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An Inquiry Into The Nature and Causes Of The Wealth Of Nations

In Two Volumes

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Article II. Taxes upon Profit, or upon the Revenue arising from Stock.

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window-tax, he must contribute more to the support of the state. Such taxes are, therefore, directly contrary to the first of the four maxims above mentioned. They do not seem to offend much against any of the other three.

THE natural tendency of the window-tax, and of all other taxes upon houses, is to lower rents. The more a man pays for the tax, the less, it is evident, he can afford to pay for the rent. Since the imposition of the window-tax, however, the rents of houses have upon the whole risen, more or less, in almost every town and village of Great Britain with which I am acquainted. Such has been almost every where the increase of the demand for houses, that it has raised the rents more than the window-tax could sink them; one of the many proofs of the great prosperity of the country, and of the increasing revenue of its inhabitants. Had it not been for the tax, rents would probably have risen still higher.

ARTICLE II.

Taxes upon Profit, or upon the Revenue arising from Stock.

THE revenue or profit arising from stock naturally divides itself into two parts; that which pays the interest, and which belongs to the owner of the stock; and that surplus part which is over and above what is necessary for paying the interest.

THIS latter part of profit is evidently a subject not taxable directly. It is the compensation, and in most cases it is no more than a very moderate compensation, for the risk and trouble of employing the stock. The employer must have this compensation, otherwise he cannot, consistently with his own interest, continue the employment. If he was taxed directly, therefore, in proportion to the whole profit, he would be obliged either to raise



raise the rate of his profit, or to charge the tax upon the interest of money; that is, to pay less interest. If he raised the rate of his profit in proportion to the tax, the whole tax, though it might be advanced by him, would be finally paid by one or other of two different sets of people, according to the different ways in which he might employ the stock of which he had the management. If he employed it as a farming stock in the cultivation of land, he could raise the rate of his profit only by retaining a greater portion, or, what comes to the same thing, the price of a greater portion of the produce of the land; and as this could be done only by a reduction of rent, the final payment of the tax would fall upon the landlord. If he employed it as a mercantile or manufacturing stock, he could raise the rate of his profit only by raising the price of his goods; in which case the final payment of the tax would fall altogether upon the consumers of those goods. If he did not raise the rate of his profit, he would be obliged to charge the whole tax upon that part of it which was allotted for the interest of money. He could afford less interest for whatever stock he borrowed, and the whole weight of the tax would in this case fall ultimately upon the interest of money. So far as he could not relieve himself from the tax in the one way, he would be obliged to relieve himself in the other.

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THE interest of money seems at first sight a subject equally capable of being taxed directly as the rent of land. Like the rent of land it is a neat produce which remains after completely compensating the whole risk and trouble of employing the stock. As a tax upon the rent of land cannot raise rents; because the neat produce which remains after replacing the stock of the farmer, together with his reasonable profit, cannot be greater after the tax than before it: so, for the same reason, a tax upon the



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the interest of money could not raise the rate of interest; the quantity of stock or money in the country, like the quantity of land, being supposed to remain the same after the tax as before it. The ordinary rate of profit, it has been shewn in the first book, is every where regulated by the quantity of stock to be employed in proportion to the quantity of the employment, or of the business which must be done by it. But the quantity of the employment, or of the business to be done by stock, could neither be increased nor diminished by any tax upon the interest of money. If the quantity of the stock to be employed, therefore, was neither increased nor diminished by it, the ordinary rate of profit would necessarily remain the same. But the portion of this profit necessary for compensating the risk and trouble of the employer, would likewise remain the same; that risk and trouble being in no respect altered. The residue, therefore, that portion which belongs to the owner of the stock, and which pays the interest of money, would necessarily remain the same too. At first sight, therefore, the interest of money seems to be a subject as fit to be taxed directly as the rent of land.

THERE are, however, two different circumstances which render the interest of money a much less proper subject of direct taxation than the rent of land.

FIRST, the quantity and value of the land which any man possesses can never be a secret, and can always be ascertained with great exactness. But the whole amount of the capital stock which he possesses is almost always a secret, and can scarce ever be ascertained with tolerable exactness. It is liable, besides, to almost continual variations. A year seldom passes away, frequently not a month, sometimes scarce a single day, in which it does not rise or fall more or less. An inquisition into every man's private circumstances, and an inquisition which, in order to accommodate



accommodate the tax to them, watched over all the fluctuations of his fortune, would be a source of such continual and endless vexation as no people could support. C H A P.
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SECONDLY, land is a subject which cannot be removed; whereas stock easily may. The proprietor of land is necessarily a citizen of the particular country in which his estate lies. The proprietor of stock is properly a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition, in order to be assailed to a burdensome tax, and would remove his stock to some other country where he could either carry on his business or enjoy his fortune more at his ease. By removing his stock he would put an end to all the industry which it had maintained in the country which he left. Stock cultivates land; stock employs labour. A tax which tended to drive away stock from any particular country, would so far tend to dry up every source of revenue, both to the sovereign and to the society. Not only the profits of stock, but the rent of land and the wages of labour, would necessarily be more or less diminished by its removal.

THE nations, accordingly, who have attempted to tax the revenue arising from stock, instead of any severe inquisition of this kind, have been obliged to content themselves with some very loose, and therefore more or less arbitrary estimation. The extreme inequality and uncertainty of a tax assessed in this manner, can be compensated only by its extreme moderation, in consequence of which every man finds himself rated so very much below his real revenue, that he gives himself little disturbance though his neighbour should be rated somewhat lower.

By what is called the land-tax in England, it was intended that stock should be taxed in the same proportion as land.

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When the tax upon land was at four shillings in the pound, or at one-fifth of the supposed rent, it was intended that stock should be taxed at one-fifth of the supposed interest. When the present annual land-tax was first imposed, the legal rate of interest was six per cent. Every hundred pounds stock, accordingly, was supposed to be taxed at twenty-four shillings, the fifth part of six pounds. Since the legal rate of interest has been reduced to five per cent. every hundred pounds stock is supposed to be taxed at twenty shillings only. The sum to be raised, by what is called the land-tax, was divided between the country and the principal towns. The greater part of it was laid upon the country; and of what was laid upon the towns, the greater part was assessed upon the houses. What remained to be assessed upon the stock or trade of the towns (for the stock upon the land was not meant to be taxed) was very much below the real value of that stock or trade. Whatever inequalities, therefore, there might be in the original assessment, gave little disturbance. Every parish and district still continues to be rated for its land, its houses, and its stock, according to the original assessment; and the almost universal prosperity of the country, which in most places has raised very much the value of all these, has rendered those inequalities of still less importance now. The rate too upon each district continuing always the same, the uncertainty of this tax, so far as it might be assessed upon the stock of any individual, has been very much diminished, as well as rendered of much less consequence. If the greater part of the lands of England are not rated to the land-tax at half their actual value, the greater part of the stock of England is perhaps scarce rated at the fiftieth part of its actual value. In some towns the whole land-tax is assessed upon houses; as in Westminster, where stock and trade are free. It is otherwise in London.



IN all countries a severe inquisition into the circumstances of private persons has been carefully avoided. CHAP.
II.

AT Hamburgh * every inhabitant is obliged to pay to the state, one-fourth per cent. of all that he possesses; and as the wealth of the people of Hamburgh consists principally in stock, this tax may be considered as a tax upon stock. Every man assesses himself, and, in the presence of the magistrate, puts annually into the public coffer a certain sum of money, which he declares upon oath to be one-fourth per cent. of all that he possesses, but without declaring what it amounts to, or being liable to any examination upon that subject. This tax is generally supposed to be paid with great fidelity. In a small republic, where the people have entire confidence in their magistrates, are convinced of the necessity of the tax for the support of the state, and believe that it will be faithfully applied to that purpose, such conscientious and voluntary payment may sometimes be expected. It is not peculiar to the people of Hamburgh.

THE canton of Underwold in Switzerland is frequently ravaged by storms and inundations, and is thereby exposed to extraordinary expences. Upon such occasions the people assemble, and every one is said to declare with the greatest frankness what he is worth, in order to be taxed accordingly. At Zurich the law orders that in cases of necessity every one should be taxed in proportion to his revenue; the amount of which he is obliged to declare upon oath. They have no suspicion, it is said, that any of their fellow citizens will deceive them. At Basil the principal revenue of the state arises from a small custom upon goods exported. All the citizens make oath that they will pay every three months all the taxes imposed by the law. All merchants and even all inn-keepers are trusted with keeping themselves the

* Memoires concernant les Droits, tome i. p. 74.



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account of the goods which they sell either within or without the territory. At the end of every three months they send this account to the treasurer, with the amount of the tax computed at the bottom of it. It is not suspected that the revenue suffers by this confidence*.

To oblige every citizen to declare publicly upon oath the amount of his fortune, must not, it seems, in those Swiss cantons, be reckoned a hardship. At Hamburgh it would be reckoned the greatest. Merchants engaged in the hazardous projects of trade, all tremble at the thoughts of being obliged at all times to expose the real state of their circumstances. The ruin of their credit and the miscarriage of their projects, they foresee, would too often be the consequence. A sober and parsimonious people, who are strangers to all such projects, do not feel that they have occasion for any such concealment.

IN Holland, soon after the exaltation of the late prince of Orange to the stadtholdership, a tax of two per cent. or the fiftieth penny, as it was called, was imposed upon the whole substance of every citizen. Every citizen assessed himself and paid his tax in the same manner as at Hamburgh; and it was in general supposed to have been paid with great fidelity. The people had at that time the greatest affection for their new government, which they had just established by a general insurrection. The tax was to be paid but once, in order to relieve the state in a particular exigency. It was, indeed, too heavy to be permanent. In a country where the market rate of interest seldom exceeds three per cent. a tax of two per cent. amounts to thirteen shillings and fourpence in the pound upon the highest neat revenue which is commonly drawn from stock. It is a tax

* Id. tome i. p. 163, 166, 171.



which very few people could pay without encroaching more or less upon their capitals. In a particular exigency the people may, from great public zeal, make a great effort, and give up even a part of their capital in order to relieve the state. But it is impossible that they should continue to do so for any considerable time; and if they did, the tax would soon ruin them so completely as to render them altogether incapable of supporting the state.

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THE tax upon stock imposed by the land-tax bill in England, tho' it is proportioned to the capital, is not intended to diminish or take away any part of that capital. It is meant only to be a tax upon the interest of money proportioned to that upon the rent of land; so that when the latter is at four shillings in the pound, the former may be at four shillings in the pound too. The tax at Hamburgh, and the still more moderate taxes of Underwold and Zurich, are meant, in the same manner, to be taxes, not upon the capital, but upon the interest or neat revenue of stock. That of Holland was meant to be a tax upon the capital.

Taxes upon the Profit of particular Employments.

IN some countries extraordinary taxes are imposed upon the profits of stock; sometimes when employed in particular branches of trade, and sometimes when employed in agriculture.

OF the former kind are in England the tax upon hawkers and pedlars, that upon hackney coaches and chairs, and that which the keepers of ale-houses pay for a licence to retail ale and spirituous liquors. During the late war, another tax of the same kind was proposed upon shops. The war having been undertaken, it was said, in defence of the trade of the country, the merchants,

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who



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A TAX, however, upon the profits of stock employed in any particular branch of trade, can never fall finally upon the dealers (who must in all ordinary cases have their reasonable profit, and, where the competition is free, can seldom have more than that profit) but always upon the consumers, who must be obliged to pay in the price of the goods the tax which the dealer advances; and generally with some over-charge.

A TAX of this kind, when it is proportioned to the trade of the dealer, is finally paid by the consumer, and occasions no oppression to the dealer. When it is not so proportioned, but is the same upon all dealers, though in this case too it is finally paid by the consumer, yet it favours the great, and occasions some oppression to the small dealer. The tax of five shillings a week upon every hackney coach, and that of ten shillings a year upon every hackney chair, so far as it is advanced by the different keepers of such coaches and chairs, is exactly enough proportioned to the extent of their respective dealings. It neither favours the great, nor oppresses the smaller dealer. The tax of twenty shillings a year for a licence to sell ale; of forty shillings for a licence to sell spirituous liquors; and of forty shillings more for a licence to sell wine, being the same upon all retailers, must necessarily give some advantage to the great, and occasion some oppression to the small dealers. The former must find it more easy to get back the tax in the price of their goods than the latter. The moderation of the tax, however, renders this inequality of less importance, and it may to many people appear not improper to give some discouragement to the multiplication of little ale-houses. The tax upon shops, it was intended, should be the same upon all shops. It could not well have been otherwise. It would.



would have been impossible to proportion with tolerable exactness the tax upon a shop to the extent of the trade carried on in it without such an inquisition, as would have been altogether insupportable in a free country. If the tax had been considerable, it would have oppressed the small, and forced almost the whole retail trade into the hands of the great dealers. The competition of the former being taken away, the latter would have enjoyed a monopoly of the trade; and like all other monopolists would soon have combined to raise their profits much beyond what was necessary for the payment of the tax. The final payment, instead of falling upon the shopkeeper, would have fallen upon the consumer, with a considerable over-charge to the profit of the shopkeeper. For these reasons, the project of a tax upon shops was laid aside, and in the room of it was substituted the subsidy 1759.

WHAT in France is called the personal taille is, perhaps, the most important tax upon the profits of stock employed in agriculture that is levied in any part of Europe.

IN the disorderly state of Europe during the prevalence of the feudal government, the sovereign was obliged to content himself with taxing those who were too weak to refuse to pay taxes. The great lords, though willing to assist him upon particular emergencies, refused to subject themselves to any constant tax, and he was not strong enough to force them. The occupiers of land, all over Europe, were the greater part of them originally bond-men. Through the greater part of Europe they were gradually emancipated. Some of them acquired the property of landed estates which they held by some base or ignoble tenure, sometimes under the king, and sometimes under some other great lord, like the antient copy-holders of England. Others, without acquiring the property, obtained leases for terms of years of the lands which they occu-

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pied under their lord, and thus became less dependent upon him. The great lords seem to have beheld the degree of prosperity and independency which this inferior order of men had thus come to enjoy, with malignant and contemptuous indignation, and willingly consented that the sovereign should tax them. In some countries this tax was confined to the lands which were held in property by an ignoble tenure; and, in this case, the taille was said to be real. The land-tax established by the late king of Sardinia, and the taille in the provinces of Languedoc, Provence, Dauphiné, and Brittany; in the generality of Montauban, and in the elections of Agen and Condom, as well as in some other districts of France, are taxes upon lands held in property by an ignoble tenure. In other countries the tax was laid upon the supposed profits of all those who held in farm or lease lands belonging to other people, whatever might be the tenure by which the proprietor held them; and in this case the taille was said to be personal. In the greater part of those provinces of France, which are called the Countries of Elections, the taille is of this kind. The real taille, as it is imposed only upon a part of the lands of the country, is necessarily an unequal, but it is not always an arbitrary tax, though it is so upon some occasions. The personal taille, as it is intended to be proportioned to the profits of a certain class of people, which can only be guessed at, is necessarily both arbitrary and unequal.

IN France the personal taille at present, (1775,) annually imposed upon the twenty generalities, called the Countries of Elections, amounts to 40,107,239 livres, 16 sous*. The proportion in which this sum is assessed upon those different provinces, varies from year to year, according to the reports which are made to the king's council concerning the goodness or badness of the crop, as well as other circumstances which may either increase or diminish their respective

* Memoires concernant les Droits, &c. tome ii. p. 17.



respective abilities to pay. Each generality is divided into a certain number of elections, and the proportion in which the sum imposed upon the whole generality is divided among those different elections, varies likewise from year to year, according to the reports made to the council concerning their respective abilities. It seems impossible that the council, with the best intentions, can ever proportion with tolerable exactness, either of those two assessments to the real abilities of the province or district upon which they are respectively laid. Ignorance and misinformation must always, more or less, mislead the most upright council. The proportion which each parish ought to support of what is assessed upon the whole election, and that which each individual ought to support of what is assessed upon his particular parish, are both in the same manner varied, from year to year, according as circumstances are supposed to require. These circumstances are judged of, in the one case, by the officers of the election; in the other by those of the parish; and both the one and the other are, more or less, under the direction and influence of the intendant. Not only ignorance and misinformation, but friendship, party animosity, and private resentment, are said frequently to mislead such assessors. No man subject to such a tax, it is evident, can ever be certain, before he is assessed, of what he is to pay. He cannot even be certain after he is assessed. If any person has been taxed who ought to have been exempted; or if any person has been taxed beyond his proportion, though both must pay in the mean time, yet if they complain and make good their complaints, the whole parish is reimposed next year in order to reimburse them. If any of the contributors become bankrupt or insolvent, the collector is obliged to advance his tax, and the whole parish is reimposed next year in order to reimburse the collector. If the collector himself should become bankrupt, the parish which elects him must answer for his conduct to the receiver-general of the election. But, as it might be troublesome for the receiver-



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receiver to prosecute the whole parish, he takes at his choice five or six of the richest contributors, and obliges them to make good what had been lost by the insolvency of the collector. The parish is afterwards reimposed in order to reimburse those five or six. Such reimpositions are always over and above the taille of the particular year in which they are laid on.

WHEN a tax is imposed upon the profits of stock in a particular branch of trade, the traders are all careful to bring no more goods to market than what they can sell at a price sufficient to reimburse them for advancing the tax. Some of them withdraw a part of their stocks from the trade, and the market is more sparingly supplied than before. The price of the goods rises, and the final payment of the tax falls upon the consumer. But when a tax is imposed upon the profits of stock employed in agriculture, it is not the interest of the farmers to withdraw any part of their stock from that employment. Each farmer occupies a certain quantity of land, for which he pays rent. For the proper cultivation of this land a certain quantity of stock is necessary; and by withdrawing any part of this necessary quantity, the farmer is not likely to be more able to pay either the rent or the tax. In order to pay the tax, it can never be his interest to diminish the quantity of his produce, nor consequently to supply the market more sparingly than before. The tax, therefore, will never enable him to raise the price of his produce, nor to reimburse himself by throwing the final payment upon the consumer. The farmer, however, must have his reasonable profit as well as every other dealer, otherwise he must give up the trade. After the imposition of a tax of this kind, he can get this reasonable profit only by paying less rent to the landlord. The more he is obliged to pay in the way of tax, the less he can afford to pay in the way of rent. A tax of this kind imposed during the currency of a lease may, no doubt, distress or ruin the farmer.



farmer. Upon the renewal of the lease it must always fall upon the landlord.

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In the countries where the personal taille takes place, the farmer is commonly assessed in proportion to the stock which he appears to employ in cultivation. He is, upon this account, frequently afraid to have a good team of horses or oxen, but endeavours to cultivate with the meanest and most wretched instruments of husbandry that he can. Such is his distrust in the justice of his assessors, that he counterfeits poverty, and wishes to appear scarce able to pay any thing for fear of being obliged to pay too much. By this miserable policy he does not, perhaps, always consult his own interest in the most effectual manner; and he probably loses more by the diminution of his produce than he saves by that of his tax. Though, in consequence of this wretched cultivation the market is, no doubt, somewhat worse supplied; yet the small rise of price which this may occasion, as it is not likely even to indemnify the farmer for the diminution of his produce, it is still less likely to enable him to pay more rent to the landlord. The public, the farmer, the landlord, all suffer more or less by this degraded cultivation. That the personal taille tends, in many different ways, to discourage cultivation, and consequently to dry up the principal source of the wealth of every great country, I have already had occasion to observe in the third book of this inquiry.

WHAT are called poll-taxes in the southern provinces of North America, and in the West India islands, annual taxes of so much a head upon every negro, are properly taxes upon the profits of a certain species of stock employed in agriculture. As the planters are, the greater part of them, both farmers and landlords, the final payment of the tax falls upon them in their quality of landlords without any retribution.



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TAXES of so much a head upon the bondmen employed in cultivation, seem antiently to have been common all over Europe. There subsists at present a tax of this kind in the empire of Russia. It is probably upon this account that poll-taxes of all kinds have often been represented as badges of slavery. Every tax, however, is to the person who pays it a badge, not of slavery, but of liberty. It denotes that he is subject to government, indeed, but that, as he has some property, he cannot himself be the property of a master. A poll-tax upon slaves is altogether different from a poll-tax upon freemen. The latter is paid by the persons upon whom it is imposed; the former by a different set of persons. The latter is either altogether arbitrary or altogether unequal, and in most cases is both the one and the other; the former, though in some respects unequal, different slaves being of different values, is in no respect arbitrary. Every master who knows the number of his own slaves, knows exactly what he has to pay. Those different taxes, however, being called by the same name, have been considered as of the same nature.

TAXES upon the profits of stock in particular employments can never affect the interest of money. Nobody will lend his money for less interest to those who exercise the taxed, than to those who exercise the untaxed employments. Taxes upon the revenue arising from stock in all employments, where the government attempts to levy them with any degree of exactness, will, in many cases, fall upon the interest of money. The Vingtieme or twentieth-penny in France, is a tax of the same kind with what is called the land-tax in England, and is assessed, in the same manner, upon the revenue arising from land, houses, and stock. So far as it affects stock, it is assessed, though not with great rigour, yet with much more exactness than that part of the land-tax of England which is imposed upon the same fund. It, in many cases, falls altogether upon the interest

