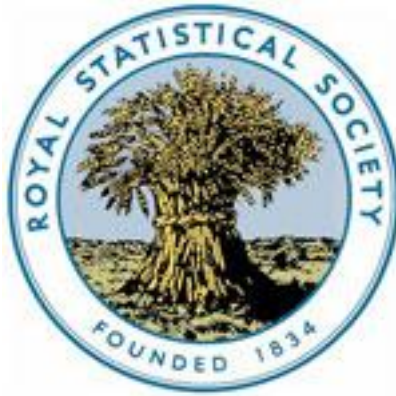


WILEY



Review

Author(s): J. C. S.

Review by: J. C. S.

Source: *Journal of the Royal Statistical Society*, Vol. 82, No. 4 (Jul., 1919), pp. 571-575

Published by: Wiley for the Royal Statistical Society

Stable URL: <http://www.jstor.org/stable/2340478>

Accessed: 25-06-2016 19:29 UTC

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at

<http://about.jstor.org/terms>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.



Wiley, Royal Statistical Society are collaborating with JSTOR to digitize, preserve and extend access to *Journal of the Royal Statistical Society*

privately-owned wealth, and the "multiplier" is not a statistical "constant, but includes an unascertained variable." Whatever view we may take as to the effect of *inter vivos* gifts, we should hardly agree with the dictum of a learned judge that property might for ever escape death duties by always passing *inter vivos* as a possible state of affairs so long as death took an impartial toll at all ages.

It would, of course, be impossible to avoid the capital levy in a work like this, but the treatment extends only to a brief summary of the proposal made, without any extended treatment of the several arguments. Besides a very complete series of statistical statements, there is a "prospective" survey and suggestions for reform. The three most urgent matters are more satisfactory checks upon the passing of bearer securities or stocks registered in joint names, increases in the rates of interest on duty in arrear, and the use of new annuity tables founded on modern mortality statistics. This excellent volume concludes with a chapter upon foreign death duties, and, taken as a whole, despite the authors' self-denying ordinance, is a most valuable contribution to the literature of taxation, which will possibly as a work of reference command the more confidence because it is free from controversial elements.

J.C.S.

2.—*Taxation in the New State.* By J. A. Hobson. xii + 254 pp., 8vo. London: Methuen and Co., Ltd. Price 6s.

The jacket of this book tells us that the chief purpose is "to 'give a new and clear meaning to 'ability to pay' by indicating 'what elements of income possess it and what do not, and to urge 'certain reforms in our present taxation policy whereby the largest 'revenue can be got without injurious effects on industry and 'livelihood.'" Mr. Hobson's acute mind and ready pen have performed many services for popular economics, and it is clear that in this work he is again addressing himself to the many whom he wishes to educate in his ideas, and not to trained economists. It is therefore incumbent upon him to remember the first rules of this branch of his craft, and that trouble arising through multiplicity in the meanings of terms, particularly common terms, is the thing that makes economics a hard saying to many, and the science an offence. Some time ago, Mr. Hobson took up the words "earned" and "unearned," which were just obtaining a recognised significance in popular usage, and without due explanation proposed for them an entirely new connotation; after being associated, as they are in current taxation, with the presence or absence of personal effort, these terms were given a new meaning. Out of the wealth of his excellent teachings upon differential earnings of all the factors in production, and the recognition of that "surplus" or rent element, the annihilation of which would not affect the offer and service of the factor in question, he seized upon these words and bade them mean henceforth "necessary" and "unnecessary" in this functional

2 s 2

sense. Professor Hobhouse followed, in a popular volume, and started this new mischief fairly on its course. Lord Hugh Cecil and others intervened with an ethical connotation: "earned" meant "well-deserved," and "unearned" of course signified "ill-gotten." Mr. Mallock has a special, or fourth brand of his own. Each writer makes no point of the change he is proposing, but proceeds with quiet confidence to commandeer the words as though there were no other claimants. What ideas the unsuspecting novitiate will have must depend upon the hands into which he first falls. Now Mr. Hobson did us no service when he joined in this confusion, but he has apparently forgotten all about it, for the "surplus" income is no longer styled the "unearned" income, but the income which has "ability to pay." It can safely be stated that the words "ability to pay" have now an accepted and definite reference to "faculty," and to the ideas of "progressive" faculty increasing with the aggregate amount of the taxable subject (income or estate), as based upon the principle of diminishing or marginal utility. Whether the words *ought* to have this association is not in question; the point is they are already in possession, and Mr. Hobson, without apology or explanation, pushes them out and fixes them elsewhere. We are bidden to understand that for the future we shall conduct an enquiry into the components of the income, and not think of its amount, before we decide that it has "ability to pay," which is purely functional. If he had been first in the field, and had staked out his claim, his title would have been clear and deserved. As it is, he merely makes for public confusion. To come along and assert that no one has hitherto found the true and appropriate meaning for a word, and that it is now supplied, may be journalistically attractive, but it is not helpful, and still less is it scientific. The curse of writers on science is of course that the chief effort of each is to invent a new terminology and then wallow in it. But even this is better than giving several different objects the same name. We cannot all write, after the word "un-earned," "(Cecil)" or "(Hobson)" or "(Dilke)" to indicate the brands, nor should we now feel required when referring to "ability to pay" to add the distinguishing sign of a distinguished name. Frankly, Mr. Hobson ought to say openly that principle of ability to pay is not the proper one at all, the true thing to look at is not the ability but "ultimate sufferance" or "final perseverance" or whatever new term his ingenuity or fancy may aptly contrive to embody his idea. As it is, he is like a man who says, *sotto voce*, "this stuff" "that is sold in bottles marked 'whisky' is not the excellent, healthful liquid that people imagine, and Burgundy is better suited in all ways to the world's needs," and then proceeds to empty all the whisky bottles and put in Burgundy, without changing the labels, hoping that the public will soon learn to like the new flavour under the old name. In the first part of his book, Mr. Hobson re-enunciates the doctrine of surplus in the clear and forcible way which is specially characteristic of him, drawing as he goes the corollary that taxation can rest nowhere save upon true surplus. It is like a ball continually

rebounding from hard surfaces until finally it sinks in a "soft spot," or like an up-to-date seeker after lodgings who knocks at many doors, sometimes stands in a hall, or even gets a bed for the night, but has constantly to move on till he finds a home. So Mr. Hobson is led to say that the analysis of costs and surplus disposes of old notions by showing that there are large classes of income which cannot bear a tax, and the classes of the population living entirely upon such incomes cannot contribute by taxation to the up-keep of the State.

He holds this doctrine as rigidly, if for different reasons, as any mid-eighteenth century writer upon taxes. A given class may appear to the community to be paying and bearing a tax, but all the time they are getting their own back out of the community by being less efficient and productive than they might otherwise be, not through malice aforethought, but from natural causes. Mr. Hobson is of course fully alive to the fact that the actual facts of life lie between the pure doctrine of shifting and the tendency for a tax to stick where it first lies, but it appears that he pays insufficient regard to one important fact. He assumes a world in which the net income required for a maintained supply of the agent (labour) both in willingness to work and for fullest efficiency is so spent as to give the fullest efficiency, and therefore that any limitation by taxation means something less to spend than, *ex-hypothesi*, fullest efficiency requires. Therefore taxation of this class reacts against the community, and the burden is shifted to others. But this is not the real world. Nearly every income is so spent that parts of it have no effect on efficiency, or have a minus effect, and few people work to the ideal point to which they might attain if they were perfectly wise spenders. If a tax depletes this portion of expenditure it may leave efficiency no further from the ideal than it was already, and therefore it is not shifted, but is borne by the payer. Only in a strained sense can we compare the position after the tax is imposed with a position that never exists in fact—we must compare it with a real world before the imposition of the tax. Indeed in so far as the State may be a wiser spender than the average individual—which Mr. Hobson might be expected to admit on occasion—the efficiency of the worker may be *increased* by the tax. The plain argument is that while hundreds of millions are spent on alcoholic drink, tobacco, gambling, and other objects which, however customary as a standard of living, have a net minus effect upon production, it is idle to allege that there is no "ability to pay," provided the tendency of the worker to "ca' canny" practices is not increased in the process of taxing him. At this point, Mr. Hobson possibly belittles the virtue of hidden or indirect taxes, though they may have most of the vices he attributes to them.

He throws out ideas on all sides, without too close regard to whether they are good, bad, or indifferent. In one place he suggests that our "taxing system should guarantee inducements in the "shape of tax exemption, to the allocation of large shares of business "earnings to the capital fund, so as to make good the letting down

"of some important kinds of plant and the failure during the war period to make normal provision for improvements. But all such exemptions should be limited in amount and confined to the case of vital industries, and a thorough scrutiny into the merits of each application should be undertaken by the Income Tax Commissioners." Here he seems to be quite out of touch with what actually has happened in regard to "failure to make normal provision"; he appears, too, to be oblivious of the fact that the last few years have shown more clearly than ever the absolute folly of any kind of State assistance or subvention by way of differential exemptions in taxation instead of direct and public allocations. Moreover, those very additions to reserve which are enabled by existing law in certain circumstances to receive partial benefits in taxation are roundly condemned elsewhere by Mr. Hobson himself.

Having elaborated the new "ability to pay," he suddenly and, of course, rightly concludes that it can never be realised as a practical principle of taxation, but takes comfort in the fact that this "ability to pay" varies directly with the size of income, and there is a "presumption that a large income contains a large amount of surplus, and that a small income contains none of this surplus," and so gets to the *status quo* in taxation by a circuitous route. We may go on with what we are doing, but we happen to be right for reasons which were not generally realized. The presumption breaks down in so many cases that the present writer would prefer to rest progressive taxation upon the original idea of "ability to pay." There are many incomes of 1,000*l.* per annum which are derived from dividends so high that no part of the capital would be withdrawn, or tend to be, if they were reduced. There are many incomes of 10,000*l.* made up of mere "subsistence" rates of interest, which have no "ability to pay."

Mr. Hobson would abolish "taxation at the source," because it gets in the way of his proposed reforms, and would ride over all the "stiff official bluff" and *ipse dixit* of experts. This part of his book calls for extended comment, or none. He appears to be ignorant of the fact that farmers' incomes are computed at twice the amount of their rent. He unfortunately gives currency, very forcibly, to quite erroneous ideas about companies' reserves escaping taxation; on p. 110, "Escaping publicity and income tax" by bonuses; p. 174, "Convert income into capital without paying tax on such elements of income"; p. 175, "If the shareholders took their gain in the first way it would represent war profit, upon which income or super-tax would be incurred by them, but if they took their war gains in bonuses or new shares, they would incur no such taxation upon the sum they received"; p. 176—"contributing nothing to taxation." All this is dead wrong. *Income tax* at 6*s.* in the £ is payable on the whole profits, regardless of distribution in dividends. What is lost is the *super-tax*, where it would have otherwise been due on the dividends, and even this is partly offset by the lower rates of income tax that would have been finally

borne by any receiving incomes below 2,500*l.* This book contains some of Mr. Hobson's best writing, but unfortunately it has also many blots besides those referred to, which are the result of over-hasty, journalistic jumping to conclusions, and desire for strong and positive conclusions. We owe so much to his past writings that it gives no satisfaction whatever to be obliged, in common fairness, to make adverse comments. If it savours of ingratitude he must be assured that quite opposite motives actuate us, and that his responsibility grows with his power. J.C.S.

3.—*The Problem of a National Budget.* By W. F. Willoughby, Director, Institute for Government Research. xiii + 230 pp., 8vo. London: D. Appleton and Co., 1918. Price 12*s.* 6*d.*

This book is a definite sequel to the valuable work, reviewed in this Journal last year, upon the British Financial Administration, by the three University Professors who came over as a Commission of enquiry and derived much guidance for American reforms. Students of the United States government seem agreed that their methods have hardly any of the requisite points of a proper system. There is no clear conspectus of the whole problem at any one moment; expenditure is not related to revenue, and there is no balancing of the account. The Secretary to the Treasury is a mere "compiling authority," who cannot control or change the proposals put forward by departments. "There is absolutely lacking any organ at all corresponding in character or powers to the Treasury under the British system. The idea that a system of accounts should have for its purpose to produce information needed for the proper conduct of affairs as well as to establish the fidelity with which legal provisions are carried out scarcely exists." Even such a "balance sheet" as we are familiar with is wholly unknown and under present methods unattainable. The severe application of the doctrine of the "separation of the powers" prevents the Government from having any systematic and complete view of the whole problem. The Congress and not the Executive determines the revenues to be raised and the expenditures to be made, but does not compel the Executive to give it any report of the past outlay or estimate of future requirements as the essential preliminary to its work. The author sees in the trinitarian unity of the British Ministry, in its legislative, executive, and administrative aspects, the secret of our success, but he seeks to show that American difficulties can be overcome despite this fundamental constitutional difference. For he holds that the "excellence" of our system is due rather to procedure than to constitutional system, and this procedure may be copied. France has a proper constitution for the purpose, and yet fails to evolve the required budgetary powers. The secrets of British success are (1) the non-interference of the legislature in administration; (2) the formulation of taxation proposals by the administration (through the Cabinet); (3) the presentation of financial proposals in a consolidated document