Chapter III.

Of Taxes On Commodities, Or Indirect Taxes.

§ 1. A Tax on all commodities would fall on Profits.

By taxes on commodities are commonly meant those which are levied either on the producers, or on the carriers or dealers who intervene between them and the final purchasers for consumption; the phrase being, by custom, confined to indirect taxes--those which are advanced by one person, to be, as is expected and intended, reimbursed by another.

Taxes on commodities are either on production within the country, or on importation into it, or on conveyance or sale within it, and are classed respectively as excise, customs, or tolls and transit duties. To whichever class they belong, and at whatever stage in the progress of the community they may be imposed, they are equivalent to an increase of the cost of production; using that term in its most enlarged sense, which includes the cost of transport and distribution, or, in common phrase, of bringing the commodity to market.

When the cost of production is increased artificially by a tax, the effect is the same as when it is increased by natural causes. If only one or a few commodities are affected, their value and price rise, so as to compensate the producer or dealer for the peculiar burden; but if there were a tax on all commodities, exactly proportioned to their value, no such compensation would be obtained; there would neither be a general rise of values, which is an absurdity, nor of prices, which depend on causes entirely different. There would, however, as Mr. McCulloch has pointed out, be a disturbance of values, some falling, others rising, owing to a circumstance, the effect of which on values and prices we formerly discussed--the different durability of the capital employed in different occupations. The gross produce of industry consists of two parts; one portion serving to replace the capital consumed, while the other portion is profit. Now, equal capital in two branches of production must have equal expectations of profit; but if a greater portion of the one than of the other is fixed capital, or if that fixed capital is more durable, there will be a less consumption of capital in the year, and less will be required to replace it, so that the profit, if absolutely the same, will form a greater proportion of the annual returns. To derive from a capital of $1,000 a profit of $100, the one producer may have to sell produce to the value of $1,100, the other only to the value of $500. If on these two branches of industry a tax be imposed of five per cent *ad valorem*, the last will be charged only with $25, the first with $55; leaving to the one $75 profit, to the other only $45. To equalize, therefore, their expectation of profit, the one commodity must rise in price, or the other must fall, or both.(343) Commodities made chiefly by immediate labor must rise in value, as compared with those which are chiefly made by machinery. It is unnecessary to prosecute this branch of the inquiry any further.

§ 2. Taxes on particular commodities fall on the consumer.

A tax on any one commodity, whether laid on its production, its importation, its carriage from place to place, or its sale, and whether the tax be a fixed sum of money for a given quantity of the commodity, or an *ad valorem* duty, will, as a general rule, raise the value and price of the commodity by at least the amount of the tax. There are few cases in which it does not raise them by more than that amount. In the first place, there are few taxes on production on account of which it is not found or deemed necessary to impose restrictive regulations on the manufacturers or dealers, in order to check evasions of the tax. These regulations are always sources of trouble and annoyance, and generally of expense, for all of which, being peculiar disadvantages, the producers or dealers must have compensation in the price of their commodity. These restrictions also frequently interfere with the processes of manufacture, requiring the producer to carry on his operations in the way most convenient to the revenue, though not the cheapest or most efficient for purposes of production. Any regulations whatever, enforced by law, make it difficult for the producer to adopt new and improved processes. Further, the necessity of advancing the tax obliges producers and dealers to carry on their business with larger capitals than would otherwise be necessary, on the whole of which they must receive the ordinary rate of profit, though a part only is employed in defraying the real expenses of production or importation. The price of the article must be such as to afford a profit on more than its natural value, instead of a profit on only its natural value. Neither ought it to be forgotten that whatever renders a larger capital necessary in any trade or business limits the competition in that business, and, by giving something like a monopoly to a few dealers, may enable them either to keep up the price beyond what would afford the ordinary rate of profit, or to obtain the ordinary rate of profit with a less degree of exertion for improving and cheapening their commodity. In these several modes, taxes on commodities often cost to the consumer, through the increased price of the article, much more than they bring into the treasury of the state. There is still another consideration: the higher price necessitated by the tax almost always checks the demand for the commodity; and, since there are many improvements in production which, to make them practicable, require a certain extent of demand, such improvements are obstructed, and many of them prevented altogether. It is a well-known fact that the branches of production in which fewest improvements are made are those with which the revenue-officer interferes; and that nothing, in general, gives a greater impulse to improvements in the production of a commodity than taking off a tax which narrowed the market for it.

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§ 3. Peculiar effects of taxes on Necessaries.

Such are the effects of taxes on commodities, considered generally; but, as there are some commodities (those composing the necessaries of the laborer) of which the values have an influence on the distribution of wealth among different classes of the community, it is requisite to trace the effects of taxes on those particular articles somewhat further. If a tax be laid, say on corn, and the price rises in proportion to the tax, the rise of price may operate in two ways: First, it may lower the condition of the laboring-classes; temporarily, indeed, it can scarcely fail to do so. If it diminishes their consumption of the produce of the earth, or makes them resort to a food which the soil produces more abundantly, and therefore more cheaply, it to that extent contributes to throw back agriculture upon more fertile lands or less costly processes, and to lower the value and price of corn; which therefore ultimately settles at a price, increased not by the whole amount of the tax, but by only a part of its amount. Secondly, however, it may happen that the dearness of the taxed food does not lower the habitual standard of the laborer's requirements, but that wages, on the contrary, through an action on population, rise, in shorter or longer periods, so as to compensate the laborers for their portion of the tax, the compensation being of course at the expense of profits. Taxes on necessaries must thus have one of two effects: either they lower the condition of the laboring-classes, or they exact from the owners of capital, in addition to the amount due to the state on their own necessaries, the amount due on those consumed by the laborers. In the last case, the tax on necessaries, like a tax on wages, is equivalent to a peculiar tax on profits; which is, like all other partial taxation, unjust, and is specially prejudicial to the increase of the national wealth.

It remains to speak of the effect on rent. Assuming (what is usually the fact) that the consumption of food is not diminished, the same cultivation as before will be necessary to supply the wants of the community; the margin of cultivation, to use Dr. Chalmers's expression, remains where it was; and the same land or capital, which, as the least productive, already regulated the value and price of the whole produce, will continue to regulate them. The effect which a tax on agricultural produce will have on rent depends on its affecting or not affecting the difference between the return to this least productive land or capital and the returns to other lands and capitals. Now, this depends on the manner in which the tax is imposed. If it is an *ad valorem* tax, or, what is the same thing, a fixed proportion of the produce, such as tithe for example, it evidently lowers corn-rents. For it takes more corn from the better lands than from the worse, and exactly in the degree in which they are better, land of twice the productiveness paying twice as much to the tithe. Whatever takes more from the greater of two quantities than from the less, diminishes the difference between them. The imposition of a tithe on corn would take a tithe also from corn-rent: for, if we reduce a series of numbers by a tenth each, the differences between them are reduced one tenth.

For example, let there be five qualities of land, which severally yield, on the same extent of ground and with the same expenditure, 100, 90, 80, 70, and 60 bushels of wheat, the last of these being the lowest quality which the demand for food renders it necessary to cultivate. The rent of these lands will be as follows:

The land producing 100 bushels will yield a rent of 100-60, or 40 bushels. That producing 90 bushels, a rent of 90-60, or 30 bushels. That producing 80 bushels, a rent of 80-60, or 20 bushels. That producing 70 bushels, a rent of 70-60, or 10 bushels. That producing 60 bushels, will yield no rent.

Now let a tithe be imposed, which takes from these five pieces of land 10, 9, 8, 7, and 6 bushels respectively, the fifth quality still being the one which regulates the price, but returning to the farmer, after payment of tithe, no more than 54 bushels:

The land producing 100 bushels reduced to 90 will yield a rent of 90-54, or 36 bushels. That producing 90 bushels reduced to 81, a rent of 81-54, or 27 bushels. That producing 80 bushels reduced to 72, a rent of 72-54, or 18 bushels. That producing 70 bushels reduced to 63, a rent of 63-54, or 9 bushels.

and that producing 60 bushels, reduced to 54, will yield, as before, no rent. So that the rent of the first quality of land has lost four bushels; of the second, three; of the third, two; and of the fourth, one: that is, each has lost exactly one tenth. A tax, therefore, of a fixed proportion of the produce lowers, in the same proportion, corn-rent.

But it is only corn-rent that is lowered, and not rent estimated in money, or in any other commodity. For, in the same proportion as corn-rent is reduced in quantity, the corn composing it is raised in value. Under the tithe, 54 bushels will be worth in the market what 60 were before; and nine tenths will in all cases sell for as much as the whole ten tenths previously sold for. The landlords will therefore be compensated in value and price for what they lose in quantity, and will suffer only so far as they consume their rent in kind, or, after receiving it in money, expend it in agricultural produce; that is, they only suffer as consumers of agricultural produce, and in common with all the other consumers. Considered as landlords, they have the same income as before; the tithe, therefore, falls on the consumer, and not on the landlord.

The same effect would be produced on rent if the tax, instead of being a fixed proportion of the produce, were a fixed sum per quarter or per bushel. A tax which takes a shilling for every bushel takes more shillings from one field than from another, just in proportion as it produces more bushels; and operates exactly like tithe, except that tithe is not only the same proportion on all lands, but is also the same proportion at all times, while a fixed sum of money per bushel will amount to a greater or less proportion, according as corn is cheap or dear.

There are other modes of taxing agriculture, which would affect rent differently. A tax proportioned to the rent would fall wholly on the rent, and would not at all raise the price of corn, which is regulated by the portion of the produce that pays no rent. A fixed tax of so much per cultivated acre, without distinction of value, would have effects directly the reverse. Taking no more from the best qualities of land than from the worst, it would leave the differences the same as before, and consequently the same corn-rents, and the landlords would profit to the full extent of the rise of price. To put the thing in another manner: the price must rise sufficiently to enable the worst land to pay the tax, thus enabling all lands which produce more than the worst to pay not only the tax, but also an increased rent to the landlords. These, however, are not so much taxes on the produce of land as taxes on the land itself. Taxes on the produce, properly so called, whether fixed or *ad valorem*, do not affect rent, but fall on the consumer, profits, however, generally bearing either the whole or the greatest part of the portion which is levied on the consumption of the laboring-classes.

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§ 4. --how modified by the tendency of profits to a minimum.

The preceding is, I apprehend, a correct statement of the manner in which taxes on agricultural produce operate when first laid on. When, however, they are of old standing, their effect may be different. Now, the effect of accumulation, when attended by its usual accompaniment, an increase of population, is to increase the value and price of food, to raise rent, and to lower profits; that is, to do precisely what is done by a tax on agricultural produce, except that this does not raise rent. The tax, therefore, merely anticipates the rise of price and fall of profits which would have taken place ultimately through the mere progress of accumulation, while it at the same time prevents, or at least retards, that progress. If the rate of profit was such that the effect of the tithe reduces it to the practical minimum, after a lapse of time which would have admitted of a rise of one tenth from the natural progress of wealth, the consumer will be paying no more than he would have paid if the tithe had never existed; he will have ceased to pay any portion of it, and the person who will really pay it is the landlord, whom it deprives of the increase of rent which would by that time have accrued to him. At every successive point in this interval of time, less of the burden will rest on the consumer, and more of it on the landlord; and, in the ultimate result, the minimum of profits will be reached with a smaller capital and population and a lower rental than if the course of things had not been disturbed by the imposition of the tax. If, on the other hand, the tithe or other tax on agricultural produce does not reduce profits to the minimum, but to something above the minimum, accumulation will not be stopped, but only slackened; and, if population also increases, the twofold increase will continue to produce its effects--a rise of the price of corn and an increase of rent. These consequences, however, will not take place with the same rapidity as if the higher rate of profit had continued. At the end of twenty years the country will have a smaller population and capital than, but for the tax, it would by that time have had; the landlords will have a smaller rent, and the price of corn, having increased less rapidly than it would otherwise have done, will not be so much as a tenth higher than what, if there had been no tax, it would by that time have become. A part of the tax, therefore, will already have ceased to fall on the consumer and devolved upon the landlord, and the proportion will become greater and greater by lapse of time.

But though tithes and other taxes on agricultural produce, when of long standing, either do not raise the price of food and lower profits at all, or, if at all, not in proportion to the tax, yet the abrogation of such taxes, when they exist, does not the less diminish price, and, in general, raise the rate of profit. The abolition of a tithe takes one tenth from the cost of production, and consequently from the price, of all agricultural produce; and, unless it permanently raises the laborer's requirements, it lowers the cost of labor and raises profits. Rent, estimated in money or in commodities, generally remains as before; estimated in agricultural produce, it is raised. The country adds as much, by the repeal of a tithe, to the margin which intervenes between it and the stationary state as was cut off from that margin by the tithe when first imposed. Accumulation is greatly accelerated, and, if population also increases, the price of corn immediately begins to recover itself and rent to rise, thus gradually transferring the benefit of the remission from the consumer to the landlord.

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§ 5. Effects of discriminating Duties.

We have hitherto inquired into the effects of taxes on commodities, on the assumption that they are levied impartially on every mode in which the commodity can be produced or brought to market. Another class of considerations is opened, if we suppose that this impartiality is not maintained, and that the tax is imposed, not on the commodity, but on some particular mode of obtaining it.

Suppose that a commodity is capable of being made by two different processes--as a manufactured commodity may be produced either by hand or by steam-power--sugar may be made either from the sugar-cane or from beet-root, cattle fattened either on hay and green crops or on oil-cake and the refuse of breweries. It is the interest of the community that, of the two methods, producers should adopt that which produces the best article at the lowest price. This being also the interest of the producers, unless protected against competition, and shielded from the penalties of indolence, the process most advantageous to the community is that which, if not interfered with by Government, they ultimately find it to their advantage to adopt. Suppose, however, that a tax is laid on one of the processes, and no tax at all, or one of smaller amount, on the other. If the taxed process is the one which the producers would not have adopted, the measure is simply nugatory. But if the tax falls, as it is of course intended to do, upon the one which they would have adopted, it creates an artificial motive for preferring the untaxed process, though the inferior of the two. If, therefore, it has any effect at all, it causes the commodity to be produced of worse quality, or at a greater expense of labor; it causes so much of the labor of the community to be wasted, and the capital employed in supporting and remunerating that labor to be expended as uselessly as if it were spent in hiring men to dig holes and fill them up again. This waste of labor and capital constitutes an addition to the cost of production of the commodity, which raises its value and price in a corresponding ratio, and thus the owners of the capital are indemnified. The loss falls on the consumers; though the capital of the country is also eventually diminished, by the diminution of their means of saving, and, in some degree, of their inducements to save.

The kind of tax, therefore, which comes under the general denomination of a discriminating duty, transgresses the rule that taxes should take as little as possible from the taxpayer beyond what they bring into the treasury of the state. A discriminating duty makes the consumer pay two distinct taxes, only one of which is paid to the Government, and that frequently the less onerous of the two. If a tax were laid on sugar produced from the cane, leaving the sugar from beet-root untaxed, then in so far as cane-sugar continued to be used, the tax on it would be paid to the treasury, and might be as unobjectionable as most other taxes; but if cane-sugar, having previously been cheaper than beet-root sugar, was now dearer, and beet-root sugar was to any considerable amount substituted for it, and fields laid out and manufactories established in consequence, the Government would gain no revenue from the beet-root sugar, while the consumers of it would pay a real tax. They would pay for beet-root sugar more than they had previously paid for cane-sugar, and the difference would go to indemnify producers for a portion of the labor of the country actually thrown away, in producing by the labor of (say) three hundred men what could be obtained by the other process with the labor of two hundred.

An interesting illustration, in late years, of the operation of a discriminating duty is to be found in the case of different grades of sugar imported into the United States. Our tariff levied certain duties on different grades of sugar classified by color, on the theory that color was a test of saccharine strength. Cargoes were examined and compared with graded sugars hermetically sealed in glass bottles and distributed by the Dutch authorities, whence came the name of "Dutch standard." Grades from No. 1 (melado) to No. 10 must go to the refiner before consumption; but the grades to No. 13, although some might have gone into immediate consumption, were usually sent to be manufactured into the highest grades of soft and hard sugars. So long as the sugar was secured by evaporation in open coppers, or by passing the molasses through a layer of clay, saccharine strength and color went fairly well together. But with the invention of the vacuum-pan and the centrifugal wheel, by which the sugar is reduced through a shorter and more effective process, sugar of a certain grade of color by the Dutch standard contained a much greater degree of sweetness than that produced by the old methods. Cuban planters, therefore, were permitted to send sugar into this country at a duty which was really levied on grades much inferior, and so paid a less duty than other sugars. The products of one country were discriminated against in favor of another. The difficulty was settled by using the polariscope, which gave an absolute chemical test of the sweetness, irrespective of color.

One of the commonest cases of discriminating duties is that of a tax on the importation of a commodity capable of being produced at home, unaccompanied by an equivalent tax on the home production. A commodity is never permanently imported, unless it can be obtained from abroad at a smaller cost of labor and capital, on the whole, than is necessary for producing it. If, therefore, by a duty on the importation, it is rendered cheaper to produce the article than to import it, an extra quantity of labor and capital is expended, without any extra result. The labor is useless, and the capital is spent in paying people for laboriously doing nothing. All custom duties which operate as an encouragement to the home production of the taxed article are thus an eminently wasteful mode of raising a revenue.

This character belongs in a peculiar degree to custom duties on the produce of land, unless countervailed by excise duties on the home production. Such taxes bring less into the public treasury, compared with what they take from the consumers, than any other imposts to which civilized nations are usually subject. If the wheat produced in a country is twenty millions of quarters, and the consumption twenty-one millions, a million being annually imported, and if on this million a duty is laid which raises the price ten shillings per quarter, the price which is raised is not that of the million only, but of the whole twenty-one millions. Taking the most favorable but extremely improbable supposition, that the importation is not at all checked, nor the home production enlarged, the state gains a revenue of only half a million, while the consumers are taxed ten millions and a half, the ten millions being a contribution to the home growers, who are forced by competition to resign it all to the landlords. The consumer thus pays to the owners of land an additional tax, equal to twenty times that which he pays to the state. Let us now suppose that the tax really checks importation. Suppose importation stopped altogether in ordinary years; it being found that the million of quarters can be obtained, by a more elaborate cultivation, or by breaking up inferior land, at a less advance than ten shillings upon the previous price--say, for instance, five shillings a quarter. The revenue now obtains nothing, except from the extraordinary imports which may happen to take place in a season of scarcity. But the consumers pay every year a tax of five shillings on the whole twenty-one millions of quarters, amounting to £5,250,000 sterling. Of this the odd £250,000 goes to compensate the growers of the last million of quarters for the labor and capital wasted under the compulsion of the law. The remaining £5,000,000 go to enrich the landlords as before.

Such is the operation of what are technically termed corn laws, when first laid on; and such continues to be their operation so long as they have any effect at all in raising the price of corn. The difference between a country without corn laws and a country which has long had corn laws is not so much that the last has a higher price or a larger rental, but that it has the same price and the same rental with a smaller aggregate capital and a smaller population. The imposition of corn laws raises rents, but retards that progress of accumulation which would in no long period have raised them fully as much. The repeal of corn laws tends to lower rents, but it unchains a force which, in a progressive state of capital and population, restores and even increases the former amount.

What we have said of duties on importation generally is equally applicable to discriminating duties which favor importation from one place, or in one particular manner, in contradistinction to others; such as the preference given to the produce of a colony, or of a country with which there is a commercial treaty; or the higher duties formerly imposed by our navigation laws on goods imported in other than British shipping. Whatever else may be alleged in favor of such distinctions, whenever they are not nugatory, they are economically wasteful. They induce a resort to a more costly mode of obtaining a commodity in lieu of one less costly, and thus cause a portion of the labor which the country employs in providing itself with foreign commodities to be sacrificed without return.

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§ 6. Effects produced on international Exchange by Duties on Exports and on Imports.

There is one more point, relating to the operation of taxes on commodities conveyed from one country to another, which requires notice: the influences which they exert on international exchanges. Every tax on a commodity tends to raise its price, and consequently to lessen the demand for it in the market in which it is sold. All taxes on international trade tend, therefore, to produce a disturbance, and a readjustment of what we have termed the equation of international demand.

Taxes on foreign trade are of two kinds--taxes on imports and on exports. On the first aspect of the matter it would seem that both these taxes are paid by the consumers of the commodity; that taxes on exports consequently fall entirely on foreigners, taxes on imports wholly on the home consumer. The true state of the case, however, is much more complicated.

"By taxing exports we may, in certain circumstances, produce a division of the advantage of the trade more favorable to ourselves. In some cases we may draw into our coffers, at the expense of foreigners, not only the whole tax, but more than the tax; in other cases we should gain exactly the tax; in others, less than the tax. In this last case a part of the tax is borne by ourselves; possibly the whole, possibly even, as we shall show, more than the whole."

Reverting to the supposititious case employed of a trade between England and the United States in iron and corn, suppose that the United States taxes her export of corn, the tax not being supposed high enough to induce England to produce corn for herself. The price at which corn can be sold in England is augmented by the tax. This will probably diminish the quantity consumed. It may diminish it so much that, even at the increased price, there will not be required so great a money value as before. Or it may not diminish it at all, or so little that, in consequence of the higher price, a greater money value will be purchased than before. In this last case, the United States will gain, at the expense of England, not only the whole amount of the duty, but more; for, the money value of her exports to England being increased, while her imports remain the same, money will flow into the United States from England. The price of corn will rise in the United States, and consequently in England; but the price of iron will fall in England, and consequently in the United States. We shall export less corn and import more iron, till the equilibrium is restored. It thus appears (what is at first sight somewhat remarkable) that, by taxing her exports, the United States would, in some conceivable circumstances, not only gain from her foreign customers the whole amount of the tax, but would also get her imports cheaper. She would get them cheaper in two ways, for she would obtain them for less money, and would have more money to purchase them with. England, on the other hand, would suffer doubly: she would have to pay for her corn a price increased not only by the duty, but by the influx of money into the United States, while the same change in the distribution of the circulating medium would leave her less money to purchase it with.(344)

This, however, is only one of three possible cases. If, after the imposition of the duty, England requires so diminished a quantity of corn that its total value is exactly the same as before, the balance of trade would be undisturbed; the United States will gain the duty, England will lose it, and nothing more. If, again, the imposition of the duty occasions such a falling off in the demand that England requires a less pecuniary value than before, our exports will no longer pay for our imports; money must pass from the United States into England; and England's share of the advantage of the trade will be increased. By the change in the distribution of money, corn will fall in the United States, and therefore it will, of course, fall in England. Thus England will not pay the whole of the tax. From the same cause, iron will rise in England, and consequently in the United States. When this alteration of prices has so adjusted the demand that the corn and the iron again pay for one another, the result is that England has paid only a part of the tax, and the remainder of what has been received into our treasury has come indirectly out of the pockets of our own consumers of iron, who pay a higher price for that imported commodity in consequence of the tax on our exports, while at the same time they, in consequence of the efflux of money and the fall of prices, have smaller money incomes wherewith to pay for the iron at that advanced price.

It is not an impossible supposition that by taxing our exports we might not only gain nothing from the foreigner, the tax being paid out of our own pockets, but might even compel our own people to pay a second tax to the foreigner. Suppose, as before, that the demand of England for corn falls off so much on the imposition of the duty that she requires a smaller money value than before, but that the case is so different with iron in the United States that when the price rises the demand either does not fall off at all, or so little that the money value required is greater than before. The first effect of laying on the duty is, as before, that the corn exported will no longer pay for the iron imported.

Money will therefore flow out of the United States into England. One effect is to raise the price of iron in England, and consequently in the United States. But this, by the supposition, instead of stopping the efflux of money, only makes it greater; because, the higher the price, the greater the money value of the iron consumed. The balance, therefore, can only be restored by the other effect, which is going on at the same time, namely, the fall of corn in the American and consequently in the English market. Even when corn has fallen so low that its price with the duty is only equal to what its price without the duty was at first, it is not a necessary consequence that the fall will stop; for the same amount of exportation as before will not now suffice to pay the increased money value of the imports; and although the English consumers have now not only corn at the old price, but likewise increased money incomes, it is not certain that they will be inclined to employ the increase of their incomes in increasing their purchases of corn. The price of corn, therefore, must perhaps fall, to restore the equilibrium, more than the whole amount of the duty; England may be enabled to import corn at a lower price when it is taxed than when it was untaxed; and this gain she will acquire at the expense of the

American consumers of iron, who, in addition, will be the real payers of the whole of what is received at their own custom-house under the name of duties on the export of corn.

In general, however, there could be little doubt that a country which imposed such taxes would succeed in making foreign countries contribute something to its revenue; but, unless the taxed article be one for which their demand is extremely urgent, they will seldom pay the whole of the amount which the tax brings in.(345)

The result of this investigation may, then, be generally formulated as follows: That country which has the strongest demand for the commodities of other countries as compared with the demand of other countries for its own commodities will pay the burden of the export duty.

Thus far of duties on exports. We now proceed to the more ordinary case of duties on imports: "We have had an example of a tax on exports, that is, on foreigners, falling in part on ourselves. We shall therefore not be surprised if we find a tax on imports, that is, on ourselves, partly falling upon foreigners.

"Instead of taxing the corn which we export, suppose that we tax the iron which we import. The duty which we are now supposing must not be what is termed a protecting duty, that is, a duty sufficiently high to induce us to produce the article at home. If it had this effect, it would destroy entirely the trade both in corn and in iron, and both countries would lose the whole of the advantage which they previously gained by exchanging those commodities with one another. We suppose a duty which might diminish the consumption of the article, but which would not prevent us from continuing to import, as before, whatever iron we did consume.

"The equilibrium of trade would be disturbed if the imposition of the tax diminished, in the slightest degree, the quantity of iron consumed. For, as the tax is levied at our own custom-house, the English exporter only receives the same price as formerly, though the American consumer pays a higher one. If, therefore, there be any diminution of the quantity bought, although a larger sum of money may be actually laid out in the article, a smaller one will be due from the United States to England: this sum will no longer be an equivalent for the sum due from England to the United States for corn, the balance therefore must be paid in money. Prices will fall in England and rise in the United States; iron will fall in the English market; corn will rise in the American. The English will pay a higher price for corn, and will have smaller money incomes to buy it with; while the Americans will obtain iron cheaper, that is, its price will exceed what it previously was by less than the amount of the duty, while their means of purchasing it will be increased by the increase of their money incomes.

"If the imposition of the tax does not diminish the demand, it will leave the trade exactly as it was before. We shall import as much, and export as much; the whole of the tax will be paid out of our own pockets.

"But the imposition of a tax on a commodity almost always diminishes the demand more or less; and it can never, or scarcely ever, increase the demand. It may, therefore, be laid down as a principle that a tax on imported commodities, when it really operates as a tax, and not as a prohibition either total or partial, almost always falls in part upon the foreigners who consume our goods; and that this is a mode in which a nation may appropriate to itself, at the expense of foreigners, a larger share than would otherwise belong to it of the increase in the general productiveness of the labor and capital of the world, which results from the interchange of commodities among nations."

Those are, therefore, in the right who maintain that taxes on imports are partly paid by foreigners; but they are mistaken when they say that it is by the foreign producer. It is not on the person from whom we buy, but on all those who buy from us, that a portion of our custom duties spontaneously falls. It is the foreign consumer of our exported commodities who is obliged to pay a higher price for them because we maintain revenue duties on foreign goods.

There are but two cases in which duties on commodities can in any degree, or in any manner, fall on the producer. One is, when the article is a strict monopoly, and at a scarcity price. The price in this case being only limited by the desires of the buyer--the sum obtained for the restricted supply being the utmost which the buyers would consent to give rather than go without it--if the treasury intercepts a part of this, the price can not be further raised to compensate for the tax, and it must be paid from the monopoly profits. A tax on rare and high-priced wines will fall wholly on the growers, or rather, on the owners of the vineyards. The second case, in which the producer sometimes bears a portion of the tax, is more important: the case of duties on the produce of land or of mines. These might be so high as to diminish materially the demand for the produce, and compel the abandonment of some of the inferior qualities of land or mines. Supposing this to be the effect, the consumers, both in the country itself and in those which dealt with it, would obtain the produce at smaller cost; and a part only, instead of the whole, of the duty would fall on the purchaser, who would be indemnified chiefly at the expense of the land-owners or mine-owners in the producing country.

Duties on importation may, then, be divided "into two classes: (1) those which have the effect of encouraging some particular branch of domestic industry [protective duties], (2) and those which have not [revenue duties]. The former are purely mischievous, both to the country imposing them and to those with whom it trades. They prevent a saving of labor and capital, which, if permitted to be made, would be divided in some proportion or other between the importing country and the countries which buy what that country does or might export.

"The other class of duties are those which do not encourage one mode of procuring an article at the expense of another, but allow interchange to take place just as if the duty did not exist, and to produce the saving of labor which constitutes the motive to international as to all other commerce. Of this kind are duties on the importation of any commodity which could not by any possibility be produced at home, and duties not sufficiently high to counterbalance the difference of expense between the production of the article at home and its importation. Of the money which is brought into the treasury of any country by taxes of this last description, a part only is paid by the people of that country; the remainder by the foreign consumers of their goods.

"Nevertheless, this latter kind of taxes are in principle as ineligible as the former, though not precisely on the same ground. A protecting duty can never be a cause of gain, but always and necessarily of loss, to the country imposing it, just so far as it is efficacious to its end. A non-protecting duty, on the contrary, would in most cases be a source of gain to the country imposing it, in so far as throwing part of the weight of its taxes upon other people is a gain; but it would be a means which it could seldom be advisable to adopt, being so easily counteracted by a precisely similar proceeding on the other side.

"If the United States, in the case already supposed, sought to obtain for herself more than her natural share of the advantage of the trade with England, by imposing a duty upon iron, England would only have to impose a duty upon corn sufficient to diminish the demand for that article about as much as the demand for iron had been diminished in the United States by the tax. Things would then be as before, and each country would pay its own tax--unless, indeed, the sum of the two duties exceeded the entire advantage of the trade, for in that case the trade and its advantage would cease entirely.

"There would be no advantage, therefore, in imposing duties of this kind with a view to gain by them in the manner which has been pointed out. But, when any part of the revenue is derived from taxes on commodities, these may often be as little objectionable as the rest. It is evident, too, that considerations of reciprocity, which are quite unessential when the matter in debate is a protecting duty, are of material importance when the repeal of duties of this other description is discussed. A country can not be expected to renounce the power of taxing foreigners unless foreigners will in return practice toward itself the same forbearance. The only mode in which a country can save itself from being a loser by the revenue duties imposed by other countries on its commodities is, to impose corresponding revenue duties on theirs. Only it must take care that those duties be not so high as to exceed all that remains of the advantage of the trade, and put an end to importation altogether, causing the article to be either produced at home, or imported from another and a dearer market."

By "reciprocity" is meant that, when one country admits goods free of duty from a second country, this latter country will also admit the commodities of the former free of duty; or, as is often the case, if not free of duty, at a less than the usual rate. Until the last few years we have had a reciprocity treaty with Canada, but it is not now in force; and an arrangement for closer commercial relations with Mexico is now under consideration.