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Author(s): Edwin Cannan

Review by: Edwin Cannan

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REVIEWS

The Fundamental Principles of Taxation in the Light of Modern Developments. By SIR JOSIAH STAMP, K.B.E., D.Sc.
(London: Macmillan & Co. 1921. Pp. xii + 201.
Price 10s. 6d.)

THIS book consists of the Newmarch Lectures at University College, London, for 1919. In Early Victorian times it would have been entitled simply "Lectures on Taxation," and perhaps the vaguer title would have been more accurate. Sir Josiah Stamp is always interesting and instructive, but it is not given to him or any man to throw the light of modern developments on the fundamental principles of taxation very effectively in six lectures. I confess to some doubt about the meaning he attaches to "fundamental principles." I suspect that nine-tenths of his audience went away with the impression that he was taking Adam Smith's four canons (who invented that phrase? Smith calls them "maxims") as his text, and suggesting additions called for by modern experience. But the four canons are scarcely to be regarded in any sense as fundamental principles. As any careful reader of Dr. Robert Jones' *Nature and First Principle of Taxation* knows, they are only four selected out of the larger aggregate number put forward by various writers whose works Smith had read, and it may well be doubted whether the selection was not as much the result of imperfect memory as of deliberate choice. Bastable, in the first edition of *Public Finance* nearly thirty years ago, put the Smithian maxims into a mere appendix, though he subsequently relented and admitted them to the text. Since then the whole subject has been simplified by the invention of the doctrine which Sir Josiah quite unjustifiably calls "Marshall's doctrine of least aggregate sacrifice." Sir Henry Parnell may have "anticipated" this doctrine, and Professor Carver, whom Edgeworth quotes, may have suggested it, but its first definite enunciation is, I think, to be found in Edgeworth's article in this JOURNAL for December 1897, where he says "*Minimum sacrifice*, the direct emanation of pure

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utilitarianism, is the sovereign principle of taxation." It is curious that Edgeworth, the supposed embodiment of the unpractical, should have been the promulgator of this glorified common-sense and eminently practical principle, but it must be admitted that, perhaps misled by his own reputation, he embedded it in articles of an uninviting appearance on "The Pure Theory of Taxation," and treated it as if it required us to put the incomes of a year on what Dr. Jones calls a Procrustean bed, and to forget that next year no incomes will be found longer than the bed. It was soon seen that minimum sacrifice need not mean minimum sacrifice for such a very short run as that of a single income-tax collection (see Edgeworth himself in the *Memoranda* of the Royal Commission on Local Taxation, published in 1899, and the present reviewer on "Equity and Economy in Taxation," *ECONOMIC JOURNAL*, December 1901, and *History of Local Rates*, 2nd edition, 1912). Minimum aggregate sacrifice in the long run is the principle which all good ministers of finance and parliaments endeavour to the best of their abilities (often poor) to adopt. Under its ample folds, equity, ability, benefit and all the other good things drop into their proper places, and no place is found for that slogan of the barbarian adult and the civilised child, *fiat justitia ruat caelum*. Civilised adults will not give an unlimited price for equity. Marshall, always alive to the progress of thought, adopted the doctrine in *After the War Problems* in 1917. How Sir Josiah Stamp has inadvertently misled his readers in this matter is illustrated by the fact that one of his reviewers (B. M. in the *Statistical Journal*, May 1921) says approvingly that he "criticises Prof. Marshall's 'aggregate sacrifice' theory as leading to pure confiscation of income at certain levels," the fact being that the "Procrustean bed," so far from being constructed by Sir Josiah Stamp to kill the theory, had served at its birth twenty-four years earlier.

Our author intends, he tells us, "to outline the questions of principle which are raised by modern developments in taxation or are made obvious by the intensity of the burden, and to view them under a new arrangement." Under the new arrangement we look at them first from the point of view of the taxpayer, then from that of the State, and lastly from that of the "community as a producing or Economic Society." This seems very much like another way of saying that the three fundamental principles of taxation are Equity, Productiveness, and Economy, the last of these terms being of course used not in the petty sense of cheapness of collection (as on p. 93 of the book), but in the

wide sense in which satisfying economy means serving the permanent economic interest of the people—the sense in which Adam Smith tried to explain his fourth maxim. The new method is expected to enable us to treat modern problems “with that isolation of effects and freedom from distraction which are so necessary to a clear conception of essentials,” but it is no more productive of clean cuts than the old. Smith admitted that “after all the proper subjects of taxation have been exhausted, if the exigencies of the State still continue to require new taxes, they must be imposed upon improper ones” (*Wealth of Nations*, Vol. II, p. 390, repeated in almost the same words, p. 414), and modern writers admit that a large quantity of economy must outweigh a small quantity of equity, and vice versa. Just so Sir Josiah Stamp has to admit that compromise between the three standpoints is necessary. (We need not hold him too literally to his statement that “Most taxes in practice represent the best practical compromise between the three standpoints that can be arranged in the particular circumstances of the time,” which rather suggests the tax-surveyor or the Royal Commissioner on the Income-tax whose recommendations have been adopted.) The new arrangement seems in practice even less successful in keeping different considerations apart than the old. While looking at things from the individual standpoint, we are asked to consider the doctrine of taxing rents or surpluses, the principal recommendation of which is to most of its advocates its supposed absence of discouragement to production, and we are also asked to deal with “Progression justified as an engine of social improvement.” While taking the State’s point of view, we are to consider the possibility of certain taxes promoting dishonesty or producing a tariff war. Though the taxation of alcoholic liquors according to alcoholic content—a matter which concerns individual drinkers of alcohol as among themselves—is dealt with from the standpoint of the individual, the very heavy and productive taxation of alcoholic liquors as a whole, which touches the individual drinker and the individual teetotaller acutely, only comes up when we get to the standpoint of the community.

The general trend of recent developments, Sir Josiah holds, is everywhere towards personal taxation of income becoming more predominant in national taxation while at the same time it loses ground in local taxation. He is doubtless correct in this, but he might perhaps have pried a little further into the future. Are there no signs that as communications grow national

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income-taxes will break down in the future as local income-taxes have done in the past? The states of the North American Union are treading the path which English parishes trod in the eighteenth century, and the states of Europe and America are likely to have gone the whole way before the end of the twenty-first, if not earlier. The growing arrangements for meeting the "difficulty of double taxation" are the thin end of the wedge of a virtually international income-tax which is likely to precede the abandonment of complete independence by the states.

Income-taxation will continue to be progressive, but on the question how steep the progression will or should be, our author throws little light. He seems to have cut off the possibility of doing so by considering it mainly from the individual standpoint. "It is very difficult," he says, "for a man to say quantitatively that one boot pinches *three* times as much as the other, even where both are his own, and how much more difficult is it for one man to say that his boot pinches twice as much as another's!" Quite so, but the remark suggests that we had better give up "standpoints" and go back to the old "maxim" method, and say that Equity really furnishes no guide of any permanence (compare opinion at the time of Harcourt's budget with that of the present time), and that the steepness of progression must be decided by the maxim of Economy. We shall never decide whether to put a penny on beer or to further steepen the super-tax on incomes by considering how much the loss of a penny pinches the beer-drinker and the duke: we shall, and we do, decide it by making some rough estimate of the aggregate advantage in the long run of the two methods to society at large. For example, if we find that cheaper beer means better food for underfed children while less super-tax means more training of horses to run fast for a short distance with a very light burden, we incline to the super-tax: but if we find cheaper beer means more beer for drunkards and less super-tax means more houses for the people to inhabit in comfort and health, we incline to the beer tax. Whether we use the phrase or not, we are following the principle of least aggregate sacrifice.

If Sir Josiah had found salvation in the comfortable doctrine of least aggregate sacrifice he would, I think, have told us some things which we should be the better for knowing. No one is better qualified than he to tell us whether the recent enormous aggravation of progressive direct taxation has actually brought about (as well as merely tended to bring about) an important redistribution of net (*i. e.* after deduction of taxes) income, and

whether, if so, the redistribution is likely, either for a time or permanently, to cause an important diminution in the supply of fresh capital. He quotes Mr. W. H. Mallock to show that a levy on capital which caused greater equality of wealth would be likely to diminish savings. But surely the essence of a capital levy is not the redistribution of the total of net incomes but the liquidation of debts on which individuals pay interest (collected by the tax-gatherer) to themselves and each other. Any little difference which a capital levy might incidentally make would, we may safely say, be a trifle compared to the redistribution which has already been made by the new taxation and which would be simply maintained by the levy. It is no doubt extremely tiresome to have to remember that £500 a year nowadays means about £450, while £1000 a year means about £800, and £20,000 a year means little over £10,000 after income-tax and super-tax have been taken out and before any provision for death-duties is thought of. But we find it necessary to have the smaller figures before us in real life, and we shall have to treat them and not the gross figures as more nearly indicating the distribution of economic goods.

EDWIN CANNAN

The Economic Development of France and Germany. By J. H. CLAPHAM, LITT.D., Fellow of King's College. (Cambridge: University Press. 1921. Pp. xii + 420.)

MANY economic books fall into one of two classes: there are books which determine the future scope of academic instruction, and there are books which are themselves called into existence by academic requirements. With the growth of economic departments and commercial faculties in modern English and American universities—to say nothing of other countries—this second class is bound to increase. Subjects are put into programmes of instruction or made examination requirements because they are deemed desirable for the purpose, even though there are no available textbooks. The material may be scattered over a multiplicity of books, reports and journals, difficult of access to the undergraduate student and many of them in foreign languages. If the right sort of man is appointed to teach the subject, he selects and combines and generalises in preparing his lectures. The outlines of a textbook are sketched in; and finally the teacher earns the thanks of generations of students and