

Direct vs. Indirect Taxation

Second Article in Reply to Professor Leacock

By DR. MICHAEL CLARK, M.P.

MR. LYBARGER, in his most interesting little work on tariffs, recalls hearing a United States president inform a large audience that he did not see why he should tax his own people, so long as it was possible to tax the foreigner. This answer to Professor Leacock's question—who pays the taxes?—is not heard in the United States to-day, and certainly the foreigner makes a poor showing as a Canadian taxpayer in the statistics of taxation compiled by your learned contributor. So that we are advancing a little in exposing and discarding fallacious fiscal positions on this continent.

In the letter preceding this it was pointed out that Professor Leacock's catalogue of the disadvantages of indirect taxation was very incomplete. It is convenient to make up this deficiency, and at the same time to state the opposite of the general position of the professor. What is done in the three papers is to give interesting facts as to the sources of revenue in Britain and Canada respectively, to state the obvious position that while direct taxation is the system prevailing in Britain, indirect is that prevailing in Canada, and by way of conclusion to lean towards the continuance of the indirect system of tariff taxation in the federal affairs of Canada. To make the comparison a little more thorough from some points of view, and to support in the most emphatic way a conclusion the opposite of the Professor's, may be most readily accomplished by recalling the maxims of taxation, as laid down by Adam Smith, the well-named father of political economy, and seeing how these maxims are obeyed or broken in Britain and Canada respectively.

TAXES ought to be collected as much as possible in proportion to the ability of the taxpayer to pay. This rule should not seem to depend for its approval on the authority of Adam Smith or anyone else, but on its own inherent reasonableness and commonsense. Some pieces of wisdom are axiomatic. They only need mention for acceptance. Necessity alone would justify collecting more federal taxes from a millionaire than from a struggling farmer. But necessity and justice are at one in the matter. For the state has for its primary function the protection of life and property. In the obligations incurred for the protection of their lives the millionaire and farmer are equal. But, in the matter of property, the millionaire is most clearly and vastly the greater debtor. In Britain a rigid adherence to this principle is given. Graduated income taxes, inheritance and succession duties, taxes on unearned increment, and a host of smaller impositions, such as the tax on armorial bearings, all proceed on the assumption that it is at once easiest and most proper to get the bulk of taxation from the rich.

In Canada it is the melancholy truth that the vast proportion of federal taxation is sustained by the poor. The French habitant pays taxes on every article worn by every member of his numerous family, and on almost everything else they use. The pioneer homesteader, undertaking trying and comparatively unremunerative duties in a new land, pays taxes on every implement with which he breaks the virginal soil. A wealthy bachelor in Toronto pays on his personal wearing apparel, wines and cigars. He contributes what is to him an inconsiderable trifle to the running of the country. The contrast is glaring. Truly there is much wisdom in the old Scotch philosopher.

TAXES should be certain, not arbitrary. That is to say, we ought to know how much we are collecting, from whom, and when. Clearly any other method is a matter of hit-or-miss, and a poor way of approaching exact science in taxation. In Britain this principle is largely followed. In the case of the direct taxes above enumerated, the taxpayer knows what he has to pay, and when, and proceeds accordingly. A tariff throws this principle to the winds. It is the most arbitrary thing in the world. There is, of course, one certainty about it. Everybody is paying all the time. But so far as the support of government is concerned, it is conceivable that a man might so order his purchases as to avoid federal taxation altogether. Of course he would still be paying, but in any proper sense of the word, he would not be paying taxes. Purchasing only things made in Canada, he would be supporting the home market with a vengeance, but he would be reducing the resources of govern-

ment to the vanishing point, so far as one man could accomplish it. It should appear that under this head also, Adam Smith surpassed his modern critics in scientific accuracy.

Professor Leacock tacitly admits the soundness of this principle when he becomes a mild critic of income-tax by showing that evasions are possible under it. There is probably no conceivable system of taxation of which that is not true. It is certainly most true of a tariff. The story of Henry George is worth recalling of how he travelled with three gentlemen on an American train. Talking of tariffs, he found they were all believers in them, devout and furious. Mr. George turned the conversation on travel in Europe. All his three tariff-admirers had been there, and each had his own story of how he robbed the customs at New York on his return. Protectionists can be at once most theoretical on behalf of the government, and most practical in looking after their own affairs.

TAXES ought to take and keep out of the pockets of the people as little as possible, consistent with the proper support of government. Here again we are surely on the bedrock of ordinary common sense. Admit this, however, and tariffs as a system of taxation stand absolutely and hopelessly condemned, by comparison with the direct methods of Britain. When a man pays so much income tax, he knows that every cent he contributes goes to government, except the trifling expenses of collection. When a man pays so much tariff, he is often completely ignorant of whether he is paying to government or to a protected industry. The fact is we are all paying all the time to both. From the point of view of science, such a system is in the realm of the absurd. Suppose a father running a business with several sons out of a common fund. Suppose that father passing ten dollars to a favourite son every time he took five for the common purposes. What would be thought of him? He would be execrated by everyone fit to be out of Bedlam as immoral or insane. Yet that is exactly what the Federal Government does under its tariff taxation. Professor Leacock would be the first to admit that a tariff raises the price of the article by at least the amount of the tax, whether the article is imported or produced in Canada. It follows that we are raising two revenues in Canada—one for the purposes of the government—the other, a vastly larger one, for the favourite sons of a common population.

Roughly seventy millions are raised by tariffs at present for Federal purposes. It is a conservative estimate that 140 millions are taken from the general body of consumers at the same time, and passed over to the favourite sons of the Canadian family. They ought to be ashamed to take it—the government ought to be ashamed to give it. A very small combination of political wisdom and courage ought to enable the rulers of Canada to secure 70 million dollars where they are now really and truly securing hundreds of millions.

IT is simply amazing to find Professor Leacock baulking at the idea of raising 70 millions by direct taxation in so wealthy a country as Canada. The learned gentleman's examination of the drawbacks of property taxes in the United States, and of other taxes there and elsewhere, is moderate and informing. The present writer finds nothing to rebut. The admission that the Lloyd-George land taxes contain a principle, considered by many excellent, raises the hope that Professor Leacock may yet become a pioneer in the field of fiscal reform and scientific taxation.

Almost any one of the forms of direct taxation would be preferable to the tariff system. With courage and the spread of information, the system of direct taxation ought to be easy of adoption. A simple calculation makes clear what is to be accomplished. Seven millions of people are required to raise seventy millions of dollars—ten dollars per head—surely not an insuperable task. Suppose one person in four is a taxpayer, then the sum required is 40 dollars per head of taxpayers. Is this what frightens the Professor and so many other Canadians? Yet he tells us that every Englishman with an income of two thousand dollars pays forty-five dollars income tax, or five dollars more than the sum required per head of Canada's taxpayers. There are said to be one hundred millionaires in

the city of Montreal alone, and millionaires are all patriotic—at election times. Why not keep a little of the patriotism for a fixed period of the year when the tax collector would come round for Federal purposes? It should be stated here that these considerations are presented to show the ease of the task for so rich a country, and do not pretend to be even a branch of a definite policy in the mind of the writer.

IN spite of the proved simplicity, no illusions need be entertained as to the obstacles in the way of scientific taxation being adopted at once. Young nations are like young men—it is not easy to impart experience to them. History shows, indeed, that nations are taught less by theory, than by fact and event. Yet theory ought to be immensely powerful, for it is simply the explanation of facts. It may be easy, but is surely also a little childlike, to go on from day to day among the facts, without earnestly getting the explanations. It is at any rate decidedly non-professorial. Yet Professor Leacock raises a feeling of something like melancholy by closing his interesting articles by having recourse to the old and worn advice—leave well enough alone. The writer forbears a single comment, but respectfully suggests that, in some leisure moment, the Professor should look up again Macaulay's speeches and he will find a piece of interesting and instructive reading in the lampooning which the great historian administered to some hapless member of parliament, who seventy years ago ventured to use as wisdom in the British House of Commons the very words, leave well enough alone, which pass for highest wisdom with so many in Canada to-day.

Advertising Western Canada

WESTERN CANADA receives some valuable advertising in the report of Consul-General J. E. Jones, printed in the United States Daily Consular and Trade Reports, under the heading, "The Canadian Immigration System." The report, in part, says:

The work of handling the immigration movement into Canada has brought into existence a machine of somewhat complex and yet effective character, whose ramifications reach out all over the country from ocean to ocean.

Of the total immigration into the country, it is calculated that at least 50 per cent. comes west of the Great Lakes, and among this is included almost the entire so-called American immigration.

All over the west, particularly in the three provinces of Manitoba, Saskatchewan, and Alberta, there are available about 200,000 homesteads. Each homestead has an area of 160 acres, and in some sections of the country a man may pre-empt an additional 160 acres by paying the government \$3 per acre for it, with the payments spread over 10 years.

In return for this homestead or homestead and pre-emption the settler pays \$10 entry fee and undertakes to perform certain homestead duties, notably to reside on the homestead six months every year for three years, and cultivate the homestead to the extent of 15 acres every year for three years, and build upon the homestead a habitable house.

In the case of a man coming in who is not prepared to take up land, the immigration department finds him employment at agricultural work in almost any part of the country. He is registered on his arrival, and out of the hundreds of applications for help a place is selected for him; and, with a 1-cent-a-mile rate and a card of introduction, he is sent to the agent of the government in the district in which he proposes to work, and by that agent is taken to the employer or employment to which he has been specifically sent.

The farmer, in his application for help, must state his nationality, the nationality of the man he wants, the kind of home he has, the area of the farm, the wages he is willing to pay, and the period of employment. The prospective employee is supplied with a duplicate copy of this application and knows the conditions under which he takes service with the farmer. If a dispute arises between the employer and the employee the new settler has recourse to the immigration department, where his case is taken up; and if it should appear that injustice has been done him, action is taken by the department in the interests of the new settler.