of very productive taxes than from a larger number with smaller returns per unit. This was one of the principal financial reforms advocated by Adam Smith with reference to the customs duties, and has been carried out in the United Kingdom by Sir Robert Peel and his successors. The inextricable confusion of the customs duties levied before these reforms were effected can only be realized by those who study the details of the history of taxation. A similar process of simplification has been partially applied to the direct taxes, but in many cases (especially in local taxation) the rule is more honoured in the breach than in the observance. (6) A good system of taxation ought to provide for a self-acting increase in the revenue in propor­tion as the population and the consequent demands for governmental expenditure increase. It has been found by experience that an old tax causes less inconvenience than a new tax of smaller amount, a fact which is so striking in some cases as to have given rise to the saying that an old tax is no tax. (c) Those taxes are best which yield a steady and calculable return, instead of a return fluctuat­ing in character and difficult to estimate. (*d*) Those taxes are best which in case of need can be most conveniently increased in amount. It is this characteristic of the income tax which renders it so popular with chancellors of the exchequer, and it was partly on this ground that Mr Gladstone substituted a tax on beer for the tax on malt. (*e*) Regard must always be paid to the real inci­dence of taxation, and care taken that the real burden of the tax falls on those aimed at by the legislature. No part of the theory or practice of taxation has given rise to so much controversy as the incidence of particular taxes, a subject indeed of so much difficulty and importance as to occupy the greater portion of the treatment by systematic writers.

Incidence of Taxation.—Taxes are generally divided into *direct* and *indirect.* A direct tax is defined by Mill as one “demanded from the very persons who it is in­tended or desired should pay it.” Others *(e.g.,* M'Culloch) define it as a tax taken directly from income or capital. In the former definition non-transferable taxes on expendi­ture would be included *(e.g.,* a tax on livery servants), but not in the latter. Mill’s definition has been generally adopted *(e.g.,* by Wagner, in the German *Handbuch,* vol. ii. p. 152); but in any case the most important direct taxes practically are those levied on income or capital directly, and the most important indirect the customs and excise duties. In examining the incidence of taxation the order of arrangement adopted by Adam Smith seems best. He discusses separately taxes on the three great species of income,—rent, profits, and wages (appending to the articles on the first two an examination of taxes upon the capital value of land, houses, and stock), and taxes intended to fall indifferently upon every species of revenue, viz., capitation taxes and taxes upon consumable commodities.

*Taxes on Bent.—*What is commonly known as rent consists in general of two parts, which may be termed economic rent and profit rent. Economic rent arises from the superiority of advantage of any source in the produc­tion of a certain amount of utility over the least productive source which the conditions of demand and supply (includ­ing transmission to market) render it possible to employ. Thus, in the production of food, some lands have an advantage in fertility or situation ; again, in furnishing amenities of accommodation or facilities for business, some houses have from their situation a similar advantage ; and again, different processes in the arts and manufactures are superior to others (giving rise to patents). In all these cases where the amount of the superior sources is limited (naturally or artificially), and recourse must be made to inferior sources of supply, economic rent is paid for the superior advantage. Any tax imposed on this species of revenue falls on the owner. If levied in the first instance from the lessee, he will pay so much less rent, and any new taxes imposed during the currency of leases ought, if intended to fall on the owner, to be taken directly from him. It may be assumed that every owner of a superior source has exacted the highest price obtainable for its use, so that he cannot transfer the tax to the tenant, nor through the tenant to the consumer. If, for example, a tax is imposed on the economic rent of agricultural land, the landlord cannot exact it from the tenant (for if the tenant could afford more rent, why under competition was he not forced to do so before ?) nor from the consumer of the produce, for the price is obviously determined inde­pendently of rent. Similarly a tax on the ground rent of houses, if it be assumed that the land is useless for other purposes, must fall on the owners ; although a certain portion will be transferred to the occupier if the landlord could use it otherwise and escape the tax *(cf.* Mill, bk. v. ch. iii. § 6). Taxes on economic rent of various kinds, so heavy as to absorb the whole amount, have been advocated by some theorists on grounds noticed under Adam Smith’s first canon. It is said they would impose no burden on the state as a whole, that they would not affect production or accumulation, and even that the substitution of the state for private owners—who are simply *nati consumere fruges—*would really increase the wealth and power of the nation by compelling these unproductive consumers to work, and by lightening the pressure of taxation on industry. It is, however, obvious that the confiscation of rent would, seeing that land has for generations been in the circle of exchangeable commodities, strike at the roots of the institution of private property. Apart from this general objection, there would in the case of agricultural land be great difficulty in separating economic from profit rent, and any exceptional tax on the latter would obviously tend to check agricultural improvements.

*Taxes oh Profits.—*Profits, as commonly used, is a term embracing three elements which, from an economic and financial point of view, are quite distinct in character, viz., interest (pure and simple), insurance against risk, and earnings of management. The interest on capital in any industrial area, lent on the same security, tends to equality. If, then, a tax is imposed on *interest in every form,* the incidence in the first place will be on the owners of cap­ital. But two indirect consequences will follow. (1) As Adam Smith remarks, “ the proprietor of stock is properly a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition in order to be assessed to a burdensome tax, and would remove his stock to some other country, where he could either carry on his business or enjoy his fortune more at his ease.” In this case the ultimate result would be that the country in which the tax was imposed would possess less capital, and thus would yield a higher rate of interest sufficient to counterbalance the burden of the tax. (2) The tax would tend to check the accumulation of capital within the country, so far as the interest received is a cause of accumulation, with the same ultimate result as in the former case. It must, however, be observed that the rate of interest is only one of the causes affecting the accumulation of capital.

A tax on some *particular form of interest* (security still being supposed perfect), for example on mortgages on land, would obviously fall on the borrowers. In the same way a tax on that part of the profit rent of houses which is interest on capital tends to fall on the occupier. In gene­ral, however, the security is more or less imperfect, and the insurance against risk is allowed for in the rate of