

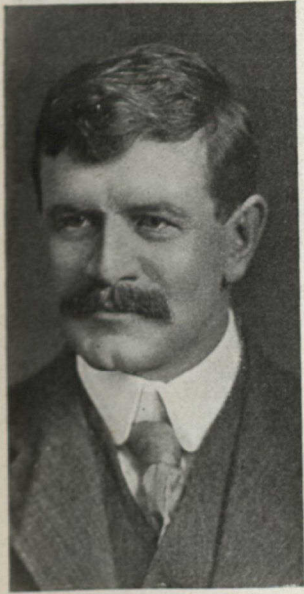
Who Pays The Taxes?

First of a Series of Three Articles

BY

Stephen Leacock

THERE is an old saying that there are only two things which may be looked upon as absolute certainties,—death and taxes. In regard to death, the saying may be taken as indicative merely of resignation, but in regard to taxes it carries with it that suggestion of resentment which all men are apt to feel towards the tax-collector. Nobody likes to be taxed. George Washington and Benjamin Franklin objected to taxation without representation, but the degenerate citizen of to-day is apt to object to taxation with or without it.



PROFESSOR LEACOCK

NO MAN LIKES TO BE TAXED.

Most of all does each man object to the particular taxes that he himself is called upon to pay. No doubt the British business man thinks the income tax of his country a direful burden. If he earns \$10,000 in a year, he has to hand back \$500 of it in cash to his government. The large farmers of Australia

probably view the matter in a different light. They pay no income tax on the British plan, but under the new law of 1910 they will be called upon to face a federal land tax that is expected to bring in some \$7,500,000 every year. In France the small shopkeeper of the country town objects as much, no doubt, to the "business tax" that falls upon his occupation as does the great corporation of the United States to the new federal tax that takes away one per cent. of its annual net income. In our own country many people view the tariff system under which we collect almost the whole of our national revenue with such hostility that they clamour for any other form of taxation without realizing that each system carries with it advantages and disadvantages of its own. The plain fact is that the burden of taxation, while it may be rendered more tolerable by sound public finance, cannot be altogether removed.

NEED OF ENLIGHTENMENT.

What is needed most of all in the discussion of tax problems is fair-mindedness and a willingness to look upon the subject from something other than a purely personal point of view. Unfortunately very few people know much about the science of public finance. From the current items of newspaper reports they learn a few things about the revenue and expenditure of their own government without being in any way able to compare it with the fiscal operations of other countries. Take for example the question of the volume and increase of governmental expenditure. In Canada we are paying out, for ordinary current expenses over \$87,000,000 a year; in the first year after confederation (1867-68) our wants were met by an outlay of \$13,500,000. But these facts must not be taken by themselves. They do not represent an exceptional and isolated extravagance on the part of Canadian administrations, Conservative and Liberal, during 40 years, but a general and world wide tendency. When the American republic was founded, its national government expended in the first year of its existence some \$3,000,000; by 1850 the annual expenditure had reached \$40,000,000. At the present time it stands at more than \$700,000,000. Great Britain in 1850 raised a revenue of \$265,000,000; at the close of the century the amount had increased to \$585,000,000. The budgets of the last three years show an average annual revenue of \$855,000,000.

VAST NATIONAL EXPENDITURES.

The same general situation is to be observed in all the great commercial countries of to-day. In part, of course, the swollen national expenditure and the need for high taxes is due to the appalling pressure of the war budget. Great Britain expended \$350,000,000 on this in the past year. But beside

this is the fact that increased expenditure is also due to the greatly increased activity and usefulness of modern governments as compared with those of a hundred or even fifty years ago. In Canada, for example, our federal authorities undertake a wide range of operations—public works, the collection of statistics, the care of agriculture and immigration,—which are of very great benefit to the citizens at large. The greater part of our national outlay is of a truly reproductive character, by which in the long run the citizens are in no way out of pocket.

THE TWO KINDS OF TAXES.

But the immediate burden of the outlay must be met, and to that purpose we are called upon to impose national taxes to bring in something well over \$80,000,000 a year. In other words, Canada, like every other country, has to devise a general tax system, or plan of raising national revenues. There are a great many methods that may be employed,—income taxes, property taxes, business taxes, stamp taxes, customs duties, excise, land taxes, and a large variety of minor sources of revenue. Let us consider the merits and defects of some of these. First of all, we note the broad distinction that lies between what are called direct and indirect taxes. Direct taxes may be defined as those which are levied immediately upon the citizens in respect of certain property which he owns, the expectation being that the tax will actually come out of the pocket of the person on whom it is levied. The most conspicuous examples are capitation taxes, income and property taxes, together with those levied on land and on inheritances. Indirect taxes are those which are levied on certain goods with the expectation that the person who pays the tax in the first instance will reimburse himself in the additional price charged to the consumer of the goods. The real test, therefore, of the indirectness of the tax lies in the shifting of the burden from one person to another. Familiar cases are found in the customs and excise duties raised by practically all modern governments.

THE BRITISH BUDGET.

Each of these two forms of taxation,—direct and indirect,—has its own peculiar recommendations and shortcomings. Most national tax systems combine the two, though some of them lean more heavily in one direction than the other. Thus the government of Great Britain,—which has only a limited customs tariff,—is compelled to make a very extensive use of direct taxation. In the financial year 1911 no less than \$461,000,000 was raised in this way. This is equal roughly to \$10 per head of the population and would correspond to a levy of about \$75,000,000 in Canada. In the same period Great Britain raised in customs, excise and stamp duties about \$404,000,000, so that the larger half of the British tax revenue was direct. It should be mentioned that the total receipts into the British exchequer in this year were swollen by the addition of \$150,000,000 of back taxes, the collection of which was delayed by the budget crisis of 1909-1910. But in each and every year the British government makes an enormous fiscal use of direct taxation on a scale unknown in Canada.

TARIFF AND REVENUE IN CANADA.

In this country, indeed, the larger part of the public money is raised in indirect form. Our tariff, which we too often think of only in its industrial aspect as offering protection to home industry, is a powerful engine of finance. In the fiscal year 1910-11 our whole public revenue amounted to \$117,780,409, of which no less than \$72,965,394 was raised from the customs duties, and \$16,869,837 from excise. There is also a further difference between the two national systems even in the customs duties themselves. The Canadian duties are levied on a wide range of manufactured articles and raw materials and aimed especially at those things which are, or can be grown and made in the country. The British customs system taxes only a few things, aiming at the production of revenue. Hence, tea, which enters Canada free

of duty, was taxed in Great Britain to the extent of \$29,000,000 in the last financial year.

IS DIRECT TAXATION POSSIBLE.

The first thing to remember, then, in dealing with questions of tariff and revenue is, that since we cannot escape taxation altogether, we have to make our choice between the two great systems, or combinations of them, that may be adapted. What are the particular advantages of each? Direct taxation,—which has always had many enthusiastic advocates in Canada,—is not without its recommendations. Chief among these is the fact that the burden of it is so visible and so palpable that the citizen not only pays his money but is well aware that he is paying it. Anyone who has to confess to the tax collector exactly what is the value of his property and the amount of his income, and to hand over a percentage of it to the state, is but little likely to favour public extravagance. Thus the direct tax is often commended for its simplicity, straight-forwardness, and rugged honesty. But it has, too, the defects of its qualities. It must be paid on the allotted day no matter whether the time of payment suits the citizen or not.

TAXES THAT ARE NOT FELT.

As against this the indirect tax,—such as a payment in the form of customs duties on imported woollens, carpets or machinery, is paid by the importer and handed on to the consumer. The latter pays the tax when he is ready to make the purchase and not before. A Canadian consumer who buys a suit made of imported British cloth pays the price of the suit and the tax to the government at one and the same time. If he prefers to somewhat shorten his purchases, he thereby lessens the amount of his tax. Thus the indirect tax strikes the citizen, as it were, at the moment of his prosperity and purchasing power; the direct tax is with him even in adversity. Hence the very high praise that has been given by the many writers of distinction to this form of public revenue. "Indirect taxes," says Professor Bastable, of Dublin, perhaps the highest modern authority, "are not felt by the payer in the same degree and therefore cause him less annoyance. A tax mixed up in the price of wine, tea or tobacco, is not brought so clearly to his mind. If the best tax is that whose forms most effectually disguise its nature, there can be no doubt of the superior merit of the indirect ones." Even Adam Smith, the great free trade economist, was not without a certain praise of indirect taxes on commodities. The citizen, he says, "pays them little by little as he has occasion to buy the goods. He is at liberty to buy or not to buy as he pleases."

But perhaps we can best understand the peculiar relation of these taxes to the national finance of Canada by entering into a rather more detailed comparison of our own with other systems.



He never believed in signs till now.