The want of attention to the principle now stated, has led to much erroneous reasoning on the subject of taxation. Even Smith made no sufficient allowance for the influence . of improvements in enabling a country to bear additional taxes. Nothing, however, can be more certain than that the produce of national industry taken by the government as revenue, may be regularly increased in every country in which the arts are progressive, without really adding to the burdens already imposed on the people. Every new invention and discovery, by which the production of com­modities may be facilitated, and their value reduced, en­ables individuals to spare a larger quantity for the use of the state. The sacrifice made in paying taxes consists in the sacrifice of the labour and expense necessary to pro­cure the money or produce with which to pay them, and not in the amount of such money or produce. To pay L. 100 or L.1000 to government at this moment, will cost a cot­ton manufacturer not less, perhaps, than fifteen or twenty times the quantity of cottons that would have sufficed to make the same payment in 1760. But as this reduction in the value of his goods has been occasioned by an equivalent diminution in the expense of their production, he is not thereby placed in any respect in a worse situation ; nor is he really making a greater sacrifice now than formerly. It is, therefore, clear that governments have precisely the same interest as their subjects in facilitating production. Its in­creased facility affords the means of adding to the amount of the produce at their disposal, without really adding to the weight of taxation ; whereas, on the contrary, a diminished facility of production must either diminish in an equal de­gree the amount of produce appropriated by government, or compel it to lay heavier burdens on its subjects. Public wealth, in short, is merely a portion of private wealth trans­ferred to government ; and the greater the amount of the latter, the greater will be the magnitude of the portion that may be conveniently spared for public purposes.

Though taxation be necessary, it should always be kept within the narrowest limits possible. The best taxes are those which are lightest ; but there is none so light as not to be productive of an increase of toil, or of a diminution of enjoy­ments or of fortune. All taxes must ultimately be paid from the *revenue* of a country, or from its *capital* or stock. Perhaps there is no tax whose produce is not partly derived from both these funds. There can be no doubt, however, that by far the greater part of all taxes judiciously imposed, and not carried to an oppressive height, is paid out of revenue. The desire which every one has to preserve his place in so­ciety, stimulates most people to exert themselves to defray their taxes, either by increased industry, or by making a corresponding diminution in their expenditure, without al­lowing them to encroach on their capitals. But the power to make increased exertions, and to save from expense, though not easily defined, is not illimitable. And when­ever this limit has been attained, that is, whenever the bur­den of taxation is not fully compensated by increased pro­duction or increased saving, it must encroach on the means of future production, and the country will then begin to re­trograde. Taxation, when carried to this extent, is one of the severest scourges to which a people can be subjected. By diminishing capital, or the funds destined to support productive industry, it lessens the national revenue, the only fund out of which taxes can be permanently paid ; and thus lays the sure foundation of public poverty and dis­grace, in the destruction of individual fortunes. Like falling bodies, which are precipitated with a constantly and rapidly increasing velocity, a system of taxation acting on capital multiplies pauperism and distress in a geometrical proportion, and destroys alike the desire and the means of reproduction.

It would, however, be an error to suppose, that a tax is necessarily a tax on capital, because it is laid on capital, or a tax on income, because it is laid on income. A moderate tax laid on capital may be, and generally is, defrayed out of a saving of income ; whereas an oppressive tax laid on income has in most cases to be paid from capital. But of all species of taxes, those are plainly the most injurious which necessarily fall on capital, without giving the contri­butors an opportunity to defray them from revenue. Such taxes, by diminishing the funds for the maintenance of la­bour, in so far diminish the future taxable income of the country. The legacy-duty, as we shall afterwards show, is chiefly censurable on this ground.

Most writers on finance, patronized by the governments of the different European countries, have laboured to show that taxation is never a cause of diminished production; but that, on the contrary, every new tax creates a new abi­lity in the subject to bear it, and that every increase of the public burdens becomes the cause of a proportional increase in the industry of the people. The fallacy of this opinion, when advanced thus absolutely and without reservation, has been ably exposed by Hume in his Essay on Taxes. It is certainly true, however, as has been already stated, that the desire to preserve their fortunes unimpaired, and to improve their condition, stimulates most men to endeavour to dis­charge the burden of a moderate tax, by increased indus­try, ingenuity, and economy, without allowing it to encroach on their fortunes, or even to lessen the rate at which they may have been previously increasing them ; and sometimes these efforts more than countervail the influence of the tax, and the public wealth is, consequently, augmented through its imposition. This was strikingly evinced during the pro­gress of the late war. To the desire of rising in the world, the increase of taxation superadded the fear of being cast down to a lower station ; and the two together produced re­sults that could not have been brought about by the unas­sisted operation of either. But we must beware of the abuse of this principle. An increase of taxation will not stimu­late to new efforts unless the contributors believe that it is in their power to defray the whole or the greater part of its amount by additional industry and economy. The effect of exorbitant taxes is not to stimulate industry, but to de­stroy it. No man will ever be really and perseveringly in­dustrious, whose industry does not yield him a visible in­crease of comforts and enjoyments. If taxation be carried so high as to swallow up the whole, or even the greater part, of the produce of industry, above what is required to furnish mere necessaries, it must, by destroying the hope and the means of rising in the world, take away the most powerful motive to industry and frugality, and, instead of produci ng in­creased exertion, will produce only despair. The stimulus given by excessive taxation to industry has been not un­aptly compared to the stimulus given by the lash to the la­bour of the slave ; a stimulus which the experience of all ages and nations has proved to be as ineffective as it is in­human, when compared to that which the expectation of improving his condition, and of enjoying the fruits of his industry without molestation, gives to the productive ener­gies of the moderately taxed citizen of a free state.

It would be easy to illustrate the effects of oppressive taxation in destroying industry, by references to the his­tory of most European nations.@@1 In Spain they have been particularly fatal. The decline of that country has been commonly ascribed to the expulsion of the Jews and Moors, and to the emigrations to America. But had the policy of the Spanish government been otherwise sufficiently liberal —had industry been properly protected, and moderate and equal taxes levied—the losses occasioned by the expulsion

@@@1 For an instructive account of the effect of heavy taxes on the commerce and industry of Holland, see the second volume of the work of M. Luzac, *De la Richesse de la Hollande.*