes the railroad subjectively, but upon the presumption that it has objects in use and under its control, worth as much as its debts and capital stock added together.

This plan seems, at first glance, to be unjust, but it is not necessarily so. If a railroad pays \$100,000 per year in taxes it is immaterial whether the levy is made on its gross receipts, or on its capital stock, or on its stock and bonds added together. But when we consider the relative situation of two roads in the same State, and making the same earnings, the one having a large debt and a small capital stock and the other a small debt and a large capital stock, it becomes apparent that they ought to pay the same amount of taxes; and this would not be the case if debts were deducted. It would be neither wise nor just to tax one more heavily than the other, because its finances have been more prudently managed and because it has pursued the policy of paying its debts as they fall due instead of issuing new bonds to take up old ones. There is nothing easier to create than railroad debts. It is not good policy for the State to encourage such debts by offering exemption from taxes on that portion of the property represented by the bonds.

That railroads and other corporations of a monopoly character are far from paying their due proportion of taxes, the proportion which real estate and other immovable and ascertainable property pays, there is good reason to believe. Comptroller Chapin, of New York, in a special report to the Legislature, dated March 30, 1886, showed that the New York Central Railroad was paying a tax of only eight mills on its value, whereas citizens were paying seventeen mills average. "Yet it is admitted," he says, "that this corporation has been exceptionally fair toward the public in its construction of the tax law, and has paid proportionately much more than other corporations." The Maryland Tax Commission are extremely indignant at finding that the railroad corporations of the State, which are taxed on the basis of their gross receipts, really pay for State taxes only one-half what a private citizen would pay on the same value.—ED.

TAXATION OF "LAND VALUES."

THERE has been so much political agitation during the past year on the subject of the taxation of "land values" that this work would not be complete without some notice of it. The doctrine espoused by the United Labor party of New York, under the leadership of Mr. Henry George, is stated in the platform adopted by the Syracuse Convention, August 12th, 1887, as follows:

"What we propose is not the disturbing any man in his holding or title, but, by abolishing all taxes on industry or its products, to leave to the producer the full fruit of his exertions, and by the taxation of land values, exclusive of improvements, to devote to the common use and benefit those values which, arising not from the exertion of the individual but from the growth of society, belong to the community as a whole."

We observe, in the first place, that neither land nor land values ever pay taxes. Things do not pay taxes. Taxes on land are paid by land-owners, as has been shown on a preceding page. The proposition therefore is, that land-owners shall pay all the taxes for the support of government, both general and local, and that nobody else shall pay any taxes; with the further proviso that, if anything in the way of "land values" is left over, that shall be taken also and applied to the common use and benefit.

The assumption that land values arise from the growth of society is a half truth, the other half being the fact that the growth of society is made possible by the cultivators of the soil, who are in this country mainly the land-owners. It is certain that land does not produce wealth, except in very limited quantity, without labor. Of the two sources of wealth, land and labor, the latter counts for everything that the former would not yield spontaneously, such as grass, nuts, wild fruit, wild animals, etc. If we were to agree that all these spontaneous products or their equivalent, as nearly as it can be ascertained, should be applied to the common use through the medium of taxation, how far would they go toward the support of modern governments? Would anything be left over to apply to the abolition of poverty in private circles?

But we are told that rent exists nevertheless, that it has not been pro-

duced by the land-owner, and that it ought to belong to the whole people. Economic rent is the price that is, or might be, obtained for the use of unimproved land. It is measured by the yield of some particular land over and above the yield of the poorest land in use, *i. e.*, land that yields nothing but ordinary wages and ordinary interest on the capital employed in tillage or other improvement. Accordingly rent does not exist absolutely but relatively.

The relations which cause rent to exist are those of peculiar fertility or situation. Land A may be more fertile than land B, or it may be nearer to market. In either case it will yield more rent unless other circumstances counteract this tendency. If all the land in a country is of equal fertility, and the supply is still unexhausted, rent will only arise from differences of situation. If, in such case, differences of situation could be neutralized by cheapness and quickness of transportation rent would not exist at all.

We are speaking now of agricultural rent, looking at the practical bearings, if any, of the proposed exaction of the whole State revenue from land-owners, and a general prosperity fund besides.

Higher fertility counts for little in this country at present, as a factor in producing rent. In the older States the original fertility has long since been exhausted, and either replaced by artificial fertility or not replaced at all. In the newer parts of the country economic rent does not exist, because land can be had for the trouble of occupying and cultivating it. Difference of situation is the only rent-making element worth taking into account, and even this is so insignificant as regards agricultural land that the most favorably situated farms in the New England States, where the population is densest, can hardly be rented at all, even with the improvements that have been made upon the soil. Good, unimproved agricultural land within forty miles of the city of New York has been offered without takers, free of rent, for many years, to any person who would take it and cultivate it. Great quantities of land in the Adirondack region have been sold for taxes and abandoned by the owners, of late years. The quantity of land falling into the State's ownership in this way has become so important in some places that a serious deficit has arisen in the local taxes, making it necessary for the State in some cases to pay local taxes on its own land, which it does by remitting to the counties in which the land is situated a corresponding amount of their dues to the State. (See Laws of 1886, chapter 280.)

I have heard an eminent professor in a New England college say that he had been looking all his life for a case of economic rent in the agricultural districts of the New England States, but had not yet found one. In other words, the present tax on farming land there exhausts the economic rent, and fully realizes the platform of the United Labor party. If any

heavier tax is imposed the farms will be abandoned to the State. The cheapness of transportation from the more productive lands of the West is the cause of the disappearance of agricultural rent in New England, and also of the great shrinkage of rent in old England. There are probably places where agricultural rent can be found in the Central and Western States, but when the capital value of improvements attached to or embodied in the soil is deducted, the residuum of purely economic rent must be extremely small, and must continue small so long as there is any considerable amount of arable land in this country or in Canada unoccupied.

When cheap transportation has so far neutralized advantages of situation that economic rent has ceased to exist in the most populous parts of the country, where it ought to be most flagrant and conspicuous, where are we to look for the "land values" that shall yield such a gushing revenue that nobody but land-owners need pay any taxes? Perhaps the answer will be that we shall find it in town and city lots.

If we take the city of New York as a pre-eminent example, we find that the taxes imposed for State and local purposes in 1887 amounted to \$32,370,696.78. Of this sum the owners of real estate, land and buildings together, paid \$27,097,022.93, while banks, corporations, and the owners of personal property together paid only \$5,273,673.85. But if the owners of real estate should pay the whole it would not exhaust rent. There would still be something left over.

It is customary to say that this something left over is the common heritage of all mankind. Although the land-owner may have paid its just value, although he may pay five-sixths of the entire cost of supporting the government, and its educational and charitable institutions,—that is, promoting the "growth of society"—year after year, yet it is contended that he has stepped into the heritage of other people and that he ought to be dispossessed. If we ask how you know that lots in New York are the heritage of all mankind, or of that particular portion of mankind who choose to dwell here, the argument takes a theological, or teleological, turn at once, and we are asked whether the Almighty can be supposed to have sent anybody into the world disinherited, or without some share in the land. This is a hard question. We cannot penetrate the divine mysteries, but we can say with considerable confidence that it is quite as likely the Almighty intended that some people should not have land, as that he intended that they should take it away from other people without compensation, after having agreed in writing that they would not do so.—ED.

TAXES ON CONSUMPTION.

THE revenue of the United States Government is derived almost wholly from taxes on consumption, customs duties yielding \$217,000,000, and internal revenue, or excise duties, \$120,000,000. The author of this treatise declines to enter into the discussion of protectionism, as not being a fiscal question. It will, therefore, not be introduced as a note. But the great preponderance that taxes on consumption bear in our system of national taxation requires some comment.

In the first place, let us remark that taxes on property and on income, at a period not very remote, yielded by far the larger part of the internal revenue. In the year 1866, the following sums were received from taxes, which have since been repealed :

From manufactures, other than liquor and tobacco..	\$127,528,610
“ incomes	61,071,932
“ stamps.....	15,044,373
“ gross receipts	11,262,430
“ licenses other than liquor and tobacco.....	14,011,132
“ sales.....	4,002,283
“ salaries.....	3,717,395
“ legacies and successions.....	1,170,979
“ billiard tables, carriages, pianos, etc.....	1,693,123
“ banks, railroads, etc.....	12,109,420
“ miscellaneous.....	4,440,290
	\$256,051,967

Internal taxes still remaining yielded in 1866 :

From distilled spirits.....	\$29,198,578
“ fermented liquors.....	5,115,140
“ tobacco, snuff and cigars.....	16,514,333
“ licenses, liquor and tobacco.....	4,026,966
	\$54,855,017

The internal revenue at the present time (January 1, 1888) is made up of taxes on the following articles, viz.:

FISCAL YEAR, 1887.

Distilled spirits.....	\$65,829,321
Fermented liquors.....	21,922,187
Tobacco.....	30,108,067
Oleomargarine.....	723,948
National bank-notes.....	2,385,851
	<hr/>
	\$120,969,374

It is stated in the text that taxes on consumption are justifiable on two grounds : first, because the budgets of modern times cannot be balanced without them ; and second, because they are the only means of reaching the working classes, who ought not to enjoy all the advantages of government without contributing anything to its support. Professor Cossa did not have in view a country which derives its national revenue wholly from taxes of this kind. Nor did he have in view a country whose budget might easily be balanced without any taxes on consumption, if that policy were desirable.

The total expenses of the government for the fiscal year 1887, other than for interest and sinking fund, were \$220,190,602. It appears, therefore, that taxes exceeding by \$36,000,000 the whole ordinary expenses of the government have been repealed since the year 1866, and that these have been mostly taxes on property. Taxes on income, gross receipts, corporations, legacies, occupations, sales and stamp duties are paid by the persons out of whose pockets they first come. There is no repercussion here. And in general it may be assumed that a tax falls on the first payer unless the contrary can be clearly shown, as it can be in the case of customs duties and the excise tax on liquors and tobacco. Everybody knows that the importer, the distiller and the tobacconist merely advance the tax to the government and collect it back from the consumer, together with interest on the amount advanced.

How far the internal tax on manufactures, while it lasted, was a tax on consumption, it is difficult to say. The increase of customs duties, which was made simultaneously, was intended to convert it into a tax on consumption by enabling the manufacturer to add the amount of the tax to the price of the article produced. Probably it did not have this effect in all cases. When the internal tax was repealed the corresponding customs duties were left unrepealed, except in a few cases. The effect of this was to enable the manufacturer of articles subject to foreign competition to recoup himself very speedily, even if he had not done so while the internal tax was in force.

In the year 1776 Adam Smith stated four rules of taxation, which have been accepted by the whole civilized world, and by all governments in it, as the maxims of justice applied to that matter. The first of these rules

says that "the subjects of every State ought to contribute to the support of the government as nearly as possible according to their respective *abilities*." This means, of course, that the man whose income is \$5,000 ought to pay ten times as much as the one whose income is \$500, and so on. Nobody denies the truth of this maxim except some writers who contend that the man whose income is \$500 or less ought not to pay any taxes. I think that he ought to pay something and ought to know that he pays it.

Since our national taxes are levied on consumption it is evident that the people of the United States are not paying taxes "according to their respective abilities," but according to their respective needs. The man with \$5,000 income is not paying ten times as much as the man with \$500, as everybody knows that he ought to. They are each paying according to their consumption. The man with \$5,000 income does not consume ten times as much of dutiable goods as the man with \$500 income. He may consume a little more, but not much more. The things he buys may be of superior quality, but it does not follow that he pays any more tax on that account. On anything that is taxed by the pound, the yard, or the gallon—and most things are so taxed—the poor man pays as much as the rich man, whatever be the quality or style of the things used by them respectively. It results that Adam Smith's first rule is not followed in this country. It results that the very opposite course is pursued. It results that people do not pay taxes according to their means, but according to their wants, which is the very opposite criterion.

Our State and local taxes are paid principally by assessments on property. These amounted in the year 1880 to \$302,000,000. They may now reach \$350,000,000, or about the sum collected by the national government by customs and excise duties. It is a question for statesmen and philanthropists, as well as for trade-unions, to consider, whether one-half of the entire burden of government in all its departments, national, state, and municipal, should be paid by taxes on consumption, which are, in a rough way, taxes per capita, since all are consumers. Taking into account all the public contributions which support civilized society in this country, I consider that Adam Smith's first rule is grossly violated, and that the wage-earners and the taxpayers of small incomes bear an undue and disproportionate share of the burden of taxation. I consider, further, that the solution of what is called the "social problem" should begin by lightening the taxation of the wage-workers; that is, by the reduction or repeal of taxes on consumption. The first thing to be done for the working man is to let him enjoy what he earns. When this is done, and when good education, technical and other, is offered to him and his children, the social problem will be solved, so far as governments can deal with it.—ED.

PART IV.

THE RELATION BETWEEN PUBLIC RECEIPTS AND EXPENDITURES.

CHAPTER I.

GENERAL IDEAS.

THE proper relation between public receipts and expenditures is that of equilibrium or equalization; because, as a rule, it is not permissible to take from the national resources either more or less than is necessary to meet the public expenses of the current fiscal period.*

In order to obtain the desired balance the receipts must be regulated by the expenditures, so that the one may coincide with the other, both as to their amount and as to the periods of collection and disbursement.

* The Secretary of the United States Treasury in his annual report, Dec. 5, 1887, said that there was at that time a surplus in the Treasury, over and above all requirements, of \$55,258,701.19, and that it would probably amount to about \$140,000,000 on the 30th day of June, 1888. He said also that the requirements of the sinking fund of the public debt for the current fiscal year, amounting to \$46,817,785.48, had all been met, except a very small fraction, prior to Nov. 1, 1887.

In practice, however, the relation frequently happens to be abnormal—that is, a want of equilibrium exists, which can take place :

1st. Through a surplus—that is, an excess of receipts over expenditures ; and this may be kept in reserve, invested, or better, be eventually applied to the payment of previously contracted debts, or to the partial or total abolition of onerous taxes ;

2d. Through a deficit—that is, an excess of expenditures over receipts. The deficit may be temporary, if it is owing to the accidental delay of certain receipts or to the anticipation of certain disbursements ; or it may be permanent, if it is due to financial disorder which defies all efforts at obtaining a balance.

A deficit may be owing to an increase of expenses, or to a diminution of receipts, caused by war, by revolution, or by scarcity or any other economic crisis, or by extraordinary public works (as by the construction of railways).

The deficit may be met either by prudently reducing expenses, whenever it is possible, or by discovering new sources of revenue. The latter may be obtained :

1st. By the sale of the fiscal domain, which, under the circumstances already mentioned, will but seldom yield any profits ;

2d. By resorting to the treasury reserve—that is, to the surplus accumulated in times of pros-

perity—a plan which has been largely followed in the past, but which has the inconvenience of withdrawing too long from the channels of industry considerable amounts of capital, and in the present day can only be allowed as an exception and within strict limits ;

3d. By means of anticipations, to be reimbursed in successive financial periods, or by raising the rates of pre-existing taxes, or by introducing new ones ;

4th. By using the public credit—that is, by contracting debts—an expedient which in the present day is generally preferred, and which therefore requires more minute consideration.

To the avoidance of deficits nothing contributes more than the compilation of the exact balances (estimated and ascertained) of the public receipts and expenditures to be submitted in free States to the approval of the deliberative assemblies. In the opinion of many the annual discussion of the budget would gain in importance if it were limited to only one part (the variable), while for the other part (the permanent) an examination repeated at longer intervals should suffice.

CHAPTER II.

THE PUBLIC DEBT.

THE public credit—that is, the faculty of contracting debts on relatively favorable conditions—depends, as does the credit of the individual, on the circumstances which influence the purpose, and the possibility of fulfilling the obligation contracted. In particular it depends on the political and administrative arrangements, on the financial conditions—that is, on the system of taxation, on the amount of pre-existing debts; and finally, on the economic condition—that is, on the state of the national wealth.

Public loans have been greatly extolled by many writers in the past; but later, by an exaggerated reaction against abuses in practice, and through a false conception of the action of the State, to which all economic competence is denied, they have been absolutely condemned, or only tolerated as a necessary evil.

With regard to their legitimacy, it is to be observed :

- 1st. That ordinary expenses must be covered by ordinary receipts, and especially by taxation;
- 2d. That extraordinary expenses may, according

to circumstances, be met by means of either taxes or loans.

In respect to the different sorts of extraordinary expenses, public loans are especially admissible when in support of public works—that is, of the productive employment of capital by the borrower. Recourse may also be had to public loans when extraordinary expenses are incurred on account of war, revolution, famine, etc.—that is, in the case of an employment of capital only indirectly productive to the public authority (including reforms of the armament or of the administration), in so far as it brings an advantage to society which is not limited to the financial period in which the expense is incurred.

From the economic point of view—that is, in regard to their effects on private wealth—public loans, which always import a subtraction of existing capital from the national resources, and not at all an imaginary and absurd anticipation of future capital, seem preferable to an increase of taxation, when the latter happens to be badly distributed, and when the loan is contracted with foreign capitalists, or, if contracted with home capitalists, when the loan absorbs only the surplus capital, without having recourse to that which is already well invested in industrial enterprises, upon which otherwise serious injury might be inflicted.

From the political point of view the advantages

and disadvantages of loans, which are frequently exaggerated, offset each other ; for if, on the one hand, they directly interest a class of numerous and powerful capitalists, in the maintenance of public order and the preservation of peace, on the other hand, it is not less true that they excite the discontent of the tax-payers who are charged with the payment of the interest, and at the same time in relations with foreign countries they lead to a kind of dependence of the indebted State on that to which its creditors belong.

In respect to the advantages promised to the creditor, public loans are divided into productive, to wit, interest-bearing, and unproductive, non-interest-bearing. The former are now the rule, the latter the exception.

In respect of the guarantee given to the creditor, they are to be distinguished as :

1st. Loans secured by the pledge of certain revenues set apart before all for the payment of interest and for the reimbursement of the principal. These loans, much in vogue in the past, sometimes also under the form of temporary transfers to the creditors of certain public receipts, are no longer suited to States which enjoy regular financial arrangements, except in the not unfrequent case of loans contracted for the execution of public works, and hence made a charge on the revenue derived from their operation. There are also instances,

seen in recent times, when States in contracting loans have offered to their creditors the formal guarantee of other richer and more powerful States ;

2d. Unsecured loans, which are based, merely, on the personal credit, so to speak, of the debtor.

In respect to the source of the borrowed capital, are to be distinguished :

1st. Foreign loans, the evidences of which are held by foreign capitalists ;

2d. Internal loans, the evidences of which are owned by home capitalists.

Formerly internal loans were decidedly preferred to foreign ones, because of the fear entertained touching the exportation of money caused, in the latter case, by the payment of interest and the reimbursement of the capital. Now, however, foreign loans are in great favor because they do not deprive national industry of the capital it requires.

In respect of the legal character of the operation, loans are divided into voluntary and forced. Forced loans, which form as it were a connecting link between taxes and voluntary loans, must in general be condemned both on account of the unavoidable injustice of their distribution, as also for the injurious withdrawal of capital from private industry which they occasion. They can only be admitted in cases of urgent need, arising under circumstances that do not admit of contracting a voluntary loan on tolerable conditions.

In respect to the manner of contracting, a distinction is to be noted between loans negotiated :

- 1st. Directly—that is, through public agents ;
- 2d. Indirectly, through capitalists who interpose between the debtor and the creditor.

Finally, in respect of their various methods of arrangement, particularly in respect of the conditions of repayment, we must distinguish between :

- 1st. Loans constituting the floating debt ;
- 2d. Those forming the consolidated or funded debt.

CHAPTER III.

FLOATING DEBT.

THE floating (fluctuating, unfunded) debt comprises those loans which, not being definitely regulated, continually vary in amount.

In normal conditions the floating debt, which often becomes an abuse, is distinguished from the consolidated debt by its purpose (which is that of filling a temporary deficit in the treasury), by the shorter term of payment, and by the power of terminating it at any time, which belongs to both parties.

SECTION I. *Classification of the floating debt.*

The floating debt assumes various forms, the

more important of which it may be useful to indicate here.

Debts having their origin in the carrying on of State industries (running account, etc.) are now unimportant, both by reason of their amount, and because the range of the industrial operations of political bodies tends in general to diminish.

Debts arising in the course of the performance of political functions, as deposits in court (which, strictly speaking, should not be touched), official bonds (of accountants, contractors, etc.), the deposits in savings-banks, which sometimes are administered either directly by the State, or indirectly by institutions depending on it (offices of deposit and of loans),—all these constitute a part of the floating debt, which, however (especially the deposits in savings-banks), in times of economical and political crises may cause serious embarrassments.

Also accidental arrears of expenses, caused by postponing payments (salaries, pensions, interest and annuities, the capital of matured loans, etc.), may sometimes in the larger States constitute a not inconsiderable class of debts, the state of which should be always kept clear and evident by means of a good system of accounts.

The more conspicuous part of the floating debt, however, arises from large unforeseen expenditures, from expenditure anticipated, or by the failure or

delay of the ordinary revenues. Among these are comprised :

1st. Loans of immediate payment, obtained by the emission of convertible legal-tender notes (paper money in the improper sense) ;

2d. Loans at very short terms of payment, obtained from banks, that frequently are required to make them in return for the privileges granted to them. They consist of loans on account current, or in advances upon pledges of public revenue, or of other evidences of debt ;

3d. Interest-bearing obligations created in order to realize in advance the revenue from future taxes, a system which may become dangerous if the obligations are continually renewed instead of being extinguished when the need of them has passed away ;

4th. Treasury notes or bonds (exchequer bills), which constitute the typical form of the floating debt.

These consist of interest-bearing obligations at very short dates (as three, six, seven months, a year), emitted by the treasury to provide for extraordinary wants of the current fiscal period.

The rate of interest on treasury notes is usually very low in rich countries, but it continually varies according to the conditions of the public credit (the needs of the debtor, and the confidence he

enjoys) and those of the money market so called, to wit, the quantity of loanable capital.

Treasury notes and other analogous forms of floating debt, while they afford to private individuals the means of conveniently investing certain sums that are for the moment disengaged and held in the expectation of better employment, are useful and even necessary in the best-administered States, which in case of urgent need can obtain the necessary means on easy terms from lenders who are allured by the certainty of prompt repayment, without having recourse to the more complicated and cumbersome form of consolidated debt.

But treasury notes can certainly become a serious abuse if allowed to grow beyond measure by continued renewals in time of peace; for in times of crisis they cause serious trouble by competing injuriously with industrial enterprises, and with institutions of private credit, whose capital they absorb, and because, when it is impossible to meet an increasing and imperative demand for reimbursement, resort is too easily had to the calamitous expedient of legal-tender notes.

The use of treasury notes should therefore be confined within narrow limits, rigorously fixed by the law, and the administration must be prudent and be guided by the rules that are usually followed by the best-regulated institutions of private credit.

SEC. 2. *Paper money.*

To the floating debt belongs also paper money, endowed with the privilege of forced circulation, by which everybody is compelled to receive it in payment without the right to immediate reimbursement in metallic money (inconvertibility).

In a financial sense inconvertible paper money is a forced non-interest-bearing loan made by the State, with an uncertain and indefinite term of payment, and distributed among citizens without any regard to their economic condition.

Paper money is one of the most ruinous expedients to which the public finances resort in moments of grave emergency, when an increase of taxation seems to be impossible and when it is desired to avoid, in whole or in part, the high rate of interest which, under such conditions, must be paid on a voluntary loan.

Paper money, the value of which is inevitably liable to strong and continual variations, because it is generally issued by weak governments and to an excessive amount, so as to cause the expulsion of metallic money, besides presenting very serious economic inconveniences, damages the treasury itself in its purchases at home and abroad, decreases the income from taxes, and gives a great shock to the public credit, the evidences of which fall in value when the interest is paid in paper, while new loans that may eventually become necessary can

only be negotiated on conditions that grow constantly worse.*

The withdrawal of paper money must be effected resolutely, but with all the caution necessary to avoid or at least diminish new economic perturbations of an effect the reverse of those that took place at its introduction.

When the paper money has not been too greatly depreciated it seems more just and convenient that its withdrawal should take place at its nominal value (at par), thus avoiding the injustice of giving it a less value than that of its original issue. Still it is due to the tax-payers, who have to furnish the necessary means toward the re-establishment of the normal circulation, that the process should be slow, in order to diminish, if possible, the fluctuations of the premium and the speculations of the last holders of paper money, as well as to obtain the gradual rise of the current value of the paper until perfect coincidence with its nominal value is secured.

Bank-notes are relatively less injurious than governmental paper money—that is, bank-notes is-

* Mr. H. C. Adams, in his very valuable work on *Public Debts* (p. 131), shows that the cost to the tax-payers of our late war was swelled by the enormous sum of \$869,000,000 by bad methods of financiering, in which depreciated paper money bore a very large part. This sum is the difference between the face value of the obligations issued and the gold value received by the Treasury, and is about equal in amount to the bonds now outstanding less cash in the Treasury.—ED.

sued by an institution of credit, to which the State concedes the privilege of legal tender (forced currency, *cours forcé*), in compensation for a loan made, either gratuitously or at very low interest, of a part of its notes. The reason of this is because such notes have a double guarantee, the principal one of the bank, and the subsidiary one of the government, and because, also, this system affords greater resistance to the over-issue of paper money.

CHAPTER IV.

CONSOLIDATED DEBT.

THE debt which is called consolidated (funded) comprises loans which have been definitely regulated, and the service of which (interest and redemption) figures among the ordinary debits of the balance-sheet.

The consolidated debt of the State is also sometimes called inscribed debt, because its accounts have been registered in the so-called Ledger (Great Book) of the Public Debt.

The consolidated debt is divided into redeemable and irredeemable.

SECTION I. *Redeemable debt.*

The redeemable debt comprises loans which the debtor has obligated himself to repay, entirely or

partly, at certain periods, and under certain rules previously stipulated.

Such an obligation does not, ordinarily, at least, exclude the right of returning the capital before the stipulated time by purchasing at market price the securities that represent it.

The redeemable debt, by assuring repayment to the lender, frequently secures better conditions for the borrower, and incites the latter to economy in order that he may have the required means in hand when payment is due.

This form of loans, however, is not the most acceptable either to the lenders, who prefer to make permanent investments of their capital, or to those who desire to speculate on the changing price of the securities, and who accordingly prefer those liable to more frequent changes of value. On the other hand, political bodies which possess a high credit can find money on good terms even by means of an irredeemable debt, whilst those with inferior credit, and in hard times even the former, will be obliged later to contract new loans on worse terms, in order to extinguish the old ones.

Redeemable debts comprise various kinds of loans, distinguished by the various conditions of repayment. The principal ones are those with fixed terms of payment, prize loans and annuities.

In loans at fixed terms of payment, the interest

is paid regularly and the principal at one or more fixed periods. This may also be done by dividing the several obligations into series, and by drawing lots for those to be paid off.

In prize loans, or lottery loans, which are susceptible of the most various combinations, the capital is repaid at fixed predetermined periods and by lot, with the difference that the interest (either the whole, or, more often, a part of it) is not paid regularly, as in the case of other loans, to all the holders of the obligations, but is distributed to those among them who hold the particular ones whose numbers are drawn by lot.

These loans present, although in much less degree (as only the interest or part of the interest is gambled for), the objections which make against lotteries. They tend to divert people from the legitimate rewards of labor and of saving, arousing the hope of considerable and exceptional gain due to the favors of fortune; they are, moreover, of little advantage to the debtor, who is unable, under such a system, to secure the general co-operation of serious capitalists, and must also forego the eventual benefit of conversion (refunding), by which he might extricate himself in times of prosperity from the oppressive conditions to which he had submitted at a time of crisis.

In the system of annuities, also called terminable rentes, the capital is reimbursed, little by little,

by paying every year a fixed sum, which comprises the interest and a portion of the principal, which gradually increases.

Annuities may be for a fixed time or for life.

In annuities, at fixed time (as of 30, 50, 90 years), the amount of principal can be exactly determined, which, added to the interest, constitutes the sum to be paid annually.

In life-annuities, both the period of reimbursement and the amount to be reimbursed are contingent, uncertain elements, which depend on the greater or less duration of the lives of one or more persons, usually upon the life of the creditors.

In simple life-annuities the debt is extinguished by the death of the creditor; in the tontine, which consists of a society of creditors, the debt is not extinguished until the death of the last creditor, the condition being that the survivors shall receive the annuities which would have belonged to the other creditors had they lived.

Against the policy of fixed-time annuities, still in much favor in certain countries which are in good financial condition, it is to be observed that they encourage the conversion of capital into temporary income, and encourage unproductive consumption rather than production; whilst in hard times the gradual reimbursement, both in this and in other forms of redeemable debt, is only nominal, since new loans must be negotiated, and not

always advantageously, to obtain the means of paying the old ones.

Against life-annuities (and especially against tontines) not only may the same objections be made that are advanced on moral and material grounds against annuities in general, but also those that are made against the lottery loans. It is also to be noted that the embarrassments are much greater than those proceeding from fixed-time annuities, because a higher rate must be paid for the relatively short duration of the probable life of the creditors than is paid in the case of annuities running for a long term. For this reason life-annuities, as a form of public loans, are every day becoming more rare.

SEC. 2. *Irredeemable debt.*

Irredeemable debt, which in present extent far surpasses the redeemable, comprises loans for which the debtor (almost always the State) assumes only the obligation of punctual payment of the interest to the holder of the securities. But the debtor is not deprived of the right of paying off the principal by purchase at market price; for it seems repugnant to common sense that a debtor should obligate himself never to extinguish his debt.

The irredeemable debt is acceptable to the debtor, because its administration is more simple, and because it frees him from the obligation to re-

imburse the capital, which is often embarrassing and onerous. It is also acceptable to the creditor himself, because in the better class of irredeemable debt he finds a safe investment; because he avoids the untimely and often unexpected reimbursement of the redeemable debt; and because he is not led into a trap by the bait of a premium, and because in any event, by selling his obligation on the Exchange at an opportune time, he can recover his capital.

Perpetual rente, namely, the interest charge of an irredeemable debt, has its origin in two different methods, and hence comprises two forms of loans, which dispute the field, both in theory and in practice.

In the first system the debtor indicates in his obligations the exact amount of capital received and the corresponding interest, whence (in the very act of stipulation) there is a coincidence between the principal sum and the nominal and real interest. This does not prevent the coincidence from disappearing afterward. If, for instance, a loan of 100,000,000 francs is made at 8 per cent., and later the securities rise to 120 or fall to 80, the real interest in the former case will be reduced to $6\frac{2}{3}$, and in the latter will rise to 10 per cent.

This is the most ancient, simple, and honest form of using the public credit; and it does not close the door to repayment, for in case of an im-

proved condition of the public credit no difficulty can arise from having acknowledged a greater debt than the capital received.

In the second system, the debtor calculates the interest, not in relation to the capital which he has obtained, but in relation to a nominal capital, indicated in the obligations, and which, as a rule, is greater than the amount actually received. There is, therefore, at the time of borrowing a disproportion between the interest and the principal, nominal and actual. If, for instance, securities of 100 francs are put into circulation, bearing the nominal interest of 5 per cent., but for which only $6\frac{1}{2}$ francs has been received, the real interest will be 8 per cent.

This method, first practiced in England and later common in other States, enjoyed for a time the highest favor among theorists because it produces a saving in interest; it simplifies the administration and does not multiply the classes of loans; it puts into circulation securities that are most sought after by speculators, as more adapted to the speculative combinations of the Exchange, and less liable to the eventualities of future conversions, in which the State would be obliged to repay a greater capital than had been received.

Now, however, the contrary opinion prevails among writers, because the difficulty of the conversion is reputed an injury rather than an ad-

vantage, whilst the probable rise of the market price closes the door to redemption; and because it is not always true that the loss which the State suffers by the increase of the nominal capital is compensated by the advantage derived from a saving in the interest.

CHAPTER V.

ADMINISTRATION OF THE PUBLIC DEBT.

THE most important questions in regard to the administration of the public debt relate to the negotiation, extinction and conversion of loans.

SECTION I. *Negotiation.*

Public loans may be negotiated directly, that is, between the debtor and the creditor, or indirectly by the assistance of intermediaries.

Direct negotiation may be made either by selling new obligations on the Exchange, or by opening a public subscription.

The former method, which is not applicable except in small amounts, causes the debtor and his agents to join in a speculation, and too easily lends itself to illegal issues.

By the method of public subscription, namely, of loans that are sometimes called national and patriotic, the debtor announces the conditions of the

loan (the price and interest); he receives all the subscriptions offered which do not exceed a certain minimum; he reduces them in case of excess of offerings either proportionally or with a preference in favor of the smaller subscriptions.

This system, which for a quarter of a century has prevailed in France, dispenses with the always onerous co-operation of intermediaries; it avails itself of the patriotism of the citizens, and, as experience has proved, it is fertile of the best results in countries which have abundant capital, and where the purpose of the loan is not only of real utility, but is also generally appreciated.

In default of such conditions, the gain obtained by the saving of the cost of intermediaries is overbalanced by the injury suffered by industry, which the competition of loans at a high rate of interest deprives of a part of the capital which it needs. Sometimes, however, the splendid result of such loans is in part at least more apparent than real, because speculation can hardly be avoided, the banking-houses, of course, ranking foremost and strongest among the subscribers.

In the case of loans negotiated through intermediaries the obligations are sold to them wholesale, and they sell again at retail in the hope of gaining a difference in price.

The intervention of bankers is necessary when the conditions of success by public subscriptions

are wanting, and is especially useful when capital is found in large aggregations which are in great part foreign. Still, it is certain that operations tending to cause a rise of the price of the securities result in general to the injury of *bona-fide* investors.

When resort is had to intermediaries the debtor may apply at once to single banking-houses, in which he has confidence, after obtaining the necessary information and appropriate guarantees, or he can put up the loan at auction, handing it over to the one who makes the most advantageous offer coupled with the required security.

By auction sale the benefits of competition are obtained as well as of publicity, and the suspicion of favoritism and of venality, on the part of the agents charged with the negotiation of the loan, is at least in part avoided. But it is a system which does not always yield good results, especially in poor countries, in hard times and in case of urgent needs.

Public securities are made payable either to order or to bearer. The latter class, by reason of the greater ease of transfer, are now preferred to the former, which, however, by reason of the greater security, are especially suited to minors, and in general to trusts, and to persons under bonds to the public authorities.

The payment of the interest should be punctual

and convenient to the parties as to time, place and manner. It is sometimes made by means of coupons, which are detached from the obligations, and which indicate the number, the date and maturity, and the amount to be paid. When one sheet of coupons is exhausted another is furnished on the presentation of the original obligation, or a certificate (talon) annexed to the same.

SEC. 2. *Extinction.*

The public debt may be extinguished in two ways, one illegal, by which the debtor disengages himself arbitrarily from his responsibilities by a total, open or disguised bankruptcy, sacrificing the rights of his creditors to the convenience of the tax-payers; the other legal, by which the debtor pays his obligation in whole or in part, and does so in the manner provided by the conditions explicitly or impliedly agreed upon with his creditors.

The gradual and systematic extinction of the public debt raises the credit of the State and improves its financial condition; it permits the reduction of taxes or the incurring of fresh expenses, and it facilitates the negotiation of new loans should the occasion for them arise.

Yet this extinction is not useful if it is not real but only apparent. To this end the actual surplus of receipts over expenditures, and the proceeds of the sales of public property made at opportune times, should be applied. On the other hand, it

will prove of no avail to increase the burden of taxes, or to contract new loans on hard conditions in order to pay off old ones.

There are also conclusive objections to a system, which has found some supporters, of converting the public debt into a private debt, by apportioning it among the contributors according to their total property, or in proportion to their landed property. Neither extraordinary imposts nor voluntary subscriptions avail for this purpose; because they resolve themselves into expedients either contrary to equity or practically illusory or at least insufficient, and because on the most favorable hypothesis they would produce a merely nominal conversion of the debt, accompanied by a very serious crisis, and by an enormous displacement of capital.

Nor have the so-called "sinking funds," with a separate administration, and an annual charge for their benefit inserted in the budget, answered the expectations that were entertained at the beginning. Created for the purpose of gradually extinguishing the public debt, by the purchase of obligations in the open market, they take advantage of compound interest; by applying to such purchases, also, the progressively increasing yield of the securities so held, until the moment when the destruction of them becomes possible through the redemption of all the obligations.

The complexity of the system, the expenses, the

application of the funds for other uses, which is inevitable in economic or political crises, and the need of fresh loans, have almost always neutralized the advantages that were expected to result from this much-extolled automatic extinction of the public debt.

SEC. 3. *Conversion.*

The conversion of the public loans may be either forced (and hence illegal) or voluntary, and may refer to the kind of debt (conversion of floating into funded debt, etc.) as well as to the amount; it usually refers to the interest, and hence it is called "conversion of the rente."

In the conversion, the debtor offers to his creditors the alternative of a reduction of interest or the repayment of the principal.

This operation, which some, especially in the past, considered contrary to equity, is now approved of by the majority of writers, because the State impliedly, if not always explicitly, reserves to itself the right of paying at pleasure the principal of its debts, and because it is the duty of the State to enable the tax-payers to share in the improved economic and financial conditions, which actually cause the rise in the market price of public securities, and the fall of the rate of interest on private loans.

Conversion will only be successful when the majority of the creditors, failing to find safer or

more profitable investments in private industry, prefer the reduction of interest to the repayment of the principal. Such a state of affairs presupposes a condition of great economic and financial prosperity, and the existence of public loans contracted at par, or not far below par, and which may therefore rise in the market to such a point that the conversion is rendered practicable.*

* The annual interest charge on the public debt of the United States in the year 1865, when the debt had reached its maximum (\$2,381,000,000), was \$151,000,000. The present charge is about \$40,000,000, on about \$1,000,000,000 of principal. As 58 per cent. of the debt has been redeemed, it appears that of the reduction of \$111,000,000 in the annual interest charge, \$64,380,000 is in consequence of payments of the principal, and \$46,620,000 is due to conversions. Among the documents embraced in the census of 1880 is a compilation of *The National Loans of the United States, from July 4, 1776, to June 30, 1880*, by Rafael A. Bayley. The successive conversions of the public debt are there given in detail.—ED.

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APPENDIX.

THE EXISTING SYSTEMS FOR THE ASSESSMENT AND COLLECTION OF STATE TAXES IN NEW YORK AND PENNSYLVANIA, AND THE RATES OF TAXATION THEREIN.

SYSTEMS and rates of taxation in the several States of the Union are so diverse and changes are made so frequently by statute and judicial decisions, that only an expert can tell what is the law in any particular State. Mr. Julien T. Davies, in his *Compilation of Constitutional Provisions, Statutes and Cases Relating to the Assessment of Taxes in the State of New York*, has occasion to make no less than six hundred and twenty-three references to judicial decisions arising under the tax laws of this State, or throwing light upon the same. The Auditor-General of Pennsylvania, in his annual report for 1886, says: "It is in many cases difficult to determine what the law is upon a given subject. For fifty years acts have been repealed and others have been amended until too frequently no one can tell what act is in force and what is not. Others have been drawn in great haste and amended when almost on final passage, and at times the amendments contradict the terms and intent of the original bill." It has been deemed a useful addition to this treatise to present, in a reasonably compact form, the existing laws and systems of the two largest States of the Union. It is believed that as great accuracy has been attained as is possible under the trying conditions mentioned in the foregoing quotation, which, it may be added, is as applicable to New York as to Pennsylvania.

State taxes, measured by the amount of the collections, are relatively unimportant as compared with city, town and county taxes, but since all have their origin in the State law it is here that we must seek the ideas upon which they are based.

The distinguishing feature of the Pennsylvania system is that the State revenue is derived wholly from personal property including corporations,

but real estate pays most of the local taxes. In that State the Auditor-General computes that the total tax paid by personal property including corporations, but not including collateral inheritances, is \$5,962,344 and by real estate \$30,395,350. I have made a calculation that in New York the total tax paid by personal property including corporations, but not including inheritances, is \$7,391,467 and by real estate \$51,381,478. In other words, personal property, including corporations, pays 16.6 per cent. of all the taxes in Pennsylvania, and 12.6 per cent. in New York.

NEW YORK.

There are three different systems of taxation in the State of New York:

FIRST.—Real and personal property is taxable at uniform rates, through the medium of the local authorities, for local and State purposes. Valuations of all real and personal property, not specially exempted by law, are made by local assessors and returned by them to the county boards of supervisors. These boards may add to or subtract from the total valuations of the real estate in any town, but may not diminish the aggregate valuation of the county. The county boards of supervisors transmit to the State Comptroller the aggregate assessments of real and personal property; the State board of equalization, from the figures thus transmitted to the comptroller, equalize the assessments in the various counties by adding to, or subtracting from, the total valuations of the real estate in any county, but they cannot diminish the aggregate valuation in the State. From the data so obtained the legislature fixes annually the rate of tax for State purposes which shall be collected from real and personal property. The State Comptroller determines the quota of the State taxes to be collected by the several counties and paid to the State treasurer. The sum so fixed must be paid by the counties, whether collected from the property or not.

Speaking generally, all real and personal property is subject to assessment. That property of religious bodies and of incorporated educational and charitable institutions and of public libraries, which is used exclusively for their own purposes, is exempt from taxation; also cemeteries, the personal property of clergymen (and their real estate, if occupied by them), to the amount of \$1,500 each.

All property exempted from taxation under the Constitution of the United States is also free from assessment in this State. This provision excludes federal bonds, imported goods in their original packages, and property in the course of transmission from one State to another, and the

gross receipts of transportation companies arising from inter-State business. It does not, however, exclude from taxation the property, *as property*, of the transporter which is engaged in the inter-State business. Property exempted by law from execution is also exempt from taxation. Deposits in banks for savings, and the accumulations of the life insurance companies, held for the exclusive benefit of the insured, are not liable to taxation; though the real estate and other taxable property of the corporation are liable. The owner of stock in an incorporated company in this State, liable to taxation on its capital, cannot be taxed for his shares. Vessels registered in this State, owned by American citizens or associations or corporations of New York, engaged in ocean commerce between any port in the United States and any foreign port, are exempt from all taxation for State and local purposes, and the corporations themselves are exempt for fifteen years (from 1881) from all taxation for State or local purposes upon their capital stock, franchises, or earnings. Lands belonging to the State, or to the United States, are exempt from taxation, except forest lands belonging to the State in the "Forest Preserve," which may be taxed for local purposes the same as private lands, under the supervision of the State Comptroller and the Forest Commission.

Individuals are not required to furnish statements of their personal property, but usually, as a matter of courtesy, are notified of the amount fixed by the assessor, and are given an opportunity to show that it is too high. A banker is, however, required to make a return to the assessor of the amount of the capital employed in his business.

The debts due by a natural person may be deducted from the assessed valuation of his personal property, though the amount of a mortgage cannot be deducted from the valuation of the real estate mortgaged. Such mortgage debt may, however, be included in the deductions from the assessment of personal property. Mortgages held by private individuals are taxable, as are also generally all claims due from solvent debtors, secured or unsecured. Mortgages held by savings-banks and life-insurance companies are exempt under the provision already mentioned.

Personal property is assessable where it has a situs. The presumption of law is that such situs is at the domicile of the owner, which presumption may be rebutted. If tangible personal property is permanently situated without the State, it is not taxable here to a private individual.

Bonds of foreign railroad companies, and other debts secured on property beyond the State, are ordinarily taxable here. And generally all debts and obligations for the payment of money due or owing to persons residing within this State, however secured or wherever such securities are held, are deemed, for the purposes of taxation, personal estate within the State, and

are assessable as such to the owner or owners thereof in the town, village, or ward in which such owner or owners reside at the time such assessment is made.

Ships have their situs ordinarily at the place of registration, and are taxable there.

Corporations are assessed under this system, for taxation for local and State purposes, as follows: Their real estate is taxable like that of a natural person; a corporation is obliged to make a return, under oath, to the assessor, showing, among other things, the amount of its capital stock and its value, including its surplus profits and reserve funds, the assessed value of its real estate within or without the State, and all shares of stock in other corporations actually owned by it, which are taxable on their capital stock under the laws of this State. They are then assessed upon the actual value of the whole of such capital stock, including such surplus profits or reserve funds (exceeding ten per cent. of the capital), after deducting the assessed value of the real estate, the shares of stock of other corporations, and other non-taxable property, chiefly bonds of the United States. Whether tangible personal property, located in another State, shall be deducted from the total value of the capital stock is still an open question, though, probably, the better opinion is that it may be deducted. This assessment so made against the corporation is supposed to reach all of its property not real, and therefore it is not taxable specifically upon its mortgages or other personal property. All corporations doing a business for profit are taxable in this manner, excepting national and State banks.

Under the Federal law, national banks cannot be taxed locally upon their capital as such, but the shares of stock may be taxable, as other moneyed capital in this State. Such shares are assessed against the individual shareholder, at the place where the bank is situated, for their full market value, less a proportionate amount for the assessed value of the real estate of the bank. No deductions are allowed for holdings of government bonds by the bank. The bank is made liable for the payment out of dividends of the taxes so assessed against the shareholder. New York shareholders in corporations of other States are not liable to taxation on such shares in this State, though the holders of bonds or other obligations of such corporations are liable to taxation if such holders are residents of this State.

Foreign fire-insurance companies doing business in this State are assessable locally, as other companies, upon their capital stock employed in this State, which shall be taken to be the aggregate value of the securities on deposit in the insurance department of this State, excluding government or other non-taxable securities.

THE SECOND SYSTEM OF STATE TAXATION.—This is by taxation of corporations upon their capital stock, and is chiefly based upon the statute of 1880 and its amendments. That imposes, first, a tax of one-fourth of a mill upon the capital stock for each one per cent. of dividends; or, if the dividends are less than six per cent., then at the rate of one and one-half mills upon each dollar of valuation of the capital stock, as sworn to by the company's officers in a return to the State Comptroller. Formerly, this tax was charged upon all the property of the company, whether situated within or without the State, but is now, by the amendment of 1885, confined to the capital employed within the State. Under this tax, it is immaterial in what the capital is invested: therefore, deductions are not made for government or other non-taxable securities.

Savings-banks, life, fire and marine insurance companies, domestic or foreign, banks, manufacturing or mining corporations carrying on manufactures or the mining of ores within this State are excepted from the liability to this tax. Gas companies and trust companies are not embraced within the exception. Corporations of New York, owning vessels engaged in foreign trade, are exempt from the payment of this tax for fifteen years from 1881.

Fire and marine insurance companies of this State are liable to pay as a tax for their franchise or business a tax at the rate of five-tenths of one per cent. per annum upon the gross amount of premiums received from business done within the State.

Transportation companies of all sorts are obliged to pay as a tax on franchise five-tenths of one per cent. upon the gross earnings in this State from tolls, transportation, telegraph, telephone, or express business transacted within this State.

A recent decision of the Supreme Court of the United States excluded from the operation of this tax the gross earnings of such companies from inter-State business.

Banking corporations of other States and countries, doing business in New York, are required to pay a tax of one-half of one per cent. each year on the average amount of their deposits and of moneys received and used on account of such business in this State.

THE THIRD SYSTEM OF STATE TAXATION.—This embraces revenue derived by the State for special privileges granted by the State to corporations and others.

Insurance companies of other States are liable to pay, by virtue of the reciprocal tax law—so called—of 1875, a tax upon premiums received in this State, at the same rate as that which is imposed by the States from which the foreign companies come, upon New York companies doing business in those States. (This, at least, is the construction of the statute made

by the attorney-general, and it has thus far been acquiesced in by the companies.)

All inheritances exceeding \$500, going by will or otherwise, to persons, more distantly related to the decedent than parents, husband, wife, children or other lineal descendant, brother, sister, son-in-law, daughter-in-law, unless to societies now exempt by law from taxation, are required to pay a tax of five per cent. of the clear market value.

For privilege of organization, all corporations having capital stock divided into shares, not including literary, scientific, medical, or religious corporations, are required to pay a tax of one-eighth of one per cent. upon the amount of capital stock which the corporation, by its charter, is authorized to have, and a like tax upon any subsequent increase.

A tax of five per cent. upon the gross receipts for admission on race days to race tracks owned by racing associations for the improvement of the breed of horses shall be paid annually.

REVENUE OF THE STATE OF NEW YORK

FOR THE YEAR ENDED SEPTEMBER 30, 1887.

FROM GENERAL TAX LEVY.

For general purposes.....	\$3,656,472
For canals.....	2,148,928
For common schools.....	3,708,384
	<hr/>
	\$9,513,784

FROM OTHER SOURCES.

Tax on corporations.....	\$1,239,864
New franchises.....	201,663
Collateral inheritances.....	561,716
Fees of public officers.....	31,390
Insurance department fees.....	132,267
Fees of notaries.....	29,997
Income from permanent funds.....	994,650
Miscellaneous.....	412,423
* State prison earnings (gross).....	1,111,823
	<hr/>
	\$14,229,577

* The State prison expenses for the same period are reported by the comptroller at \$1,628,523.45, showing a deficiency of \$516,699.

There was a surplus in the treasury Sept. 30, 1887, of.....	\$3,714,907
State debt (net).	3,505,316
	<hr/>
Net surplus.....	\$209,091

City, town and county taxes for the same year are reported at \$48,256,144, in addition to the State taxes.

NEW YORK CITY.

Municipal taxes in the city of New York are for the most part additional to the State taxes on real and personal property. They are levied by the authority of the Board of Aldermen, but the aldermen have very little discretion in fixing the amount to be raised by taxation. The comptroller of the city prepares annually a statement of "the amount by law authorized to be raised by tax in that year." This amount comprises all the appropriations decreed by the Legislature of the State, and the estimates of expenditure made by the Board of Estimate and Apportionment, which board consists of the Mayor, Comptroller, President of the Board of Aldermen and President of the Department of Taxes and Assessments. All these officers are elected by the people except the last, who is appointed by the mayor. The estimate thus made is the appropriation bill of the city, for although it must be submitted to the Board of Aldermen, they have no power over it or any part of it except to refer it back to the Board of Estimate and Apportionment for one reconsideration.

The assessment of real and personal property is made by deputy tax commissioners appointed by the Board of Commissioners of Taxes and Assessments. Appeals from assessments are allowed to the Board of Commissioners, and afterward to the Supreme Court, or any judge thereof. When the assessment rolls are completed, they are delivered to the Receiver of Taxes with the warrant of the Board of Aldermen requiring him to collect from the persons named in the rolls the sums set opposite their names, and pay the same to the chamberlain of the city.

In addition to the general tax levy the city derives revenue from licenses, market rents, ferry and dock rents, street railroad and elevated railroad franchises, Brooklyn Bridge tolls, Croton water rents, street vault rents, fines and penalties, county clerk's fees, and a large number of other miscellaneous sources, amounting in the year 1886 to about \$9,000,000, exclusive of "special and trust accounts" (\$2,128,036). In the same year the general tax levy, including arrears of former years, yielded \$31,568,096. This includes the city's proportion of the State tax, viz. : \$4,199,606.

PENNSYLVANIA.

The assessment and collection of State tax on personal property is under the supervision of three commissioners in each county, who are elected triennially. In the City of Philadelphia, a Board of Revision performs the duties assigned to the county commissioners in other parts of the State.

One assessor is elected in each township, ward, or borough, except in the city of Philadelphia, where two are appointed for each ward by the Board of Revision of Taxes, who make out annually complete lists of all taxable persons, and a valuation of all property taxable by law within their respective jurisdictions.

Blanks are furnished by the auditor-general to the commissioners of the respective counties of the Commonwealth, except in Philadelphia, where they are furnished to the Board of Revision of Taxes, and by such commissioners and Board of Revision of Taxes furnished to the assessors, to be distributed to all taxable persons. These must be filled up by the taxpayers and returned under oath to the assessor.

Except where otherwise provided by special Act of Assembly, a tax collector is elected annually by each borough, ward, or township. In the city of Philadelphia taxes are paid to a receiver of taxes.

(By the Revenue Act of 1885 it is made the duty of the prothonotaries of the Courts of Common Pleas for the different counties to keep a daily record of the judgments filed in their court, with the names of the parties in whose favor they are made, and to furnish a list of such judgments and parties to the commissioners of the respective counties, who in turn are required to furnish a copy of such list to the different assessors; and it is the duty of the latter to compare such list with the returns made by the various individual tax-payers. The registers and recorders of the several counties are also required to keep a daily record of the mortgages and deeds filed in their offices, with the names of the parties in whose favor they are made, and to furnish a list of the same to the proper county commissioners for a similar comparison with the individual tax returns. In case the judgment, deed, or mortgage is in favor of a non-resident of the county, the prothonotary or recorder sends a statement of the same to the commissioners at the domicile of the beneficiary, for a comparison with his return there.)

Revenue for State purposes is obtained from taxes on personal property, including that of corporations; from licenses; from bonus on charters (defined by the courts to be the price of their chartered privilege); gross receipts of incorporated companies; gross premiums of incorporated insurance companies of the State; from purchase money, and interest, of State

lands; from net income of private bankers and brokers, and unincorporated banks and savings institutions; from logs rafted by boom companies; from legal instruments; from loans of counties and of municipal and private corporations; from the commissions of notaries public; from collateral inheritance tax; from the gross receipts of incorporated telegraph and transportation companies; from the tax on the sale of fertilizers; and from the right of way through the State of the New York, Lake Erie and Western Railroad Company.

Real estate is not subject to taxation for State purposes, but pays the larger share of local taxation.

The auditor-general, State treasurer and secretary of the Commonwealth formerly acted as a State Board of Equalization of Taxes on personal property when *ad valorem* taxes were in force; but since *ad valorem* taxes have been abolished they are vested as a Board of Revenue Commissioners, with simply the power of adjusting the taxes due from each county, and assigning to the counties their proper proportion of taxes to be raised. Any county not satisfied with their adjustment may appeal to the said Board for a rehearing, and if the same is denied them, or if they are dissatisfied with the action of the Board on such rehearing, they may appeal to the Court of Common Pleas of Dauphin County, whose decision is final.

The auditor-general, State treasurer and attorney-general are authorized to revise any settlement made with any person or body politic by the auditor-general when it may appear, from the accounts in his office, or from other information in his possession, that the same has been erroneously or illegally made, and to resettle the same according to law, and to credit or charge, as the case may be, the amount resulting from such resettlement, upon the accounts of such person or body politic. Act April, 1869 (P. L. 19). While sitting in this capacity they are known as the Board of Public Accounts, which title is, however, not known to the law.

By the Act of May 14, 1874, churches, burial grounds not held for profit, hospitals, universities, colleges, seminaries, academies, associations and institutions of learning, benevolence or charity, school-houses, etc., were exempted from all local taxation upon all real and personal property actually in use and occupation by them, and from which no income was derived. The application of this act is narrowed by article 9, section 1, of the Constitution of 1874, which permits of exemption from taxation of "public property held for public uses, actual places of religious worship, places of burial not used or held for private or corporate profit, and institutions of a purely public charity." Under this section schools and colleges, managed by private corporations, have been held taxable, as not being "institutions of purely public charity."

Personal property is subject to taxation at the rate of three mills on the dollar.

The personal property subject to the three-mill tax for State purposes is as follows: All mortgages; money owing by solvent debtors, whether by promissory note, penal or single bill, bond or judgment; also all articles of agreement; accounts bearing interest owned or possessed by any person or persons whatsoever except obligations given banks for money loaned, and bank-notes; all public loans or stocks whatsoever, except those issued by this Commonwealth or the United States; all money loaned or invested in any other State, and all moneyed capital in the hands of individual citizens of the State; all stages, omnibuses, cabs, hacks and other vehicles used for transporting passengers for hire, owned, used, or possessed within the Commonwealth by any person, or persons, or by any corporate bodies or body; all annuities over two hundred dollars, except those granted by the Commonwealth or the United States; all personal property held, owned, used, or invested by any person, company, or corporation, except always such property as is held in trust for religious purposes; all shares of stock or weekly deposits in any unincorporated savings fund institution. (Tax on household furniture, pleasure carriages and watches was repealed by Act of May 13, 1887, Pamphlet Laws, 1887, page 114.) The tax on personal property is assessed and collected by the county officers as above described. There is allowed on the collection of this tax an abatement of five per centum for prompt payment of the tax, and a commission to the tax collectors of two and five per cent., depending upon the time in which the tax is paid. In some counties where special laws are still in existence a commission of five per cent. is allowed the county for collecting the tax. A commission of one per cent. is allowed the county treasurer on the amount of money actually paid over by him to the State treasurer on account of State tax on personal property. The county treasurer receives as a compensation for the collection of the tax on county loans and for the collection of licenses five per cent. when the amount collected for State purposes does not exceed one thousand dollars, one per cent. when it exceeds one thousand and does not exceed two thousand dollars, and one-half of one per cent. when it exceeds two thousand dollars. The calculation is made on the gross amount.

Under the Act of 1885 moneyed capital, including mortgages, is exempt from all local taxes.

Collateral inheritances are taxed as follows: "All estates, real, personal, or mixed, of every kind whatsoever, situated within the State, whether the person or persons dying seized thereof be domiciled within or out of the State, and all such estates situated within another State, Territory, or country, when the person or persons dying seized thereof shall have their domi-

cile within the Commonwealth, passing from any person or persons who may die seized of such estate either by will or under the intestate laws of the Commonwealth, or any part of such estate or interest therein transferred by deed, bargain, or sale made or intended to take effect in possession after the death of the grantor or bargainor, to any person or persons, or to bodies corporate or politic, in trust or otherwise, other than to or for the use of father, mother, husband, or wife, children and lineal descendants born in lawful wedlock, or the wife or the widow of the person dying seized or possessed thereof, shall be and they are hereby made subject to a tax of five dollars on every hundred dollars of the clear value of such estate or estates, to be paid to the use of the Commonwealth." (Pamphlet Laws, 1887, page 79.) The collection is made by the Register of Wills.

Taxes on corporations are payable by the officers of the same directly to the State treasurer. No corporation may go into operation in the State without first having its name, the date of its incorporation, the Act of Assembly, or other authority under which it was incorporated, the place of business, the post-office address, the names of the president, secretary and treasurer, and the amount of authorized capital and the amount of capital stock paid in, registered in the auditor-general's office, under penalty of a fine of \$500. The president and treasurer of every incorporated company doing business in the State (except banks, savings institutions and foreign insurance companies) must make an annual report, stating the total authorized capital stock of the company, the number of shares of stock, the par value of each share, the amount of each share paid in, the amount of capital paid in, and the date, amount, and rate per cent. of each and all dividends paid within the year, ending with the first Monday in November. When a company fails to declare a dividend during the year ending as above, or when its dividends are less than six per cent. a year on the par value of the stock, the treasurer and secretary of the company must appraise the capital stock at its actual cash value, and submit their appraisal to the auditor-general, with a copy of their oath or affirmation to the truth of the same. The auditor-general and State treasurer may also make a valuation if they are dissatisfied with the one returned by the company. If the company, in turn, is dissatisfied with this settlement, it may appeal to the Court of Common Pleas, as in any other case of appeal from the settlement of accounts by the auditor-general and State treasurer.

In case any company does not make the above return by the 31st of December in each year, ten per cent. is added to the tax due the Commonwealth. If the officers of any company intentionally fail for three successive years to make the above return, the charter of the company is forfeited on the governor's proclamation, although the constitutionality of this

law is very generally doubted, it never having been judicially passed upon. All due and unpaid taxes bear interest at the rate of twelve per centum from sixty days after the approval by the State treasurer of the settlement of such taxes, in addition to such penalties as are prescribed by law.

All taxes are liens upon the property and franchises of corporations, except the bonus on charters, one-half of which is required to be paid before articles of incorporation are issued.

If the dividends made by any company within the year ending the first Monday in November exceed six per cent. on the par value of the stock, the tax is one-half of a mill on the capital stock for each one per cent. of dividend declared. If no dividend is declared, or if the dividend does not amount to six per cent. upon the par value of the stock, the tax is three mills upon each dollar of the valuation of the capital stock made as above. That is, if a company has a capital stock of \$1,000,000, it pays an annual tax of \$3,000 under this law until its dividends are more than six per cent., and then an additional \$500 for every one per cent. of dividend. If a company has more than one kind of stock, such as common and preferred, and on one of these a six per cent., or larger dividend is paid, the tax on that part of the stock which pays six per cent. or more is taxed at the rate of half a mill on the dollar, for each one per centum of the amount of dividend paid, and that part of the stock which pays no dividend, or less than six per cent., is taxed three mills on the dollar. When any profit is added to the reserve fund it is treated as having been divided amongst the stockholders, and it subjects the capital stock to taxation as if it were a dividend, unless such profit is expressly set aside for the payment of debts.

Transportation companies organized as limited partnerships, and all other limited partnerships and joint-stock companies, unless organized for manufacturing or mercantile purposes, are subject to a half mill on each one per cent. of dividend, and three-mill tax as above described. For purposes of taxation interests in limited partnerships are deemed to be capital stock, and any division of profits to the owners of such interests are taxed as dividends.

[The practice in the beginning was (1) to tax railroad companies incorporated in Pennsylvania on that proportion of their capital stock which their mileage in the State bears to their total mileage, (2) to tax other companies incorporated in the State on their entire capital stock wheresoever invested or employed, and (3) to tax corporations of other States doing business in Pennsylvania only on the proportion of their capital stock invested in the State. As the statute does not in terms authorize such distinctions, and as the Supreme Court of the State, in the case of *Fox's Appeal*, refused to consider this a franchise tax, but held that it was "a

tax on property and assets," the practice now is to tax domestic corporations only on the capital stock employed in the State.]

Railway and other transportation companies, telegraph, express, palace-car and sleeping-car companies are taxed eight-tenths of one per cent. on their gross receipts. Such companies owning or operating coal mines are required to include the transportation of the coal in their gross receipts, but not the coal itself.

(The tax on gross receipts, in so far as it touches inter-State or foreign commerce, has been pronounced unconstitutional by the Supreme Court of the United States, as already mentioned in this volume. The question pending in this State now is whether, under the decision of the Supreme Court, the gross receipts of a railroad lying entirely within the State, upon business coming to it through another road into or out of the State, are properly taxable. In other words, whether the ultimate destination of freight through other hands makes it inter-State traffic in their hands, though their own services are performed entirely within the Commonwealth. A large amount of taxes is withheld by companies pending a decision of this point.)

The shares of banks, savings institutions, trust companies, safe-deposit companies, title-guarantee companies and similar institutions are taxable for State purposes, at the rate of three mills on the dollar. But such companies may elect to pay directly to the State treasury a tax of six-tenths of one per cent. on the par value of their shares, in which case they are exempt from local taxation, except on their real estate; and banks universally elect to pay such six-mill tax.

The loans and bonded indebtedness of counties, boroughs, cities, towns and incorporated companies, represented by bonds, certificates, or other interest-bearing obligations held by citizens of the State, are taxable at the rate of three mills on the dollar of their nominal value. The treasurers of such counties, boroughs, cities, towns and incorporated companies are required to report annually for the year ending the first Monday of November of each year the nominal value of all their scrip, bonds and evidences of indebtedness, to the auditor-general, and to deduct the tax upon the same from the interest payments falling due to such holders of their scrip, bonds, and evidences of indebtedness. (The payment of this tax is now being resisted in the courts on the ground that, being upon the nominal value of the loans or bonded indebtedness, it is unconstitutional in not being uniform, and that the State cannot constitutionally impose the duty of collecting the tax upon the treasurers of such companies.)

Newly incorporated companies must pay a bonus for their charter privilege of one-quarter of one per centum on their authorized capital, or any sub-

sequent increase thereof, payable one-half on the date of their incorporation, and the other half one year from such date. (The auditor-general's department holds that the words "subsequent increase thereof" means the amount subsequently authorized, and not the amount of actual increase.)

Insurance companies organized under the laws of Pennsylvania pay eight-tenths of one per cent. on their gross premiums received from business done in Pennsylvania. Foreign insurance companies pay \$25 per annum, and in addition thereto three per cent. on their premiums received from business transacted in the State.

Private bankers and brokers, and unincorporated banks and savings institutions, pay three per cent. on their net earnings, such earnings to be returned by themselves under oath.

Clerks of courts, registers of wills and recorders of deeds, whose net receipts exceed \$2,000 per annum, are required to pay to the State treasury fifty per centum of such excess. In addition thereto, a State tax of \$3.50 is imposed on every writ of error issued, or appeal granted, by the Supreme Court of the State, and a tax of fifty cents on every writ issued by the inferior courts, and of twenty-five cents on every transcript of a judgment of a justice of the peace or alderman. Recorders of deeds are required to collect for the State fifty cents on every instrument offered for record. Registers of wills collect for the State fifty cents for the probate of each will, and the same amount for the granting of letters of administration. A State tax of \$10 is levied on the commissions of inferior officers of cities and counties, such as inspectors of food, health officers, clerks of courts, sheriffs, etc.

The following license taxes are imposed for the benefit of the State :

Auctioneers, from \$200 to \$3,000, according to the amount of their sales.

Billiard tables and bowling alleys are rated as follows : \$30 for the first table or alley, and \$10 for each additional alley or table.

Wholesale dealers in intoxicating liquors, brewers, distillers, rectifiers, compounders, storekeepers and agents having stores or offices within this Commonwealth, dealing in intoxicating liquors, either spirituous, vinous or malt, shall pay for each separate store, brewery, distillery, rectifying or compounding establishment or agency, an annual license, in cities of the first, second and third class [1st class, 600,000 inhabitants or over; 2d class, 150,000 and less than 600,000; 3d class, 75,000 and under 150,000; 4th class, 45,000 and under 75,000; 5th class, 20,000 and under 45,000; 6th class, 10,000 and under 20,000; 7th class, less than 10,000], the sum of \$500, in all other cities \$300; in boroughs the sum of \$200 and in townships the sum of \$100. Act of May 24, 1887. (Pamphlet Laws, 1887, page 194.

Licenses for the sale of vinous, spirituous, malt or brewed liquors at

retail in quantities not exceeding one quart are rated as follows: \$500 in cities of the first class; \$300 in other cities; \$150 in boroughs, and \$75 in townships. In cities of the first class four-fifths shall be paid for the use of the city and county, and one-fifth for the use of the Commonwealth; in cities of the second and third class two-fifths shall be paid for the use of the city, two-fifths for the use of the proper county, and one-fifth for the use of the Commonwealth; in all other cities or boroughs three-fifths shall be paid for the use of such city or borough, one-fifth for the use of the proper county, and one-fifth for the use of the Commonwealth; in townships one-half shall be paid to the township, one-fourth for the use of the proper county, and one-fourth for the use of the Commonwealth. Act of May 13, 1887. (Pamphlet Law, 1887, page 111.) It has not yet been determined how these proportions are to be distributed; whether the whole tax should be returned to the State treasurer, and by him distributed, or whether the city and county treasurers should make the distribution, the law being silent on this point.

All stock brokers, exchange brokers, merchandise brokers, and bill brokers are required to pay for the use of the Commonwealth a license equal to three per centum upon the estimated amount of their annual receipts, as fixed by the mercantile appraiser of their county.

Peddlers, on foot, \$8; with one horse and wagon, \$40; with two horses and wagon, \$50.

Theatres, circuses and menageries, in Philadelphia, \$500 for one year; in Alleghany County, \$200; in every other county, \$50.

Notaries public appointed by the governor are required to pay for their commissions \$25 before the same are issued.

All persons engaged in the sale of goods, wares and merchandise, and who have a store, warehouse or other place for the purpose of making such sales, are rated by the mercantile appraiser of the proper county and required to pay a license to the Commonwealth ranging from \$7 to \$1,000, in proportion to the sales made by them.

In addition to the foregoing revenues public officers of the State are required to collect for the use of the State fees, as per the fee bills established by law, and pay the same into the State treasury every three months.

Incorporated boom companies are required to make return to the auditor-general on or before the 31st December of each year, on oath, the number of logs annually rafted by them, and to pay to the Commonwealth a tax of \$100 on each 100,000 of logs rafted by them, as aforesaid. Act of 1870.

The revenue derived from lands is the purchase money and interest thereon due the Commonwealth on all vacant and unpatented lands.

The New York, Lake Erie & Western Railway Company are required to

pay annually to the Commonwealth the sum of \$10,000 for the privilege of constructing a portion of their road through the counties of Susquehanna and Pike in this State.

Manufacturing companies, except those engaged in making malt, spirituous or vinous liquors, or gas, are exempt from taxation on their capital stock. Revenue Act of 1885, section 20. (P. L. 1885, p. 199.) They are, however, taxable upon their loans and bonded indebtedness as other corporations, the corporation being in such case merely the collector of the tax, which tax cannot therefore be said to be "laid upon manufacturing corporations" within the meaning of the Act of 1885, but is rather laid upon the holders of the bonds or loans through the corporation. To come within the exemption of the act corporations must be purely manufacturing companies, and if any portion of the capital stock of a company is invested in the purchase of goods and wares manufactured by others, and sold by such corporation, such portion of capital so invested is taxable.

REVENUE OF THE STATE OF PENNSYLVANIA

FOR THE YEAR ENDED NOVEMBER 30, 1887.

From State lands.....	\$3,526.21
Corporation stock.....	1,702,057.04
Gross receipts (corporations).....	776,388.12
Gross receipts (notarie public).....	3,015.96
Gross premiums.....	42,619.39
Logs.....	989.55
Banks, safe deposits, etc.....	431,628.14
Net earnings.....	81,596.92
Loans.....	161,054.75
Personal property.....	864,355.36
Writs, wills, deeds, etc.....	117,495.89
Collateral inheritances.....	763,871.47
Fertilizers.....	8,030.00
Foreign insurance companies.....	377,571.63
Tavern licenses.....	565,163.67
Carried forward.....	\$5,899,414.10

Brought forward.....	\$5,899,414.10
Eating-house licenses.....	90,989.10
Wholesale liquor licenses.....	39,821.29
Brewers' licenses.....	15,446.69
Bottlers' licenses.....	9,140.25
Retailers' licenses.....	405,105.00
Billiard licenses.....	29,845.98
Brokers' licenses.....	20,893.38
Auctioneers' licenses.....	9,004.67
Peddlers' licenses.....	3,064.76
Theatre, circus, etc., licenses.....	14,025.37
Pamphlet laws.....	402.60
Bonus on charters.....	148,624.56
Accrued interest.....	987.33
Notaries' commissions.....	15,575.00
Alleghany Valley R.R.....	212,500.00
United States Government (interest on bonds).....	172,000.00
Commutation of tonnage tax (Pennsylvania R.R.).....	460,000.00
Right of way (N. Y., L. E. & W. R.R.).....	10,000.00
Escheats.....	1,957.16
Fees of public officers.....	61,952.17
Refunded cash.....	8,384.67
Conscience money.....	82.25
Miscellaneous.....	16,931.13
	<hr/>
	\$7,646,147.37
The State debt (net) November 30, 1886, was.....	\$7,078,235
Cash balance in the treasury.....	2,101,457

The auditor-general estimates that taxes on real estate for local purposes amount to \$30,395,350.

THE PENNSYLVANIA TAX COMMISSION BILL.

A Revenue Act making material changes in the tax system of the State, more especially in reference to the taxation of corporations, was passed by the Legislature in 1887, but failed to become a law through the accidental omission of the signature of the President *pro tempore* of the Senate. Prior to the passage of said act, by a concurrent resolution approved February 18, 1887, a commission to consist of five members of the Senate,

seven members of the House, the auditor-general, the State treasurer, the President of the Senate, Speaker of the House, and three leading citizens to be selected by the governor, was authorized to revise the revenue laws of the Commonwealth and report by bill or otherwise at the next session of the Legislature. Upon the failure of the bill, which had anticipated their labors, the commission proceeded to prepare a bill, embodying the various laws in existence, and imposing upon corporations, with some exceptions, one uniform tax in place of the three taxes on capital stock, gross receipts and loans and bonded indebtedness, which tax, as was estimated, would produce nearly the same revenue as was derived from the three taxes named. This bill will be presented at the next session of the Legislature, but it is extremely improbable that it will be adopted in its present form, a considerable reaction of public opinion having been developed in the State against it. The sections of the bill which introduce new matter, or essentially change the existing law, are as below :

Section 18 provides it shall be unlawful for any person or persons, co-partnership, unincorporated association, limited partnership, bank, or corporation whatsoever, in loaning money at interest to any person or persons, whether such loans be secured by bond and mortgage or otherwise, to require the person or persons borrowing the same to pay the tax imposed thereon, and in all cases where such tax shall have been paid by the borrower or borrowers the same shall be deemed and considered usury and be subject to the laws governing the same.

Section 19 provides that the treasurer of every city, county and borough of the State, and of every limited partnership and corporation organized, or incorporated, under the laws of this State, or of any other State, or of the United States, and doing business within this State (except those taxable under the 26th section of this act), paying interest upon any loan or loans, which are made taxable by law, whether secured by script, bonds, certificates, or otherwise, shall report to the auditor-general annually the amount of such loans and the name and residence of each owner or holder thereof, within this State, and the amount held by each, as nearly as can be ascertained. It shall then be the duty of the auditor-general to assess the same for taxation at the rate of three mills on the dollar of the par value thereof, and the officers of said cities, corporations, etc., shall thereupon pay said tax and deduct it from the interest due, or to become due, to the holders of said loans.

Section 25 provides that every pipe-line company, conduit company, steamboat company, or other company, association, or partnership, doing business in this State by ownership, operation, or lease, to, or from, others, in the way of transporting freight, passengers, oil or gas (except those

enumerated in the 26th section of this act), and every telegraph or telephone company, express company natural-gas company, electric-light company, palace-car and sleeping-car company, shall pay a tax of eight mills upon the gross receipts from business done wholly within this State.

Section 26 provides that in lieu of the taxes imposed in the preceding sections, every railroad company, canal company, slack-water navigation company, and street passenger railway company, shall pay a tax of three mills on the dollar of the actual value of their property, assets and franchises, which shall be determined by adding the whole amount of their funded debt at par to their entire capital stock at its actual value. In cases where the lines of such companies are partly within and partly without the State, the assessment for taxation shall be in proportion to the mileage within the State. The stock and bonds of companies paying tax under this section are exempt from taxation in the hands of the holders.

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