

IV.—*What a perfect Income Tax of Ten per cent. would produce.*—
By William Neilson Hancock, LL.D.

[Read, December 18th, 1854.]

GENTLEMEN,

It is the plain duty of every subject of this great empire to contribute any information or suggestion that he may deem of use towards sustaining the contest in which we are now engaged.

In discharging this duty, I do not propose to attempt giving suggestions as to military operations, of which I have had no experience. I am quite content to leave these to Lord Raglan and his brave generals; but it is for those who stay at home to bear their share of the contest, in the shape of taxation to defray the expenses of the war; and I propose to direct your attention to some considerations which have an important bearing on the decision of the question—how the requisite funds can best be raised?

The relative merits of loans and increased taxation have been discussed in a paper read before this Society by Mr. Cairnes. Into that branch of the question I do not propose to enter. I may, however, observe, that the manly, unselfish course is for those on whom this contest has devolved to bear the burden of it, and to transmit their inheritance to their descendants not only strengthened by their valour but unincumbered by their debts.

Assuming that increase of taxation will be necessary, it becomes important to consider the resources of our fiscal system for raising what may be required.

The tendency of recent financial changes has been towards the gradual substitution of direct for indirect taxes; in other words, of taxes on income and succession for those on trade and commerce.

The commencement of this policy was made by Sir Robert Peel, when he took an income tax as the basis of his great financial reforms. Mr. Gladstone followed up with great ability the commencement of Sir Robert Peel. His budget of 1852 was a great step towards a perfect income tax. He extended the succession duty to real property, he included Ireland in the income tax, and he reduced the limits of exemption from £150 to £100.

Still, Mr. Gladstone's system of direct taxation is far from complete. In the first place, the succession tax is imposed as a distinct tax, instead of being incorporated and made part of the income tax. Then, the farming classes are too favourably dealt with, in the mode of estimating their income; and lastly, the limit of taxation stopping at £100, exempts all incomes below £2 a week—or, in other words, nearly the whole labouring population of the United Kingdom.

This want of completeness in the present income tax appeared very strongly when it became necessary to use it as a war tax. Such a time is not a convenient or suitable one for great changes in fiscal policy; hence the simple proposition, last spring, of doubling the income tax for half a year.

This proposition was not, however, accompanied by a corresponding increase in the tax on successions to real property, nor in the probate and legacy duties, which are the taxes on succession to per-

sonal property. Thus the equalisation in the scale of taxation on permanent and precarious incomes, which had been gained by the establishment of the succession duty, was sacrificed because this duty was not, as it ought to have been, made a part of the income tax, so that the one could not have been doubled without the other.

Again, whilst other classes will now be called on for their double income tax, the two most numerous, and, at the present moment, amongst the most prosperous classes in the community—the small farmers and the labourers—will almost entirely escape their fair share of the burden.

The fiscal resources of this empire are not, therefore, to be judged of by the operation of the present taxes on income and succession. It remains to estimate what a perfect income tax of 10 per cent. throughout the three kingdoms would produce.

What is called a perfect income tax is only a development of Adam Smith's first maxim of taxation:—"The subjects of every state ought," he says, "to contribute towards the support of the government as nearly as possible in proportion to the revenue which they respectively enjoy under the protection of the state." Now, I have explained, in communications laid before this Society,* that the revenue or income of a taxpayer can be reduced to four distinct elements:—

1st—The wages a man receives for his labour.

2nd—The profit he derives from the use of his capital.

3rd—The rent he gets out of his land.

4th—The value of any property, whether real or moveable, which he obtains by gift or succession during the year.

Thus, a perfect income tax includes a tax on wages, profit, and rent, and on gifts and successions.

Let us estimate its amount:—

Sir Robert Peel's tax of 7d. in the £1 on wages, profit, and rent above £150 in Great Britain, has produced	£5,500,000	
This at 24d. in £1, or 10 per cent., would give		£19,250,000
The probate and legacy duty assessed on successions to personal property above £20 in the United Kingdom, has produced	2,000,000	
At an average of 5 per cent., this at 10 per cent. would give		4,000,000
Mr. Gladstone's extension of the income tax to Ireland† has produced about	600,000	
This at 10 per cent. would give (3½)		2,100,000
His extension to incomes between £150 and £100 in Great Britain, at the rate of 5d. in the pound, he estimated to bring	180,000	
This at 7d. would become £252,000, and at 10 per cent. (3½) would give		882,000
Mr. Gladstone's succession tax on real property was estimated to produce (at an average of 3 per cent.)	2,000,000	
This at 10 per cent. would give		7,000,000
		<u>£32,232,000</u>

* See my paper on the General Principles of Taxation, Transactions of the Dublin Statistical Society, vol. 2, No. 47.

† The Irish Tax extended to only 24,000 persons; it was collected at a cost of 5 per cent. The customs and excise are not collected for less than 7 per cent., besides the derangement of trade and other inconveniences to tax-payers which they produce.

Such would be the result of raising our present income and succession taxes to a uniform rate of 10 per cent. We have next to estimate the effects of extending the income tax to the labouring classes, and to all incomes above 6s. a week.

The number of labourers in the United Kingdom may be calculated in this way. The entire population of 1851 was twenty-eight millions. This gives 14,000,000 of males; and those between 14 and 63 may be assumed to be one-half of this number, or 7,000,000. Of these 7,000,000 we may assume that 5,000,000 are labourers. Now the average rate of wages may be taken as not less than 9s. a week. For want of the decimal system of currency the tax on wages would have to be levied at 1d. in the 1s., or 1-12th instead of 1-10th; 1d. in the 1s. on wages would thus give for the United Kingdom £10,000,000.

The rest of the men whose incomes would be between £15 and £100 may be assumed at one million, leaving 500,000 men or 2,000,000 of population to represent the classes now paying income tax, and 500,000 or 2,000,000 to represent the paupers and disabled classes, and all those on the verge of pauperism.

The average income of those between £15 and £100 may be taken at £57½, or nearly £60; thus giving, at 10 per cent., an income tax of £6,000,000.

If the several sums at which I have successively arrived be added together, we shall have for the total amount of a perfect income tax of 10 per cent. extended to the whole United Kingdom, and to all incomes above 6s. a week, the sum of £49,232,000.

When such is the productiveness of this great tax, we need not despair of our fiscal resources in the contest in which we are engaged; neither need we resort to loans from any inability to raise the required amount from those who are able to bear the burden.

The explanation of the resources of the perfect income tax has an importance, however, beyond the present war.

One of the results already obtained, a result worth the whole contest, is the cordial alliance which has been established between the two western powers that are at the head of the civilization of mankind. That alliance, however, involves very serious changes in our fiscal policy, whenever the return of peace allows extensive alterations to be introduced. The prohibitory tariffs, the offspring of past feuds, which interfere with the trade between France and England, must inevitably be altered. Large reductions in the duties on wines and other French products must be made by us. But reductions in customs duties must lead to modifications of the excise duties on the competing articles of home manufacture, involving the malt tax and the duties on spirits and hops.

The adoption of perfect free trade with France and with Turkey, and with the other European nations that enter into alliance with us, involves a reconstruction of our financial system. A perfect income tax affords the means of carrying out such a policy to any extent; for we have seen that by a tax of 10 per cent., nearly the entire sum required for the ordinary expenditure of the United Kingdom may be raised.

Thus we see that neither the present war nor the return of peace

need interrupt the progress of financial reform, nor of the complete development and freedom of commerce.

In making these allusions to the progress of free trade in connexion with the war, I cannot but notice the disfavour into which these principles are likely to be brought by the course taken by Mr. Cobden and Mr. Bright in their comments on standing armies and on the present war. I feel bound, therefore, to guard against their views being taken as a fair measure of what freetraders and economists in general entertain.

The writer who of all others may be taken as the fairest exponent of the opinions of economists in general, is Adam Smith, and I would refer those who think that ultra-peace principles are an essential part of Political Economy, to his chapter on the duties and expenses of the sovereign. He begins thus:—"The first duty of the sovereign, that of protecting the society from the violence and invasion of other independent societies, can be performed only by means of a military force." Again he says:—"The art of war, however, as it is certainly the noblest of all arts, so in the progress of improvement it necessarily becomes one of the most complicated amongst them. Into other arts the division of labour is naturally introduced by the prudence of individuals, who find that they promote their private interest better by confining themselves to a particular trade, than by exercising a great number. But it is the wisdom of the state only which can render the trade of a soldier a particular trade, separate and distinct from all others." Again he says:—"It is only by means of a standing army, therefore, that the civilization of any country can be perpetuated or even preserved for any considerable time."

The concluding passage in his chapter affords the most hopeful views as to the ultimate result of the present war:—"In modern war the great expense of fire-arms gives an evident advantage to the nation which can best afford that expense, and consequently to an opulent and civilized over a poor and barbarous nation. In ancient times the opulent and civilized found it difficult to defend themselves against the poor and barbarous nations. In modern times, the poor and barbarous find it difficult to defend themselves against the opulent and civilized. The invention of fire-arms—an invention which at first sight appears to be so pernicious—is certainly favourable both to the permanency and to the extension of civilization."

The lesson to learn from this suggestive passage is, to use our wealth and the resources of our civilization with no sparing hand; to aid our troops with the best artillery and other warlike materials; to develop the resources of steam, the electric telegraph, and of other modern inventions, in facilitating their operations, in securing their comfort and safety against disease and hardship, so as to direct their entire energies against their barbarous foe.

Such warfare, though most costly at first, is really the least burdensome, because it is the most effective. The only barrier to its adoption is a doubt as to our fiscal resources, and that doubt I have endeavoured to remove.