of so many of her most industrious citizens would have been gradually repaired, and the emigration to America would have acted only as a stimulus to population. But oppressive taxes have not only prevented Spain from re­covering from the wounds inflicted by the bigotry of her rulers, but have gone far to extinguish the very spirit of industry. Of the taxes most instrumental in producing this effect, the *alcavala* is justly entitled to the pre-emi­nence. This was a tax originally of *ten,* but subsequently of fourteen *per cent.,* charged on all commodities, whether raw or manufactured, as often as they were sold, and rated always according to their selling price. Such a monstrous impost was of itself sufficient to annihilate in­dustry. The manufactures of Castille and the other pro­vinces subjected to its destroying influence were irretrieva­bly ruined. And Ustariz, Ulloa, and Campomanes, Spa­nish authors of the highest credit, agree in opinion with Mr Townsend, that it is to their exemption from this odious tax that the comparatively flourishing state of industry in Catalonia and Valencia is entirely to be ascribed.

Besides contending that the uniform effect of taxes is to create a new ability in the people to bear them, the govern­ment financiers have also contended that the value of the taxes is not really lost to the consumers, but that it is again restored to them through the expenditure of government and its agents! And notwithstanding the gross and almost obvi­ous fallacy which this statement involves, it still not unfre- quently forms the substance of the answers made to those who complain of the injurious influence of heavy taxes. To show its absurdity, let it be supposed that a farmer is taxed L.50, and let us endeavour to ascertain whether the expenditure of this sum by the public functionary, or indi­vidual to whom it has been paid by government, affords any compensation to the farmer for its loss. If the receiver of the tax do not lay it out on commodities produced by the farmer, it is obvious it cannot again return to him, and he can derive no advantage from its expenditure. But let us suppose, which is the most favourable hypothesis for the argument we are combating, that the tax-receiver comes to the farmer to buy his produce, and let us trace the suc­cessive steps and effect of the whole transaction. First of all, then, the farmer sold as much corn, or other produce, as was worth L.50 ; he next paid away these L50 to a tax- gatherer ; and the person who received the L.50 from the tax-gatherer now comes to the farmer and offers them back to him, on condition of his receiving an *equivalent* in corn or other produce. This is the way in which the money drawn from the pockets of the public by taxation always reverts to them ; and if it enrich any one, it is obvious it must do so by making him pay *twice* for the same sum of money ! It is to no purpose to endeavour to escape from this *reductio ad absurdum,* by telling us that industry is al­ways benefited by every extension of the market, and that the consumption of soldiers and sailors is advantageous, be­cause it increases demand. To benefit industry a market must be a *real,* not a *nominal* one ; it must be one in which the demanders have, by means of their own industry or re­sources, supplied themselves with the money or other equi­valents they offer for commodities. It is absurd to suppose that either individuals or states can ever receive the small­est benefit from the demand of those whom they have been previously obliged to furnish with the means of buying. Such, however, is always the case with the demand of those who live on the produce of taxation ; and to keep up use­less regiments and overgrown establishments, on pretence of encouraging and stimulating industry by increasing de­mand, is to the full as inconsequential and irrational as if a shopkeeper were to attempt to increase his business and get rich by furnishing his customers with money to buy bis goods.

The fallacy of the doctrine against which we have been contending has been forcibly illustrated by Dr Hamilton. “ To argue,” says he, “ that the money raised in taxes being spent among those who pay it, is, therefore, no loss to them, is no less absurd than the defence of a house­breaker, who, being convicted of carrying off a merchant’s money, should plead that he did him no injury, for the money would be returned to him in the purchase of the commodities in which he dealt”@@1

It is obvious, therefore, that the services rendered by public functionaries, or by those to whom taxes are paid, form the only compensation received by the tax-contri­butors. And it is undoubtedly true, that when neither the number nor the salary of those functionaries is too great, their services are a sufficient return for the sums which they receive. But all that is drawn from the people by means of taxes, to be expended in maintaining unnecessary func­tionaries, or in over-paying them, is wholly lost to the public,—as much so as if it were thrown into the sea or the fire.

That security, protection, and good government which it is the object of taxation to procure, are highly valuable, or rather quite indispensable, cannot be disputed. But, like all other values, the smaller the sacrifice for which they may be obtained, so much the better. A diminu­tion of taxation, and consequently of the expense of go­vernment, is an advantage to the public precisely of the same kind that a diminution of the cost of any useful or desirable commodity is to an individual. There is really no mystery whatever in the manner in which government is supported and taxation operates. Government is not a producer : its expenditure is not defrayed by its own labour, but by that of its subjects. And hence it is obvious, that the greater the expenses of government the deeper must they encroach on the income or capital of its subjects, and conversely, unless, as previously stated, they be met by in­creased industry or economy, or both. But this is not al­ways to be depended on ; and M. Say is therefore justified in saying, that the best system of finance is to *spend little ;* and the best of all taxes, *the least. Le meilleur de tous les plans de finance est de dépenser peu, et le meilleur de tous les impôts est le plus petit.*

Various and very discordant opinions have been enter­tained respecting the ultimate incidence and effect of par­ticular taxes. Locke in England, and Quesnay and his followers in France and Italy, contended that all taxes, however imposed, fell ultimately on the land. This er­roneous opinion proceeded from their supposing that agri­culture was the only productive species of industry; where­as it is in no respect more productive than others. The truth is, that every burden, directly or indirectly affecting the producers of any article, falls ultimately on the consumers. A tax on hats, for example, must raise the price of hats, as a tax on leather must raise the price of shoes ; for if this were not the case, the profits of the hatter and shoe-maker would be reduced below the general level ; and as there can be no reason why they should be satisfied with a lower rate of profit than their neighbours, they would begin to withdraw their capital from such losing businesses ; and would continue to withdraw it, till, through the diminished supply of their particular commodities, their prices had been raised to their proper height, or to such a height as would yield them the average profits of stock exclusive of the tax. There are natural limits, however, to the extent to which taxes on commodities can be carried ; and their effects dif­fer according as they are laid on commodities required for

@@@1 This sophism is equally well exposed in the *Lettres* *d'un* *Citoyen tur lea Vingtièmes,* &c. (p. 113), published in 1768.