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BRIEF CONSIDERATIONS
ON THE
INCOME TAX AND TARIFF REFORM,
IN CONNECTION WITH THE
PRESENT STATE OF THE CURRENCY.

BY R. K. DOUGLAS.

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April 14th, 1842.
BRIEF CONSIDERATIONS,

&c.

The exigencies of the state demand a revenue of fifty-two millions. The taxable capacity of the nation furnishes a revenue of forty-eight millions. The minister proposes the imposition of a direct tax to make good the difference. He accompanies the proposal by a reduction of the import duties on several articles of necessity and comfort. His calculation is, that in the commencement, the reduction of import duties will lead to a diminution of revenue; but that, in a few years, by the stimulus which it will give to commerce and manufactures, not only will there be no diminution, but so great an increase, as to admit of the repeal of the direct tax. The commerce and manufactures of England, it is said, are possessed of a wonderful elasticity. They contain within them a principle of expansion, which renders it impossible permanently to injure their profitable exercise. They are suffering, at present, under a casual depression, which the unaided influence of time would ultimately remove. The alterations of the customs' tariff will accelerate its removal.

There are assumptions in the ministerial views of the taxable powers of the nation, that require consideration. The amount of commercial suffering, in so large a community as that of England, can, at best, be loosely calculated. There is no topic on which party representations are indulged in with so uncontrolled a licenc. If there be any data from which a satisfactory conclusion can be drawn, it would seem to be the
receipts of the Exchequer. With a very trifling exception, the whole of our taxation is imposed on articles of consumption. There is hardly any truth so certain as, that the consumption of society at all times, and under all circumstances, is equal to its means. A falling off in the taxes upon consumable articles, and a diminution of the means of consumption, are as certainly united as political effect and cause can be united. The taxes of England have been falling off for several years. The inference is, that the power of consumption of the people of England has been diminishing, in an equal ratio, and for an equal length of time.

Such a diminution might arise from an irregular apportionment of taxation. Taxes on the raw material have a natural tendency to increase the difficulty of competition, by increasing, in a much higher ratio than the tax would otherwise require, the cost of the finished article. Taxes on manufactures in progress increase the difficulty of competition, by the shackles which they impose on the inventive expedients of the manufacturer. So far as the power of consumption may have been diminished by a partial pressure of taxation, a more judicious and better regulated system will give relief. But there is a more important cause of diminished consumption in the weight of taxation, than in the inequality of its pressure. This weight the ministerial proposal does not contemplate removing; on the contrary, it goes to increase its amount.

If the diminution of the revenue had been a result of any unwillingness on the part of the public to consume taxed articles; if, throughout the nation, profits were considerable, and wages remunerative, and commerce, internal and external, active; a direct tax, it might be confidently predicted, would produce an additional revenue. If the diminution of the revenue has been a result, not of want of will, but of want of power, it is difficult to see how that want of power is to be supplied by an increase of one at least of the evils, if not the chief of them, out of which it arises. When so much reliance is placed on the elasticity and expansibility of English trade and commerce, it is worth while seriously to consider,—seeing that these principles have been in action for the last five years, without producing the effect that is now so confidently anticipated,—whether, the result being so unfortunate, while their action was burdened, as it has been during these five years, the result will not be more unfortunate, when the burden is added to.

It is, at all times, illogical, it is mostly unsafe, to argue from a figure; and the elasticity and expansibility of our commerce are but a figure at best. It is still less safe to argue from a figure,
without adhering to the figure in its integrity. If our commerce must be assimilated to steam, the capital, by which it is put in motion, is assuredly the fire. Now, it appears to us, that the engineer, who, reasoning on the elasticity and expansibility of steam, should rake out the fire by way of increasing the speed of his engine, would not act a more absurd part, than he, who, reasoning on the elasticity and expansibility of commerce, should, in order to give it an increased impetus, diminish the capital on which it exists.

The government is the guardian of peace and property. The expenses required for the machinery of government are the premium, which peace and property pay for their insurance. The premium must, in the nature of things, be proportioned to the value of the property insured. The price of the most excellent government must be such as the nation can afford to pay. It would not be easy to determine the limits of English industry; to calculate what number of yards of cotton, or how many grosses of buttons, the machinery of Manchester and of Birmingham could be made to supply. If the manufacturers could act by the Chancellor of the Exchequer, as they are accused of acting by their workmen; if they could settle his demands on the truck system; an increase of his demands might be met without any miraculous exertion. But, while the tax gatherer must be paid in money, it would seem a miracle—the general stock of money receiving no increase,—if an increased demand on the part of the tax gatherer, should be met without difficulty; or, supposing the increase to be great, that it should be met at all.

Capital and confidence are the only fuel by which the steam of trade can be raised and maintained. Capital and confidence are the sole secret of that elasticity and expansibility, from which so much is hoped and expected. Capital and confidence, commercially speaking, are money. If not absolutely identified with the amount of money in circulation, that amount is their measure and their expression. When money is abundant, they are abundant; when money is steady, they are steady; when it fluctuates, they fluctuate; when it diminishes, they diminish. The relation between taxes and money is not less intimate. To draw from a community, whose money in circulation is small, a large amount of revenue, is as impossible, as to draw from a cistern, whose supply is limited, a large quantity of water. Supposing it possible—and the power of government is great—that, by dint of rigorous and unpitying exaction, the ministerial plan, of compelling an increase of revenue, without a corresponding augmentation of the funds which are to produce it, should succeed, the success could only be transitory; and would
be certainly followed by a more formidable and less remediable defalcation.

That the ministerial anticipations may be permanently, or even temporarily, realised, without a very great aggravation of the present suffering, it is essential, that the amount of money in circulation should be increased. To point out a safe and easy means of increase is the purpose of the following pages. What degree of attention we may excite in high places, we do not pretend to guess. Unless we are mistaken, the public mind is, at this moment, disposed to entertain the question of the circulation, if calmly and coolly discussed. It is our wish so to discuss it, and, not only without party views, but, without the extravagance, into which zealous theorists on such a subject are too often betrayed.

Our purpose is two-fold. We would point out a remedial plan, to be acted upon cotemporaneously with the ministerial scheme of an income tax; and, like that scheme, to be limited in its operation to three years. It may appear somewhat singular for us to avow, that we are impelled to this, solely from a desire to give the ministerial scheme a fair chance of success. But opposed as we are to the general politics of the present government, we are much more opposed to the present sufferings of the people. And we believe that our plan, if acted on, will be found still more contributive to the restoration of commercial prosperity than to the restoration of the revenue. We are, moreover, anxious that the change from indirect taxation, with its numerous drawbacks, to the simplicity of direct taxation, should be fairly tried; which, unless accompanied by some such plan as we contemplate, we believe it cannot be. (a)

We would also desire to point out, what we look upon as the only permanent remedy for a distress, which, from all the attention that we have been able to give to its history and symptoms, is traceable solely, or if not solely, principally, to the deficiency of our circulation; and to the violent changes that, from time to time, have taken place in its amount.

There is not a little explanation to be entered into, before we can come to the details of either of these remedial processes; but we shall spend no longer time in making it than is absolutely necessary; and those who choose to accompany us in our progress will not have to complain of any undue accumulation of minute facts, or unrequired display of arguments. If we cannot convince, we shall, at least, not weary them.

The history of money is traced by Adam Smith in his usual satisfactory manner. The earliest trading exchanges were acts of barter. As productions varied, and wants increased, necessity
suggested the employment, as a medium and measure of exchange of some material, whose value was generally admitted, and the possession of which was an object of common desire. The metals were employed, as a medium of exchange, at a very early period of history. And of these, gold and silver, thence denominated precious, i.e., metals of price, have in nearly every instance, obtained the preference. At first, the precious metals were used in the form of bullion, and the exchange was made by weight. It afterwards became a fashion, and then a rule, to impress the metal employed as money with certain marks, indicative of its weight and quality. Traffickers were thus enabled to effect their exchanges by tale; and the time and labour of weighing and of assay were saved. In those states, that are called civilised, the coining of the precious metals, in order to their employment as money, has for many years been universal.

With the invention of coined money, the genius of trade would appear to have been exhausted. The forms of the impress have been infinitely varied; the names of the coin in different states and in the same, have, from time to time, been altered; the purity of the metal employed has been now debased, now restored; the metal itself has been changed, silver taking the place of gold, and gold of silver; laws for the regulation of “tender” have been made; and penalties attached to the adulteration or diminution or conversion of coin; but the principle, first laid down more than two thousand years ago, has continued, during that long lapse, to be acted upon—that only the precious metals, in their form of coin, should be deemed and taken as money. It is true, that the Lombard bankers introduced into commerce the form of bill commonly known by the name of mercantile, and that their successors, at a later period, improved on the device, by the introduction of the banker’s bill, or note. It is also true, that for a considerable number of years, in England and in several other countries, the bank note, from necessity not less than custom, and occasionally by law, has occupied, in a great measure, the place of metallic money. But in no instance, has any recognised substitution of the one for the other been effected; in theory, paper money has, in every instance, been considered as of value and has obtained currency, as the representative of metallic money, and in no other capacity.

The reason which led, in the first instance, to the exclusive employment of gold and silver as money, and which has continued it to our days, doubtless was the comparative scarcity of those metals; or, in other words, the great amount of labour required for their production, and the facility with which, from their high value in exchange—a consequence of their scarcity—considerable sums might, in the form of silver or of gold, be transported
from place to place. There were other recommendations, in their ductility and impressibility, for their employment in a coined form; and their non-liability to diminish from rust was not without its force. But their chiefest merit was—that they combined great value with small space. To all intents and purposes, the exchanges which take place, through the means of coined metals, are as much acts of barter as those which took place, previous to the use of metal as money, or to the invention of coining. The weight of the piece of silver, which is exchanged against a bushel of wheat, or, in common language, the price of the bushel of wheat depends on the assumption—that, for the production of the silver and for the production of the wheat, the same amount of labour has been required—that, to produce an ounce of the one and to produce sixty pounds of the other, are tasks which demand a similar application of power for a similar length of time. The five shillings are accepted in exchange for the bushel of wheat, not because of any abstract value which law has given to them, but simply because in order to produce the number of grains of silver contained in the five shillings, the possessor must have expended, in mining, smelting, and purifying, the same amount of time and toil that the possessor of the wheat must have expended, in ploughing, sowing, and reaping. The value of the one, and the value of the other commodity, are equally real and inherent. If, instead of exchanging the bushel of wheat against an ounce of coined silver, the farmer were to exchange it against a pair of stockings, of the marketable value of an ounce of silver, the transaction would, in all essentials, be the same. It may appear unnecessary to dwell at length upon the circumstance—that metallic money derives its utility, as a medium of exchange, solely from its real value; that the figures stamped upon are no more than proofs and indexes of the fineness and weight; that the sovereign or the shilling differs, in no respect, from the same amount of gold or of silver in ingot; but in order to succeed, as we think we shall do, in showing that this real value, which, to the first inventors, constituted the great virtue, forms, in our advanced state of society, the principal demerit of a metallic currency, it is very important, that there should be no doubt or misapprehension of a fact, which is essential to our argument.

Price is a term applied, in ordinary language, to two things in themselves different, and regulated by different laws. When Sir Richard Arkwright had succeeded in his invention of the "mule," the price of cotton yarn fell; because, by reason of that very beautiful invention, a smaller quantity of labour was required for the production of cotton yarn, than with the old machinery. When, in 1819, Mr. Peel passed his bill for the