fall *directly* on income, we come now to the second branch of our subject, or to the consideration of those taxes which fall *indirectly* on income.

PART III.—INDIRECT TAXES.

Sect. I.—*Advantages and Disadvantages of Indirect Taxes,*

Though most governments have had recourse to direct taxes, they have rarely, at least in Europe, formed the sole or even principal source of their revenue. Indirect taxes have almost invariably been the greatest favourites both of princes and subjects ; and there is a variety of solid rea­sons why this should be the case. The burden of direct taxation is palpable and obvious. It admits of no species of disguise or concealment, but makes every one fully sen­sible of the exact amount of income taken from him by government. We are all, however, extremely averse from parting with property, except we obtain some more accep­table equivalent in its stead. And as the benefits derived from the institution of government are neither so very ob­vious nor striking as to be easily and readily felt and appre­ciated by the bulk of the people, there is, in the great ma­jority of cases, a decided disinclination to pay a large amount of direct taxes. It is for this reason that governments have so generally had recourse to indirect taxes. Instead of ex­citing the prejudices of their subjects by openly demand­ing a specific portion of their incomes, they have taxed the articles on which these incomes are usually expended. This ingenious plan conceals the amount of taxation, and makes its payment appear in some measure voluntary. The tax being generally paid, in the first instance, by the pro­ducers, the purchasers confound it with the natural price of the commodity. No separate demand being made upon them for the tax, it escapes their recollection ; and the ar­ticle which they receive seems the fair equivalent of the sa­crifice made in acquiring it.@@1 Such taxes have also the ad­vantage of being paid by degrees, in small portions, and at the time when the commodities are wanted for consumption, or when it is most convenient for the consumers to pay them.

Besides their greater facility of imposition, indirect taxes have been frequently supposed to have the further and ex­clusive advantage of acting as a stimulus to industry. “ Dans la perception directe,” says the Marquis Garnier, “ l’impôt se montre sans nul déguisement ; il vient sans être attendu, à cause de l’imprévoyance si ordinaire au commun des hommes, et il apporte toujours avec lui de la gêne et du décourage­ment. Mais l’impôt indirect, en ajoutant successivement un surcroît de prix aux articles de consommation générale et journalière, au moment où tous les membres de la société ont contracté l’habitude des ses consommations, rend ses divers articles un peu plus couteux à acquerir, c’est-à-dire, qu’il donne lieu à ce qu’il faille, pour se les procurer, un surcroît proportionné de travail et d’industrie. Or, *si cet im­pôt est mesuré de manière à ne pas aller jusque à découra­ger la consommation,* ne semble-t-il pas, dans ce cas, agir comme un stimulant universel sur la partie active et indus­trieuse de la société, qui l’excite à un redoublement d’efforts, pour n’être pas obligé de renoncer à des jouissances que l’habitude lui a rendues presque nécessaires, et qui, en con­séquence, donne un plus grand développement aux facultés productives du travail et aux ressources de l’industrie ? Ne doit-il pas en résulter, qu’après l’impôt, il y a la même somme de travail et d'industrie qu’auparavant pour fournir aux be­soins et aux jouissances habituelles des hommes qui com­posent la classe laborieuse, plus la somme de travail et d’in­dustrie qui a dû pourvoir au surcroît de prix destiné à l’im­pôt ? Or, cet impôt, ou ce surcroît de produit que se paye, étant dépensé par le gouvernement qui le recueille, sert à alimenter une nouvelle classe des consommateurs, qui forment des demandes que l’impôt les met à porte de payer.” (*Préface à la Traduction de la Richesse des Nations,* tome i. p. 66, éd. 2de.)

The truth of the greater part of this statement cannot be disputed. It is, however, essential to observe, that the whole effect ascribed by M. Garnier to indirect taxes, in stimulat­ing industry, depends on the circumstance of their being so moderate as not to discourage consumption ; or, which is really the same thing, that they are so moderate that the contributors may defray them by increased exertion and economy. Were this not the case, they would have a pre­cisely opposite effect, and instead of acting as a stimulus to production, would certainly occasion its decline. We be­lieve, however, that a moderate tax on income, provided it could be fairly assessed, would have nearly the same effect on industry as moderate taxes on expenditure. It would serve as a spur to excite every one to make additional ex­ertions that he might preserve his capital unimpaired, and retain his former command over the necessaries and luxu­ries of life. Increase of exertion is not an exclusive con­sequence of indirect or direct taxation ; but it is an exclu­sive consequence of *moderate* taxation, whether it be direct or indirect ; just as a decay of industry, and a general im­poverishment, are not the exclusive consequence of any par­ticular tax, but of all taxes whatever, when they are carried to an excessive height.

The great superiority of taxes on expenditure over taxes on income, consists in the facility of imposition : that they labour under some considerable disadvantages, is most true, though these have been much exaggerated. It is alleged, in the *first* place, that taxes on commodities necessarily alter the natural distribution of the capital and industry of a country, and force them into less advantageous channels ; because, as already seen, when a tax is laid on a particular class of commodities, the producers, in order to raise the price proportionally to the tax, diminish the supply in the market, by transferring a portion of the capital employed in the production of the taxed commodities to some other business. But it is to be observed, that this effect, if it be sensible at all, is experienced only when a duty is first im­posed ; and that after a short while it is blended with the cost of production, and has no farther influence over the distribution of capital. It is also true, that, provided the tax be not oppressive, or so high as to drive capital wholly from the business, it acts as a stimulus to invention, and makes those engaged in the business exert themselves, by new efforts of ingenuity and economy, to find out means of paying the tax without adding to the price of the articles produced, or withdrawing any portion of their capital from the business. In many instances, these efforts have been completely successful ; and, in some instances, the influ­ence of the tax has been more than neutralized by the exertions made to defeat it.

Taxes on commodities being almost always paid by the producers before they are sold to the consumers, their effect, it is said, is not only to increase prices by the whole amount of the duties, but also by the profits due to the manufacturers by whom they have been advanced. But though this circumstance undoubtedly operates to increase prices, its influence in this respect has been greatly over­rated by Sir Matthew Decker, M. Say, M. Sismondi, and others. The latter has calculated that a tax of 4000 francs,

@@@, Nero was supposed to have abolished the duty of four per cent. on the slaves sold in Rome, when he really did no more than order it to be paid by the seller instead of the buyer. *“Remissum”* says Tacitus, “ *specie mαgιs quam vi ; quia cum venditor pendere jubcretur, in partem pretii emptoribus accrescebat.” (Annal,* lib. xiii. cap. 32.)