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Essays in Taxation

Chapters XVIII

Recent Literature in Taxation

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## Chapter XVIII—Recent Literature in Taxation

In some respects the most significant fact of the recent development of economic thought is its growing international character. Not only does the modern economist find it necessary to draw his facts from a wider field than that of his own country; but if he desires to keep abreast of the advances in theory he also finds it incumbent on him to read many languages and to note the movements in widely distant countries. In no domain is this more true than in the science of finance. In the following pages an attempt will be made to run hurriedly over the productions of the period from 1885 to 1900 and in a general way to outline their value to the English-speaking student.

### *I. Germany*

There are two methods of writing economic works. One is essentially historical and descriptive, giving an account of the past and of the actual state of legislation and of methods, and attempting to draw therefrom a statement of the underlying principles; the other is primarily abstract and deductive, making little use of history and of facts, but endeavoring to reach conclusions from well-defined principles. The modern German writers on the science of finance had for some time devoted themselves almost exclusively to the first method; but more recently a partial revulsion of feeling was indicated by the appearance of several works which attempted to avoid the exaggerations of the extreme historical school, and to take refuge once again in purely theoretic discussion. For Germany, this was a salutary reaction, because of the comparative discredit into which pure theory had fallen.

The *Handbook of the Science of Finance* by Professor Umpfenbach<sup>1</sup> is, strictly speaking, not a new work. But as the first edition appeared well-nigh half a century ago, and as some notable additions have been made to the present volume, it may be discussed as practically a new publication. The first edition was published just before the current toward historical economics had set in strongly; the sec-

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<sup>1</sup> *Lehrbuch der Finanzwissenschaft*. Von Dr. Karl Umpfenbach, o. o. Professor der Staatswissenschaften an der Universität Königsberg. Zweite Auflage. Stuttgart, 1887.

ond edition appeared just after the tide has begun to ebb. There are hence almost no vestiges of the inductive treatment. In fact, the strong points of the work are the rigor of the theoretic discussions and the precision of the definitions.

The general tone of the book is conservative. The author opposes the further industrial activity of the state, even in such domains as that of railroads; he has nothing but ridicule for the idea of the income tax in practical life; he declares that the question of progression does not belong to the science of finance at all, because it involves communistic changes of property. These contentions are interesting as giving the work the characteristics of the contemporary French rather than of the modern German authorities. As a matter of fact, they exerted no influence on German practice.

A more important point in Umpfenbach's book is methodology. The common division of public revenues by French writers like Leroy-Beaulieu is into domains, industrial undertakings and taxes, corresponding to Adam Smith's old division into revenue from public lands, from public stock and from taxes. The German writers, on the other hand, early saw this division to be inadequate and, as we know, added another category, fees. The exact definition of fees, however, has always been a mooted point; and few writers agree exactly on the distinction between fees and taxes. Umpfenbach defines fees as "special payments for the cost of a financial transaction, in so far as it is necessary for political purposes, and in so far as the expenses surpass those which it would be permissible to lay on the community as such." Passing over the minor infelicities of expression, we may say that at all events it conveys a precise meaning.

Had Umpfenbach rested here, his book would have rendered a substantial service to the clearing up of ideas. But he adds to his three categories of fees, taxes and domains a fourth category of fiscal (or lucrative) prerogatives, which are defined as "compulsorily reserved, exclusive rights of the state over specified kinds of property rights." The foundation of this fourth category is to be found in the mediaeval regalia; but Umpfenbach makes it now include such widely diverse revenues as the poll tax, taxes on communication, on the transfer of property, on legacies and successions, revenue from treasure-trove, from mines, salt, tobacco, spirits and bank monopolies, and finally from licenses. He lays great emphasis on this divi-

sion; in fact, it is the thread which runs through the whole work. But the only result of its adoption would be undue restriction of the field of taxation, and an increased confusion as to the exact nature of taxes. What he gains by the separation of fees from taxes, he loses by the separation of taxes from fiscal prerogatives. His methodological explanation will not, on the whole, commend itself to students of finance.

Much the same class of questions is treated by Professor Neumann in his work entitled Taxation.<sup>1</sup> Neumann is well known as one of the prominent modern writers on finance. His book on *Die progressive Einkommensteuer* remains one of the best works on that knotty subject; and in that, as in all his earlier writings, is to be found a rich fund of historical and statistical information. In this newer work, however, Neumann has undertaken to analyze in detail the nature of taxation. The first volume, the only one that has yet appeared, is introductory and to a great extent methodological. The twelve chapters treat mainly of four topics: classification of public revenues, fees versus taxes, the principle of public interest, and direct versus indirect taxes. In the discussion of these points the author shows great acuteness and dialectic skill; yet three criticisms can be made. The discussion is too minute, and often borders on the wearisome; the style is anything but clear; and the conclusions are not advanced with the necessary precision.

After criticising the usual method of classification, Neumann defines fees as payments for special services of the state or the community, so far, but only so far, as the public interest is involved. This would include the tolls of roads, canals, railways and telegraphs, but would exclude the revenues from fiscal monopolies. He devotes over two hundred pages to the discussion of public interest, and finally defines it, but in so characteristic a manner that it must be given in the original:—

"Oeffentliches Interesse im (objectiven) engeren Sinne ist ein auf menschliche Handlungen oder Werke bezügliches Interesse von Zielen oder Zwecken so grosser Bedeutung, dass um ihretwil-

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<sup>1</sup>*Die Steuer. Erster Band. Die Steuer und das Öffentliche Interesse. Eine Untersuchung über das Wesen der Steuer und die Gliederung der Staats- und Gemeinde-Einnahmen.* Von Fr. J. Neumann. Leipzig, 1887.

len eine Auferlegung von Opfern nach herrschender Annahme gerechtfertigt ist."

In other words, two hundred pages are devoted to proving that a "public interest is an interest of such importance as to justify a sacrifice on the part of the individual." This might surely have been shown in less than two hundred pages, and without the formidable array of proofs and counter-proofs, of exceptions and sub-exceptions, which fairly crowd the book and bewilder the reader. To be over-exact is often as great a mistake as to be superficial, for either excess is apt to result in confusion.

Much better is his discussion of the four methods of classifying direct and indirect taxes. Neumann finally allies himself to Parieu's method, making the distinction depend on the permanence or periodicity of the act. Other parts of the book also will prove suggestive, as, for instance, his discussion of the relation between taxes and prices; but it might well have been boiled down to one-fifth of its present compass. Questions of methodology are not the all-absorbing ones.

The same criticism can certainly not be urged in the case of the new volume of Wagner's *Science of Finance*.<sup>1</sup> The first volumes of this great work are familiar to all students. Wagner started out over three decades ago with the idea of publishing a new edition of Rau's finance, but soon found his differences from Rau to be so great as to call for a new creation, instead of a new edition. The first two volumes of the work appeared years ago—the second in 1880. This third volume deals not with general theory, but with special questions in the history and practice of taxation. Unfortunately Wagner's plan was so comprehensive, and his method so productive of repetition, as to make the completion of the work doubtful. In fact as it progressed, Wagner entered into continually greater details which would have been in place only in a cyclopedia. The consequence is that it has

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<sup>1</sup> *Finanzwissenschaft*. Von Adolf Wagner. Dritter Theil: *Specielle Steuerlehre*.—*Uebersicht der Steuergeschichte wichtigerer Staaten und Zeitalter bis Ende des 18. Jahrhunderts*.—*Die Besteuerung des 19. Jahrhunderts*. Einleitung: *Britische und französische Besteuerung*. Leipzig, 1889. The first part of this, much enlarged, appeared in a second edition in 1910 under the title of *Steuergeschichte vom Altertum bis zur Gegenwart*.



taken him ten years to write the third volume, and that he has been able to discuss the present condition of French and English taxation only. Wagner himself seems to have tired of this minute method and now intimates that he can scarcely foresee the time when the work will be finished. This is the more to be regretted because the systems of France and of England have already been made familiar to us by other good publications, while the condition of the remaining countries, which he has not yet fully treated, is far from being equally well known.<sup>1</sup> It is to be hoped that the work will not be left a torso. The present volume requires no especial commentary beyond the statement that in all his details of the history and practice of taxation, as well as in his general summaries of the French and English systems, Wagner remains true to the ideas advanced in the former volumes. He has continually in mind the demands of what he calls the socio-political principles—the principles whereby the government is looked up to as the regulator of the distribution of wealth, and taxation is regarded as an engine to redress inequalities of fortune. Much as we may dissent from the fundamental points of Wagner's general position, it must be conceded that he has developed his doctrines with consummate keenness and phenomenal learning, and that his *Science of Finance*, even though incomplete, still stands at the head of financial literature for the suggestiveness of its views and the wealth of its contents.

Professor Cohn's *Science of Finance*<sup>2</sup> is constructed on an entirely different method. It forms the second volume of the general *System of Political Economy*, the opening volume of which was published several years before. After a general introduction on the nature and history of the science of finance, the first book treats of the essence of government economy or of the public household, dealing with public functions, public expenditures, the history and development of public revenue, and the budget. The second book discusses the prin-

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<sup>1</sup> The fourth volume, devoted to the details of German taxation, appeared in two parts in 1899 and 1901.

<sup>2</sup> *System der Finanzwissenschaft. Ein Lesebuch für Studierende.* Von Gustav Cohn, ord. Prof., der Staatswissenschaften an der Universität Göttingen. Stuttgart, 1889.

*The Science of Finance.* By Gustav Cohn. Translated by T. B. Veblen. Chicago, 1895.

ciples, history and actual systems of taxation. The third book is devoted to a presentation of German taxation. Finally, a fourth book treats of public credit.

The chief interest of the work lies in the first book and in the first chapter of the second book. The remainder of the volume is always interesting, as are all of Cohn's writings, but it contains nothing that can be called a real contribution to financial science. He is indeed, through his intimate acquaintance with Swiss financial methods, often enabled to illustrate certain principles more successfully than any of his predecessors, but in the main he follows the rather conservative lines of accepted views. The book on German taxation gives an excellent picture of the present situation, but is omitted in the translation. The chapters on public credit contain an admirable historical survey, but in matter of principle do not afford anything which cannot be found at least equally well said in Professor Adams' work.

It is otherwise with the discussion of the general principles of finance; for Cohn's treatment of the various kinds of public contributions marks a distinct advance. His classification of public revenues, although not completely satisfactory, is based upon an analysis of comparative private and public benefits, and is elucidated by some suggestive remarks. His description of the historical development of public economy is clearer than that of Roscher, and traces the chief lines of development with a master-hand. His short discussion of the principles of local finance is especially welcome when compared to the laborious and confused chapters to be found in other treatises.

Most striking is his treatment of the equities of taxation. Cohn shows that just as the accepted ideas of justice are a product of historical evolution, so the conception of just taxation has assumed a different form in every stage of human progress. He gives a sketch of the different ideas that swayed the public mind at various epochs, and then devotes himself in particular to a consideration of progressive taxation. The result of the discussion is the adoption of the principle of progression, not for Wagner's socio-political reasons, but simply because under modern conditions proportional taxation no longer corresponds to taxable capacity. Cohn seeks to define and to limit the principles of progression, and in connection with this gives a good history of the doctrine of the "minimum of subsistence."

Weak points are not lacking as, for instance, in his discussion of the incidence of taxation. Here, as in many other places, Cohn conceals the difficulties of the problem by the brilliancy of his style. As this brilliancy is entirely absent in the translation, the work has by no means received so favorable a reception in its English dress as it did in the original. It will have served our purpose, however, to call attention to the points in which Cohn's book marks an advance on its predecessors. Wagner, Roscher and Cohn supplement one another. Wagner is more radical and audacious in his suggestions and illustrates his theories by a wealth of statistical material; Roscher is weak in theory but strong in history; Cohn seeks to keep the golden mean. Cohn's *Finance* is superior to all others in two respects,—in clearness of style and in philosophic breadth of view. We welcome this new accession to economic literature as one of the most important works of the decade, but very much fear that it will help the American student to only a slight extent.

A more recent text-book is by Dr. Vocke. As this is, however, in some respects simply the elaboration of an earlier work, we shall devote a few words to its predecessor. In this former work, entitled *Contributions, Imposts and Taxes*,<sup>1</sup> Dr. Vocke treats the subject in a somewhat peculiar way. After having won his spurs after half a century ago by his *History of English Taxation*, at that time the most meritorious work on the topic, the venerable doctor here attempts to find the moral basis and relative justification of the various taxes. The problem which he sets out to solve is that of the exact difference between direct and indirect taxation; and the conclusion to which he comes is at all events novel. In an introductory book he traces the literary doctrine of the basis of taxation in general, and divides the authors into three schools: the representatives of the contract or protection doctrine, including most of the earlier English and French works; the group which emphasizes the sovereign nature of the state and the duties of the subject, but without any deeper historical insight; and finally the sociopolitical writers, who like Held, Schaffle and Wagner, attribute to the state a compensatory duty in taxing

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<sup>1</sup> *Die Abgaben, Auflagen und die Steuer, vom Standpunkte der Geschichte und der Sittlichkeit.* Von Dr. Wilhelm Vocke, geheimer Oberrechnungsrat. Stuttgart, 1887.

away inequalities of fortune. Vocke strongly objects to the latter as involving a dangerous socialistic tendency, and asserts that such considerations do not at all appertain to the science of finance. Neither in these schools, however, nor in the works of the "independent" writers, like Neumann, Stein and Roscher, does he find an answer to the great question: What is the ethical basis of direct, as compared with indirect, taxation?

An answer, he thinks, is possible only through a study of historical development. With characteristic German thoroughness, but with what seems unnecessary detail, Vocke begins with a psychological analysis of the individual and traces the evolution of his economic condition and qualities through the family and tribe to the state. In the patriarchal stage, as in the family, the contributions of the individual to the support of the whole are compulsory, universal and proportional to property. In the feudal state the contributions of the vassal take the shape of personal services and of payments in kind, afterwards converted into money payments. Then begin the customs and duties, the fees and tolls, the excises or evil duties (*mala tolata*), all of which rest primarily upon power—upon the imperious necessities of the overlord. The legal basis is the princely prerogative, the *imperium*; in other words, naked force. Quite different from these veritable impositions are the taxes proper. Beginning as the *trinoda necessitas*, aids and contributions, they soon develop into poll, property, and finally into profit taxes. These taxes, properly so called, rest on voluntary contributions, not on mere force; they are universal, not special; their standard is personal ability, not mere expediency. In the tax there is a moral quality, in the customs and excises there is none.

This is the keynote of Vocke's book. The tax proper in its historical genesis is the direct tax, and connotes certain ethical ideas; the indirect taxes are properly not taxes at all, but imposts, and carry with them no moral implication. He makes a careful study of the development of indirect taxation in the next political form—the absolute monarchy; and he shows how and why the basis of direct taxation was changed from property to product. The remaining two-thirds of the work are devoted to a consideration of taxation in the actual or constitutional state. He concludes that the correct point of view has been won, and that future reform must proceed in the path of elaborating the direct taxes and of curtailing the indirect taxes.

Vocke's book may be termed a study in the philosophy of taxation. It contains no figures, and but few facts. The author's contention as to indirect taxation may be met by the reflection that justice cannot be the sole maxim of taxation; for the chief practical consideration is to balance the budget, and some taxes which are technically just may be practically un-remunerative and therefore unserviceable. Moreover, Vocke fails to perceive that there are various kinds of indirect taxes, and that many of the imperfections of the older systems are removable. Yet, on the whole, he will serve as a useful antidote to such flimsy thinkers as McCulloch, who exerted so considerable an influence on English views on taxation.

In his later book entitled *The Elements of the Science of Finance*,<sup>1</sup> which constitutes the second volume of Frankenstein's *Hand- und Lehrbuch der Staatswissenschaften*, Dr. Vocke devotes himself to the discussion of general principles. It is a relief, after the huge and many-volumed German works on the subject, to find the science here treated as a whole and in so compact a form. In other respects, also, Dr. Vocke's work differs from most of its German predecessors. It contains almost no references to literature and it is written in a style calculated to interest the average layman. But to those acquainted with the work just discussed, the present volume will not bring much that is new.

Here, as before, he looks upon financial history simply as the medium of bringing out more and more clearly with every generation the idea of faculty. Here, as before, he confines the term tax to direct taxation and eliminates from the whole field of compulsory revenue the so-called *Verbrauchsauflagen*, or indirect taxes on consumption. His whole classification of revenues is very confusing. On the one hand he puts the private economic revenues, by which he understands those from the public domain and from the prerogatives as well as from industrial undertakings; on the other hand he puts the compulsory revenues, divided into fees, payments for transactions (*Verkehrsabgaben*) and taxes. Between these he puts another category, the so-called "mixed" revenues, which he again divides oddly enough into economic monopolies, fiscal monopolies and imposts

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<sup>1</sup> *Die Grundzüge der Finanzwissenschaft*. Von Dr. Wilhelm Vocke. Leipzig, 1894.

(*Verbrauchsauflagen*). It will be seen how un-modern this is, and how little Dr. Vocke has profited by recent discussion both at home and abroad.

At the same time, in his treatment of taxation we find many good points, such as his examination of the place where a tax ought to be paid, involving some of the difficult questions of double taxation. A valuable feature of the book is the discussion of the norm of taxation and the measure of faculty, in which he treats successively of property, product and income.

Undue stress seems to be laid on the second of these, although the author cleverly exposes some of the exaggerations of his predecessors. Most of the book is of interest chiefly to Germans; but as there are certain broad traits of industrial developments common to all countries, students of American and English finance will find in Dr. Vocke's volume many hints which can be fruitfully applied to conditions at home. The bibliography, especially as regards foreign literature, is weak. The book can, nevertheless, be recommended, with important reservations, to advanced students.

We come finally to the two volumes by the distinguished South German statesman and scholar. Dr. Schaffle, known to all students of fiscal problems since the appearance in 1880 of his important work on *Die Grundsätze der Steuerpolitik*.<sup>1</sup> Of his other contributions to social and political science it is not necessary to speak, further than to say that in many fields of scientific as well as of political activity he must be classed among the foremost writers and administrators on the European continent. His two latest volumes quite maintain his great reputation: they are exact, incisive, clear and up to date; and for the advanced student they present many points of view worthy of consideration. Yet, when the works are carefully analyzed, it will be found that most of the fundamental ideas are already contained, although, of course, in less systematic form, in the earlier work of 1880; and, to the average Anglo-Saxon reader, the disadvantages of the scheme of devoting two large volumes to the general and the

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<sup>1</sup> Dr. Albert Schilffle, *Die Steuern: Allgemeiner Theil. (Hand- und Lehrbuch der Staatswissenschaften. II. Abtheilung: Finanzwissenschaft. 2. Band.)* Leipzig, 1895; *Die Steuern: Besonderer Theil. Von Dr. Albert Schaffle (Hand- und Lehrbuch der Staatswissenschaften. II. Abtheilung: Finanzwissenschaft. 3. Band.)* Leipzig, 1897.

special part of taxation will be more apparent than the advantages. The Germans love to be "gründlich" at all costs, and to devote a great deal of space in their scientific treatises to what impresses the practical man as savoring a little of metaphysics; and this we see especially in the general part of Dr. Schaffle's work. Another weakness of the work is inseparable from the method of treatment. The second volume, or special part, really depends, in many of the chief divisions, upon the discussion of the more fundamental problems in the first part. As a consequence we have a large amount of repetition. Most readers will therefore find the second volume, which contains in compressed form no inconsiderable portion of the first volume, at once more interesting and more valuable.

In the second volume the most important discussion is that of the classification of taxes, for upon this depends much of the distinctive value of the author's treatment. Dr. Schaffle divides taxes into direct and indirect; but he takes strong exception to the commonly accepted theory that it is only the direct taxes which correspond to the "faculty" of the individual. According to him the indirect taxes accomplish the same result, but in a different way. The direct taxes are intended, in his opinion, to reach the general or average taxable capacity of the individual, while the indirect taxes are intended to reach the "actual" or "special" or "individualized" ability. He is able to reach this conclusion, however, only by counting among the indirect taxes, in addition to the ordinary taxes on commodities and exchange, what he calls the *Bereicherungssteuern*, including the taxes on inheritances, on unearned increment and on lotteries, as well as some others not usually put into that category, like sumptuary taxes or so-called direct expenditure taxes. His whole discussion of indirect taxation thus becomes highly artificial, and by this arbitrary classification loses much of its merit. It is not likely that English or American writers will adopt his classification.

In the general discussion of principles Dr. Schaffle is quite up to date. He lays stress, for instance, on the modern problems connected with double taxation and with the treatment of corporations. To Germans the books will be of value because of the special importance attached to Swiss and American experience. For the average American reader there is still a great deal that is only of very secondary interest; but the advanced student will find in almost every

chapter of the two works some food for thought. They are distinctly able works of an able man.

## *II. France*

After the volume of McCulloch, published in 1853, no English work on the principles of taxation appeared for forty years. English and American readers were compelled to depend on German and French treatises; and, from greater familiarity with the language, more commonly on the latter. But since it has been, until recently, an unfortunate habit of many French writers on finance to discuss their topics in happy disregard of the newest thought in other countries, it follows that even their most approved works on taxation give the reader only the French view, not the wider scientific or comparative view. This reproach to French literature has now been removed by the admirable work of Professor Denis, who is, however, not a Frenchman, but a Belgian.

Professor Denis made his reputation as an authority on finance some years ago with the valuable report to the city council of Brussels on the income tax, afterwards reprinted as a bulky volume. He thereupon gave courses of lectures on finance, which were subsequently published in book form under the general title *Taxation*.<sup>1</sup> The present volume gives the ground covered in 1886-87; a succeeding volume was to continue the subject so as to include the whole field of taxation, but never appeared.

The fact that these are published lectures contributes to the value, as well as somewhat to the shortcomings, of the book. The style is simple and clear, and the arrangement is logical and sharply defined; but on the other hand the lecture form has made it impracticable to give authorities for the facts and opinions quoted, except by a short bibliography at the close of each chapter. Furthermore, the details of the argument have not been pursued with such care as would be demanded in a work constructed on other principles. Many of the finer points, including some that are of permanent practical importance in other countries, receive no attention at all. The history and facts of taxation, again, are given only in a very fragmentary way. With all

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<sup>1</sup> *L'Impôt*. Leçons données aux cours publics de la ville de Bruxelles. Par IT. Denis, Professeur à l'Université. Première Série. Bruxelles, 1889. [Accompagne d'un] Atlas de statistique comparée.—Large folio, 25 plates.



these qualifications, however, the book of M. Denis may be regarded as one of the most valuable works on taxation hitherto published. Its chief claim to recognition is not so much the views of the author, as the calm and unbiased consideration of the doctrines of all his predecessors. The fundamental vice of many writers is the assumption that the views expressed by them are new; for ignorance of economic and financial literature is scarcely less common than ignorance of economic and financial facts.

Professor Denis, considering the science of finance as a subordinate division of sociology, and as distinct from political economy although having many points in connection with it, attempts to lay down the laws of the relations of these sciences. The greater part of the book is devoted to a discussion of the problems of justice, and to a consideration of the various direct taxes. On many of the important questions, such as progression, minimum of subsistence, incidence, the basis of taxation, etc., readers who have been confined to French and to older English works will find a wealth of new ideas and a mass of interesting facts. Of course no work written by a European, or at all events by a continental, scholar can be expected to treat primarily of those questions which most interest and affect Americans; but if there is any science at all in finance, such works as this must be deemed of the greatest importance to Americans and Europeans alike. Some minor mistakes might be noted; as the statement that the idea of the differentiation of the income tax is to be ascribed to a German source. In reality the theory can be dated back to the beginning of the century in England, and it has been fully discussed in parliamentary reports and in scientific essays for many decades. But such smaller points must be overlooked in a consideration of the general tone and value of the book. The usefulness of the work is greatly increased by the accompanying volume of graphic tables.

France has of late been devoting more attention to practice than to theory. Since the standard work of Leroy-Beaulieu, published in the middle of the seventies, there are down to the end of the century very few books to be mentioned of wider scientific interest, if we except the brilliant little sketch by Léon Say published during the eighties. But France also has had her practical difficulties to meet, and it is to these practical questions that most of the recent writers have addressed themselves.

In France the discontent is of long standing. Almost every author for the last twenty years has been calling attention to the lack of system and to the glaring inequalities in the present practice of taxation. Ever since the war of 1870 repeated efforts have been made to supplement the direct taxes and to rid the country of some of the burdensome indirect taxes by the creation of an income tax; and the advantages of such a policy had been hotly discussed by both sides. In 1887 the strife was renewed owing to the proposition of Dr. Koenig, whose *memoire on A New Income Tax*<sup>1</sup> was considered so important that the project recommended in its pages was adopted by M. Dauphin, then minister of finance, and was introduced as a government measure.

Dr. Koenig holds that the imposition of an income tax assessed on the declared income of individuals is practically impossible in France. He finds that the experience of England and Germany all point to the same result—evasion has become a system, deceit the rule. A far better method appears to him to be to calculate the income by some outward sign, such as the house rent. The contribution personnelle et mobilière is already based on this principle which Dr. Koenig proposes to develop. It is a well-known fact that the lower we go in the social scale the higher is the proportion that house rent bears to total expenses or to income. Rent is an increasing element of expense in proportion as expenses decrease; the poor spend relatively far more than the rich. Dr. Koenig suggests a progressive rate of taxation assessed on the house rent, maintaining that this progressive rate will counterbalance the decreasing proportion that rent bears to expense. The plan is skilfully worked out; but, in common with all plans of taxing expense, it has one defect. What a man spends is no sure criterion of his income, or of his ability; and the higher you go, the more uncertain does the criterion become. The objection to the prevalent French system is that the wealthy escape their share of taxation; but a tax on expense, even at a progressive rate, while undoubtedly a step in advance, would not completely remove the objection. Dr. Koenig's plan has indeed the merit of doing away with all

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<sup>1</sup> *Un nouvel Impôt sur le Revenu*. Mémoire qui a inspiré le projet du gouvernement relatif à la réforme de la contribution personnelle mobilière. Par Dr. Gustave Koenig. Paris, 1887.

inquisitorial difficulties and of attaching itself to existing conditions; but it is at best a half-hearted measure, a mere temporizing expedient to be thrown as a sop to the radicals. It did not satisfy them, and the bill was finally killed in the legislature. The work is, nevertheless, interesting and contains much valuable information. The allusions to America are not always felicitous.

M. Guyot, in his work on *The Income Tax*,<sup>1</sup> sets himself a different task. The critics of the French system of taxation have always contended that personal property is unduly exempted. M. Guyot was requested by official authority to investigate their propositions for an income or for a general property tax; and his book furnishes a noteworthy addition to the studies previously made by Menier, Denis and Chailley. The report is one of description rather than of analysis, and the various parts are of quite unequal value. The account of the English income tax is neither detailed nor satisfactory. Attention, however, is called to the familiar fact that the English system is not a tax on general income, but on product, and that with the exception of schedule D (income from commercial pursuits, etc.) it may well be compared with the *contribution foncière* and the *contribution personnelle et mobilière* of France. The description of American taxation is exceedingly inadequate, and that of the German system is not much better. On the other hand, the working of the Italian law of 1877 taxing the income of movable property is fully explained; and a good chapter is devoted to the income and property taxes of the Swiss cantons.

M. Guyot is not a partisan of the income tax; he advances the common argument of the inquisitorial character of the tax, and discusses rather superficially the question of progression. The history of the various projects from 1848 onward is, however, well written and interesting. He thinks that France committed a grave mistake after the Prussian war in increasing the indirect taxes. He leans toward a general property tax, like that advocated by Menier; and in discussing the objection that the valuation is attended with great difficulties, he says: "La pratique des Etats-Unis et de la Suisse répond encore a cette objection." It is to be feared that this rosy view is caused by

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<sup>1</sup> *L'Impôt sur le revenu: rapport fait au nom de la commission du budget*. Par Yves Guyot. Paris, 1887.

ignorance of American methods and results. His error shows the extreme danger of general analogies, and tends to make one skeptical as to M. Guyot's other propositions.

The practical outcome of the report is a proposal to reform the property taxes. The land tax, as imposed in 1790, is an apportioned tax. As a consequence, as early as 1821 the division between the departments and the communes was so unequal that in some cases the tax amounted to one-sixth, in others to only one-seventeenth, of the rent or produce. A general valuation or cadastre was begun in 1808 but was not finished until 1851; and in the meantime the valuation has again greatly changed so that at present the amount of tax paid varies from one to twenty per cent of the rent. As an escape from this crying inequality, Guyot demands its conversion into a percentage tax, in order that each plot may bear its proportionate burden. He would, moreover, have the tax levied on capital value, rather than on rent or annual value. A similar reform is suggested for the tax on personal property (*la contribution personnelle et mobilière*), which since 1832 has been apportioned. These changes, together with an abolition of the duties on the transfer of land, amounting at present to ten per cent of the value, would in his opinion result in a far more equable and remunerative fiscal system, and would serve as an introduction to still greater and more important reforms. The student of comparative taxation will find in the volume many useful hints.

In a widely read work on *Financial Reform*<sup>1</sup> another remedy is proposed. The title is somewhat misleading, as M. Raynaud is the member of the society for financial reform who offered the prize, while M. Lorrain is the author of the essay which took the prize. M. Lorrain's plan, based on taxation of expense, is very simple. He would have the government abolish all existing taxes except the import and succession duties. In their stead the government would defray all its expenses through the issue of circulating notes payable in three years. These notes (*bons du trésor*) while outstanding, would be subjected to a tax of ten centimes per day for every hundred

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<sup>1</sup> *Les Reformes Fiscales. Révolution pacifique par l'impôt sur les revenus.* Système de M. Jacques Lorrain, premier lauréat, etc. Par A. Raynaud, avec une préface d'Augustin Gallopin. Paris, 1888.

francs, the tax being paid by the holder, who affixes stamps for the requisite amount to the notes. The idea is that the notes are to form the sole circulating medium (with the exception noted below) ; and that, since every one must use them, every one will pay a tax in proportion to his expense. To provide for the exigencies of trade, all checks, drafts, bills of exchange, etc., are subjected to a like tax. No note is to be issued under one hundred francs, so that the poor, who will continue to use small silver change, will be practically exempt. The sale of the stamps will defray all public expenses.

Were it not that this fantastic idea received the prize of two thousand francs, and that the society for financial reform circulated it extensively, it would not deserve notice here. Its absurdity is apparent. As a currency scheme it approaches dangerously near to the fiat-money craze; for the government will have no check on its extravagance, and the notes, like the assignats of old, must inevitably depreciate. As a tax scheme it is flagrantly inequitable, for the tax will be paid, not by the consumer, as is claimed, but by the debtor, whether he be producer or consumer. Even if paid by the consumer, it would be, like most taxes on consumption, regressive, or as the French say, *progressif a rebours*. Finally, it would fall harder on the working classes than on all others, because it would bring about compulsory purchases of commodities in order to get rid of the notes as soon as possible. To call such a tax *l'impôt sur les revenus* is a crass misnomer.

It would, however, lead us too far afield to pursue the study of practical tax reform in France. What primarily interests us here is the general scientific work in taxation; and with two exceptions the last decade of the century has little to show. The book of Professor Worms, on *The Science of Finance*,<sup>1</sup> is a smoothly written discussion of some general questions. The author displays familiarity with the older German literature; but, as he himself states, desires to give only an elementary account of some of the fundamental problems. He is on the whole very fair; but the book is not clear-cut, and is not apt to exert a considerable influence outside of France.

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<sup>1</sup> *Doctrine, histoire, pratique et reforme financière ou expose élémentaire et critique de la science des finances*. Par Emile Worms, Professeur A la Faculté de Rennes. Paris, 1891.

A distinctly abler work is that of M. Stourm who has long been favorably known as the author of an excellent book on the Budget, as well as of the classic study on the Finances of the old Regime and the Revolution. It was natural, therefore, to expect that his new book on *General Systems of Taxation*<sup>1</sup> would be an important contribution to science. As a matter of fact, the work proves to be in some respects disappointing.

As in all the writings of M. Stourm, the reader will indeed find a simplicity and clearness that leave nothing to be desired. But some readers will question whether the simplicity is not in this case, at least, to some extent purchased at the cost of thoroughness. To the student who knows anything of the complexities of many of the problems, the sang-froid with which whole classes of arguments are either absolutely ignored or coolly brushed aside is surprising. M. Stourm is a conservative; but that he should treat the arguments of his opponents so cavalierly is disheartening. The book has many admirable points; it brings clearly before us the real problems of French taxation, it abounds in felicitous illustrations, and it has some excellent criticism of certain French projects. Its chief defect is its insularity. Although it abounds in references to French works, only a single foreign author on finance is mentioned later than John Stuart Mill, and that one, an American, in a wrong connection and with a mutilated title. Not a word is said about the contributions to theory made by the Germans, the Italians, the Dutch and others, during the past ten or twenty years. Even as to the practical discussions, we find with a few exceptions little that has not already been said, although perhaps not with the same grace and skill, in other works. It may be alleged in extenuation that the book was meant to explain the French system of taxation; but there is nothing in the title to suggest this, and even in a discussion of the French system more regard should have been paid to general theory. The book also contains some errors of fact. The system of direct taxation in America is mentioned as a warning example of the "mixed system," or combination of the income tax with the property tax; while the general property tax, or "*impôt sur le capital*" is said never to have existed alone anywhere.

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<sup>1</sup> *Systèmes généraux d'impôts*. Par René Stourm, ancien inspecteur des finances. Paris, 1893

The work is in a measure redeemed by a vivacity of treatment and a charm of style, unusual even among Frenchmen. Were it as erudite and profound as it is attractive, it would rank with the most remarkable books of the decade.

The latest work<sup>1</sup> of the indefatigable French publicist, Fournier de Flaix, although in two volumes, is only the first instalment of what promised to be a stupendous investigation, if it was ever completed. As a matter of fact the work remained a torso. To write the history of taxation throughout the world is not an easy task. To do it adequately, one would need to be not only a polyglot, but also an archæologist of no mean distinction. To depend upon secondary materials, as does our author, is not always completely satisfactory.

M. de Flaix's work is divided into four parts. The first treats of the ancient Oriental civilizations, from Chaldea and Babylon to Egypt and China; the second, of Greece; the third, of Rome; and the fourth, of the feudal epoch in France and the other European states. These four parts occupy very unequal spaces: two hundred and fifty pages are devoted to the Orient and antiquity, and the remaining five hundred and fifty pages to the middle ages. Even thus, however, there is a great deal of padding. When the author, for instance, speaks of the Slavs, he devotes over twenty pages to their origin and historical development and to an account of some of their economic institutions. All of this may be very interesting, but has little or nothing to do with taxation. What is noted of the Slavs is more or less true of the other peoples. It must also be observed that most of the space is devoted to that period of taxation with which we are the most familiar—that is, mediæval taxation, English and Continental. This field has been well worked, and it seems unnecessary to go over it again so much in detail. Nevertheless, some of his aperçus are very striking, as when he sums up the change from Roman to mediæval traditions, in the sentence: "L'impôt devint un droit de propriété pour les uns et une servitude pour les autres."

The chief criticism to be urged is that the author, while saying a great deal about economic and political conditions, generally fails to grasp the real connection between economics and finance or to call

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<sup>1</sup> *L'Impôt dans les diverses civilisations*. Par. E. Fournier de Flaix. Première Série. Paris, 1897.—2 vols.

attention to those particular economic institutions which conditioned the fiscal development. Such statements as that the Arab is on the whole refractory to the notion of "taxes consented to and voluntarily paid" (p. 494), shows that M. de Flaix sometimes describes as national characteristics what are nothing more nor less than the inevitable accompaniments of certain stages of economic progress.

The two volumes of M. de Flaix cover a great deal of interesting and valuable ground; but, with comparatively few exceptions, they contain little that is not to be found elsewhere; and much of the information that they do contain is not put into its proper perspective. For those, however, who wish to have a convenient epitome of the earlier fiscal systems and a good general account of feudal finance the book may be commended.

### *III. Italy, Holland and Spain*

In some respects the best work on certain lines of public finance toward the end of the nineteenth century was done by the two nations with whose literature we are less familiar,—the Italians and the Dutch. It is worth while to call attention to a few of their late books on general theory.

The Italians have always been remarkable for the avidity with which they have seized upon and attempted to assimilate foreign theories; and so it is with the application of the more recent doctrines of value to fiscal problems. Professor Ricca-Salerno's *Science of Finance*<sup>1</sup> is only a compendium, but it is noteworthy for its clear and succinct discussion of fundamental problems. It deals very little with facts, and never with details, but attempts to lay down guiding principles. It is in many respects more difficult to write a small work than a large one, and Ricca-Salerno might easily, had he so chosen, have expanded his volume; for his previous elaborate works on the *History of Fiscal Doctrines in Italy* and the *Theory of Public Debts* show that he is fully acquainted with all the literature of the subject. In this little work he discusses first what he considers to be the three principal doctrines of public finance,—the theories of consumption, exchange and production. Many of his observations are acute, but his criticisms as well as his conclusions are based chiefly on those of

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<sup>1</sup> *Scienza delle Finanze*. Di Giuseppe Ricca-Salerno. Florence, 1888.



Sax. He treats of the doctrines of benefit and of faculty in matters of public revenue; but like most of the continental writers he distinguishes only between fees and taxes. Ricca-Salerno's attempt always to find the golden mean sometimes brings him into difficulties, as in the case of progressive taxation, which he says is not at all a matter of theory, but of practice. The doctrine of incidence is passed over a little too summarily, but the results of recent studies are shown in the application of the marginal utility theory to fiscal problems. On the whole the work is important, not only because of these newer views, but also on account of the eminently lucid presentation, in small compass, of the basic doctrines.

Not only Ricca-Salerno but other writers, young and old, have started out in their discussion from a consideration of the more recent theories of value. Professor Viti de Marco, in his *Theoretical Character of Financial Economy*,<sup>1</sup> endeavors to point out the resemblances and the differences between finance and economics, criticising the prevalent distinction between science and art, and pointing out the real nature of natural law in finance. In a more acute work on *The Scientific Data of Public Finance*,<sup>2</sup> Mazzola attempts to state the general characteristics of finance as a social phenomenon. He not only deals with questions of method, but devotes himself especially to the economic basis of taxation, taking issue in several points with Sax. His work, full of dialectic and of keen reasoning, is only for the most advanced student. It is, however, questionable whether any attempt to explain taxation solely as a form of value can ever succeed.

Professor Zorli goes a step further. Starting out with two works on *Fiscal Systems*<sup>3</sup> and on the Italian Law of Taxation,<sup>4</sup> he soon found it necessary to get a theoretical basis for his conclusions. This he sought in his *Science of Taxation*.<sup>5</sup> He tells us that neither the "concrete-abstract" method nor the historical method alone can solve the

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<sup>1</sup> *Il Carattere Teoretico dell' Economia Finanziaria*. Di A. de Viti de Marco. Roma, 1888.

<sup>2</sup> *I Dati Scientifici della Finanza Pubblica*. Di Ugo Mazzola. Roma, 1890.

<sup>3</sup> *Sistemi Finanziari*. Di Alberto Zorli. Bologna, 1885.

<sup>4</sup> *Il Diritto Tributario Italiano*. Di Alberto Zorli. Bologna, 1887.

<sup>5</sup> *La Scienza dei Tributi in rapporto alle Recenti Teorie Economiche*. Di Alberto Zorli. Bologna, 1890.

problems. For the science of taxation he claims a complete autonomy as the most important part of finance, but would include thereunder also the subject of fees. His classification of public revenues, incidentally remarked, displays some acute criticism of his German and Austrian predecessors, but is not wholly satisfactory. In the chapter on the causes of taxation, Zorli discusses at some length the views of Sax, and while conceding that subjective value and final utility play a considerable role in the interpretation of actual tax systems, he points out that they do not form the sole or even the most important explanation. The final chapter on the effects of taxation is based largely on the work of Cournot. In a still later book entitled the *Psychological Theory of Public Finance*,<sup>1</sup> he develops his own ideas a little more fully. His contention is that just as value and utility depend upon certain psychological processes, so taxation which deals with public value must be studied from the same point of view. In his chapter on the psychological basis, he discusses the Austrian school; in the succeeding chapter on the relations of political and economic sentiment to public finance, he develops the suggestive idea of Loria. But his whole treatment remains, so to say, up in the clouds, and it is often difficult to see the application to practical problems. Finally Professor Conigliani, in his *General Theory of the Effects of Taxation*,<sup>2</sup> gives a very abstract discussion of taxation regarded simply as an addition to the cost of production. He deals with the most fundamental problems; but the effort is a little too much for him, and the treatment of so far-reaching a set of questions is far from satisfactory. All these Italian works, however, show the undoubted impulse given by the modern doctrines of value and utility to the investigation of fiscal theory.

Somewhat similar is the impression made by the recent Dutch works. The writers of Holland are not so well known as they deserve to be. The contest between the schools, that has agitated Germany and Italy and has spread to England and America, has never affected Holland. The Dutch writers have pursued in harmony the even tenor of their way, accepting what was best in both schools, and develop-

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<sup>1</sup> Teoria Psicologica della Finanza Pubblica. Di Alberto Zorli. Bologna, 1890.

<sup>2</sup> Teoria Generale degli Effetti Economici delle Imposte. Saggio di Economia Pura. Del Dottor Carlo A. Conigliani. Milano, 1890.

ing on independent lines. This harmony is in great part due to the leader of the Dutch economists, N. G. Pierson, who from the very outset, accepted Jevons' theories. In fact, the marginal-utility theory of value had been accepted and developed in many of its applications in Holland years before the so-called Austrian school made itself talked of. On the other hand, Holland has not been lacking in those who have devoted themselves especially to the historical and statistical side of economics, without thinking, however, that they possessed all the truth. The science of finance was treated at a somewhat later stage of Dutch development, but with equal success.

One of the most recent treatises is Cort van der Linden's *Textbook of Finance*,<sup>1</sup> which deals in this volume only with taxation. After a general discussion of the nature and importance of public revenues, the author treats of the three divisions of taxation, as based respectively on the legal, the economic and the fiscal principles. The legal principles are those of equality of what he calls social policy, and of universality. The economic principles deal with the pressure and the shifting of taxation. The fiscal principles are those of adequacy, fixity, elasticity and innocuity or the least possible detriment to production and exchange. This division is perhaps not unexceptionable. An important part of the work is devoted to the administrative side of the public finance, such as the methods of payment, of control, of remedies and of penalties. This includes both an historical and a comparative discussion, and attempts to draw some general conclusions. The author divides taxes into those on product (ontvangstbelastingen), on expense, on exchange and on income; and he compares the systems in England, Germany, France and Holland. While not making any noteworthy contribution to theory, van der Linden's work is welcome as extending our material for a comparative science of finance.

A more important treatise is Pierson's *Handbook of Political Economy*,<sup>2</sup> of which the first part was published in 1884. Over half of the present volume is concerned with public finance; although

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<sup>1</sup> *Leerboek der Financiën*. De Theorie der Belastingen. Door P. W. A. Cort van der Linden. Hoogleraar aan de Faculteit der Rechtsgeleerdheid de Groningen. The Hague, 1887.

<sup>2</sup> *Leerboek der Stanihuishoudkunde*. Door N. G. Pierson. Tweede Doel. Haarlem, 1890. This second part, appeared in an English translation in 1912.

many of the problems had several years ago been dealt with by him in his *Grondbeginselen der Staathuishoudkunde*. Pierson's treatment is characterized by broad touches. He is thoroughly at home in all the recent continental, English and even American literature, and tries to get to the bottom of many difficult problems. He is one of the first to attempt a comprehensive theory of incidence combining Schaffle's amortization theory with some more eclectic views. He sharply criticises Mill's treatment of the principle of equality of sacrifice, and constructs his whole theory on the principle of faculty. Everywhere the subject is treated with a master-hand. It is a work not so much for the beginner, as for the advanced student who desires to analyze more carefully the leading theories of modern public finance. Among the discussions to which he devotes special attention is that of progressive taxation, in the course of which he criticises the views of the other Dutch writers, which have been treated in detail elsewhere,<sup>1</sup> and whose influence is seen in the recent reforms of Dutch taxation described in another chapter of the present work.<sup>2</sup>

To mention only the Italian and the Dutch works would by no means exhaust the literature of value to the economist among the less well-known continental nations. Even in the Iberian peninsula there were signs of renewed scientific activity toward the end of the century.

The Portuguese work of Pereira Jardim on the *Science of Finance*<sup>3</sup> interests us more from the standpoint of fiscal practice than of fiscal theory. Not that theoretic discussions are absent from his book or without ability; but as the work is posthumous, based on lectures delivered several years ago, the field of discussion does not include the newer theories of the last decade or two. Leroy-Beaulieu and Parieu among the French, Rau and Jakob among the Germans are the latest foreign authors discussed. Pereira Jardim does not really add anything to theory; nor are his discussions in any way novel; but the history and description of Portuguese public finance, and the contin-

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<sup>1</sup> Cf. Seligman, *Progressive Taxation*.

<sup>2</sup> *Supra*, pp. 466 et seq.

<sup>3</sup> *Principios de Financas*, gusendo as Prelecgoes fpitas polo lente da Faculdade de Direito. Antonio dos Sanctos Pereira Jardim. Quarta edigao. Coimbra, 1891.

ual references to the inter-relations between Portuguese law and economics will be welcome to the student of comparative finance.

On the other hand, the two-volume work of Professor Piernas-Hurtado of Madrid, entitled *Treatise on the Public Economy*,<sup>1</sup> is interesting in many ways. Like the Italians and the Dutch, the Spanish writers have profited by recent foreign investigation, and treat many of the problems from the newer point of view. Piernas-Hurtado, while quoting liberally from Wagner and the other Germans, does not fear to take issue with them occasionally and preserves his own individuality. This we notice not alone in questions of theory, but in problems of practical politics.

The introductory chapter, on the history of the science, is valuable as calling attention to numerous Spanish writers, not alone of the seventeenth century when Spanish literature was still almost at the flood, but also of more recent times. The author points out the causes of the essentially individualistic trend of the nineteenth-century Spaniards, and the socialistic reaction of more recent years. The general features of the development are the same in Spain as in almost all the other European countries. Like some of his German models, Piernas-Hurtado devotes a number of chapters to the conception of the state, to economic life in general, and to the economics of the state in particular. He looks on public expenses as public consumption, but gives us here almost nothing but platitudes.

When we come to public revenues, however, it is different. He classifies these according as they arise from gifts, fiscal domains, public works, fiscal monopolies, taxes, eminent domain, fines or escheats; and devotes several chapters to each of the important classes. The most noteworthy point in his treatment of taxes is his view as to the basis of taxation. He discusses in turn expense, income and property, as bases, and finds each of them essentially defective. The really equitable basis of taxation he finds to be faculty, or the economic position of the individual as shown by his "liquid assets" (*el impuesto sobre los haberes liquidos*). By this term he wishes to denote the means of the individual as conditioned by his needs, or the proportion between income and property on the one hand, and the

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<sup>1</sup> Tratado de Hacienda Publica y Examen de la Espanola. For Jose M. Piernas-Hurtado. Cuarta edicion. Madrid, 1891.

claims made upon him by expenses on the other. Piernas-Hurtado thus simply attempts to put into plain language the marginal-utility theory of taxation, as developed by recent Dutch and Austrian writers. He confesses that this alone will not remedy social evils, that it is not susceptible of an exact mathematical computation, and that it may give rise to arbitrariness; but he maintains that the other suggested bases of taxation disclose the same or greater defects. Regard for the individual position of the contributor is in his opinion the really important consideration. The vagueness of this test as a practical program of taxation will at once strike the reader; but Piernas-Hurtado is content to leave the discussion in the field of theory.

In treating of the various classes of taxation, he later makes many good and practical suggestions. The whole of his second volume is in fact devoted to the history and criticism of the state, local and colonial public finance of Spain; and he clears up much that Parieu and other writers have failed to explain. Like so many of the continental tax reformers, he sees the greatest promise of improvement in the substitution of direct for indirect taxes, and he devotes a considerable portion of his work to the proposed adjustment of the Spanish public revenues to the principles of uniformity and universality. Several chapters on the theories and practice of public credit, and especially on the budget and financial administration, conclude a work whose open-mindedness, clearness and wide range of view entitle it to an honorable place in the list of text-books of finance. That this is sorely needed is open to very little doubt on the part of the attentive reader.

#### *IV. Switzerland*

Switzerland is the only European country where the general property tax still plays an important role. It is the one state whose methods of taxation bear a close resemblance to those of the United States. It would, therefore, be reasonable to expect that a work of such prodigious proportions as that of Professor Schanz on *Taxation in Switzerland in its Development since the Beginning of the Nineteenth Century*<sup>1</sup> should be of the utmost importance to all Americans; and this expectation is realized. Rarely in the history of economic literature

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<sup>1</sup> *Die Steuern der Schweiz in ihrer Entwicklung seit Beginn des 19. Jahrhunderts.* Von Georg Schanz. Stuttgart, 1800.—5 vols.

has a foreign work been published which is at all comparable to this in its value to the American student of finance.

Professor Schanz earned his reputation by the thorough work displayed in his *Englische Handelspolitik gegen Ende des Mittelalters*, published some thirty years ago, as well as by several minor works on the history of labor. In 1884 he started the *Finanz-Archiv*, which is still the only serious review devoted exclusively to the science of finance. In this periodical he has been publishing for the past few years detailed histories and descriptions of the tax systems of different German commonwealths, which have challenged admiration for their solidity and accuracy. Now he offers to the scientific world a work which stands unequalled in magnitude of scope and detail of treatment.

A word first as to the methods of the author. The opening volume is devoted to a sketch of the general development of Swiss taxation. A preliminary chapter treats of the federal taxes and of the general situation; a second chapter, of the general direct taxes in the cantons; a third chapter, of the licenses, succession duties, military tax, etc.; a fourth chapter, of the indirect taxes on consumption; while a final part is devoted to the questions of local taxation. The three following volumes take up each of the twenty-five separate cantons in detail; describe the history, not only of all the changes, but of all the attempted reforms; and close with a minute statement of the existing condition in each. The fifth and final volume contains the text of all the important tax laws and administrative ordinances for each canton since the beginning of the century. It will be seen at a glance how stupendous must have been the labor necessary to complete such a task.

Let us now endeavor to ascertain in what respects the work is important to Americans. Professor Schanz begins by accepting the theory advanced by the present writer regarding the historical development of taxation and the position of the general property tax in this development. He shows that Switzerland, like the United States, has retained the mediæval property tax up to this day; but he further shows that Switzerland, unlike the United States, has successfully endeavored to reconstruct its property tax and to supplement it by another system which has brought it more into harmony with the needs of the present century. The conception of general property as

the basis of taxation has been permeated, gradually but with ever-increasing rapidity during the past thirty years, with the ideas of product and of income. The attempt to realize the principle of ability to pay has resulted in dissatisfaction with the old property tax and a re-modeling of the whole system. The methods in the various cantons may be summed up as follows: (1) a property tax plus a general income tax; (2) a property tax plus a partial income tax; (3) a property tax plus a supplementary income tax, in the sense that only the surplus income above a certain percentage, supposed to represent the interest of the taxable property, is assessed; (4) a real property tax plus a general income tax. Only three of the smaller cantons still hold to the general property and the poll taxes; while only one canton clings to the once universal, but still more primitive, system of the land tax.

This is the one great lesson to be drawn from Swiss experience. It ought to be sufficient to silence all those enthusiasts who cry out for a retention of the present American system, and point with triumph to the only democratic republic in Europe as practising the same methods. On the contrary, the one great effort of the Swiss legislatures during the past half-century has been to supersede the general property tax, not necessarily by the income tax, but by some form of income taxation—by some system which, directly or indirectly, makes not property, but product, the basis of taxation. As Professor Schanz sums it up: "Ueberall drangt sich eben mit elementarer Gewalt der Gedanke durch, dass es doch nicht das Vermögen, sondern das Einkommen ist, welches man eigentlich treffen will."

The next striking fact in Swiss experience is this, that where the general property tax is utilized as a subordinate part of the tax system, or is employed in more primitive communities, or with a low tax rate, it works fairly well. But as soon as an attempt is made to defray the larger part of the expenditures of advanced communities by the general property tax, thus necessitating a high rate, which in terms of income is equivalent to from twenty to thirty per cent, it is a lamentable failure—as much of a failure, in fact as in the American states. Human nature is about the same the world over, and where the conditions in Switzerland are at all comparable to those in the United



States, the failure of the general property tax, as the chief source of revenue is equally marked.<sup>1</sup>

Let us now leave these two facts, which might amply serve as a text for a whole volume, and turn to some of the other points of interest. The author does not discuss the question of taxation of corporations as a whole, but presents the facts, the most important of which have been used in another chapter of the present volume. Other points upon which the Swiss experience is extremely instructive are the different rates of taxation for various kinds of property; the methods of assessment, according to market value, insurance value or par value; the exemption of church or other property; the distinction between funded and unfunded income; and the subject of double taxation in all its various forms. But the four chief points which deserve special emphasis are these: the methods of controlling assessments, the question of progressive taxation, the succession taxes and the system of local taxation.

Switzerland, like the United States, has tried all forms of assessment for the general property tax—self-assessment and official assessment, oaths and no oaths, publicity and secrecy; and these have proved equally inefficient. One institution, however, has been developed in the last few decades that is peculiar to Switzerland. It is that of the inventory (Inventarisatio). As soon as a taxpayer dies, his entire property is seized by the government and held until an exact inventory is made. If this discloses fraud in the previous self-assessments, punitive taxes must be paid, ranging in some cantons over a period of ten years.

This method of control is based on the right idea; but it has its objectionable sides. It must be distressing, to say the least, to the family of the deceased when the tax officials clap their seals on the property, as it were in the very chamber of death. It has also its weak sides, for those who have even a short time to prepare for death commonly give away a large part of their property. Again, the inventory naturally becomes a less trustworthy guide the further back we

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<sup>1</sup> This point was also subsequently emphasized by Cérenville, *Les impôts en Suisse*, Lausanne, 189S; and more recently by Bullock, "The General Property Tax in Switzerland," in *Addresses and Proceedings of the Fourth Conference of the International Tax Association*, Columbus, 1911, p. 53 et seq.

go, so that at its best it can serve only as a partial index. But notwithstanding these defects, it has done good service in increasing the tax receipts, and it forms to-day one of the chief subjects of dispute in the Swiss cantons.

Another point which has attracted attention is that of progressive taxation. Switzerland has now definitively accepted the principle of graduated taxation, and the cantons apply it not only to inheritance and to income taxes but also to property taxes. Especially since 1870, a large majority of the commonwealths have inserted the principle into their constitutions, and only a few constitutions fix the limit of the progression. The system, far from causing any wholesale exodus or any such startling confiscation as we read of from time to time in the newspapers, has proved so satisfactory that, wherever tried, it has never been abandoned.

Thirdly, about two-thirds of the Swiss commonwealths have rounded out their system of direct taxation by taxes on inheritances and on bequests. This movement is an old one, and has gone hand in hand with the movement to supplement the property tax by an income tax. The United States are still in the first phases of the reform; for until very recently the agitation was confined to an extension of the collateral inheritance tax. Switzerland has passed beyond this phase, for its system applies to all inheritances and bequests, with a rate ranging from a fraction of one per cent in Zug, to as much as twenty-five per cent or even more for non-relatives in Uri.

Finally, the methods of local taxation are instructive. Only a few cantons pursue the same system for both local and commonwealth purposes. In most cases the income tax is a commonwealth tax, while the local tax is a property tax, and often a real property tax. In addition to the local property tax, however, we find very generally a local "household" tax, which is practically a system of poll taxation designed to reach some of those who escape the real property tax. The local tax system is moreover marked by two significant facts. In the first place, the idea of progression, which is commonly applied to the commonwealth taxes, is absent in the local taxes, which are almost uniformly proportional. Secondly, the exemption of debts—mortgage debts as well as others—is permitted in state taxes, but it is allowed only to a very limited degree in local taxes.

Enough has been said to show the importance of Professor Schanz's work. It does not pretend to discuss questions of theory, and yet almost every page contains matter of more significance to the average American than whole chapters of some of the usual manuals of finance. In some few questions of finance Switzerland has a little to learn from us; in most matters we have important lessons to learn from Switzerland. What these lessons are has been only faintly outlined in the above remarks: but it is to be hoped that their full significance will ere long be appreciated by every American student and by every American legislator.

#### *V. England*

English economic literature has not hitherto been very fortunate in its systematic studies of fiscal problems. The writers prior to Adam Smith concerned themselves only with scattered questions of temporarily practical interest, and dealt with them in the same scrappy manner which characterized their treatment of economic problems in general. There was, in England at all events, no true science of political economy; there could not well be a science of finance. Adam Smith, taking his cue, perhaps, from the French writers, for the first time sought to connect fiscal questions with those of social economy. In his happy way he combined the abstract discussion of fundamental theories with the explanation and criticism of actual conditions, avoiding on the one hand the metaphysical vagaries of the Physiocrats and on the other the plodding monotony of the German "cameralistic" complications. But while Adam Smith gave a decided impulse to the study of fiscal problems on the continent, and thus initiated a movement which has resulted in the elaboration of the modern science of finance, his success in arousing a like interest in England was far less marked, although his influence on English fiscal practice was great. The mighty genius of Ricardo, however, turned at once to the core of the problem. He confined himself almost exclusively to an investigation of incidence, regarding a tax simply as an addition to the cost of production and treating all tax phenomena as mere illustrations of changes in value. Taxation with him became a minor part of general economic theory. So weighty was his influence that even Mill who in other parts of his *Political Economy* pursued a quite different policy, gave in his fifth book

nothing but a succinct analysis of the shifting and general effects of taxation, scarcely deigning to descend to the facts of everyday life or to do more than touch upon the difficult details of principle. Although a few other writers did more than this, their discussions were forgotten amid the plaudits showered on Ricardo and Mill. Thus it happened that, while on the one hand we had numerous descriptive works, written for practical purposes, on the chief facts of public finance, and on the other hand numerous appendices to general treatises on economics, dealing with a few points in fiscal doctrine, there came to be an almost complete divorce between fact and theory. The practical writers did not concern themselves with theory, and the economists were for the most part content to work in what might be called a fiscal vacuum. McCulloch was the one important writer to form an exception, and he was not sufficiently successful to find either admirers or successors.

Another reason which may be adduced to explain the more rapid growth of the science of finance in France and in Germany was their relatively inferior fiscal system. It is not the excellence but the defects of economic life that have always led to the elaboration of economic theory. The shortcomings of mercantilism produced Adam Smith; the abuses of the ancient regime brought forth the Physiocrats; the dangers of leveling and the evils of the poor law gave us Malthus; the currency confusion and the corn law were responsible for Ricardo. Had there been no agricultural, no industrial, no commercial troubles, we should not have had Mill and the whole host of modern specialists. So with the problems of public finance. The abuses on the continent were so serious that they gave rise to important political contests, and thus led the scientists to attempt a general clearing up of vexed questions in fiscal policy. In England tax problems (with the exception of the free-trade controversy, which was far more than a mere matter of taxation) did not agitate the people to any great extent, and their solution was contentedly left to the practical common sense of the English statesmen. It is significant that in the one department of public finance which did seriously enter into politics, namely, that of public debts, the English writers have done better work than those of the continent. But the comparative excellence of the English revenue and budgetary system, combined

with the general prosperity, in themselves contributed to hinder the growth of fiscal theory.

Of late years the conditions have changed. The disproportionate increase in public expenditures and the immense development of local needs have materially strengthened the consciousness of fiscal pressure, while the growth of democracy on the one hand and the complications of recent industrial development on the other have brought to the front questions of theoretic justice which necessitate the revision of fundamental doctrines. In England as in America, fiscal problems have become no less important than in continental Europe. It is thus natural to expect henceforth a deeper study of the subject-matter by those who in the wilderness of confusing party contests blaze out the path of truth and progress.

Professor Bastable's book on *Public Finance*<sup>1</sup> is the first scientific result of this new interest in fiscal problems in England. His volume marks a distinct epoch in the history of English economics; for it is the first attempt to set before English readers the science of finance in its modern garb. To many it will introduce an entirely new set of discussions; and especially to the English reader who is not familiar with foreign tongues, the volume will be welcome. This will be our excuse for dealing with it so fully.

To all those acquainted with the *Theory of International Trade*, published a few years ago, as well as with his recent *Commerce of Nations*, Professor Bastable is known as a clear and careful thinker, without any intellectual vagaries, and with marked sobriety of judgment. The same traits conspicuously reappear in the present volume, and they are reinforced by evidence of accurate scholarship and familiarity with foreign literature. In order to be sure of one's own conclusions, one must first know what others have said; and it is the neglect of this elementary rule that consigns so much of so-called scientific writing to the waste-basket. It must not be supposed, however, that Professor Bastable is a slavish adherent of his foreign predecessors. His volume is by no means without independent suggestions, and it is precisely this independence of thought that invites occasional criticism.

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<sup>1</sup> *Public Finance*. By C. F. Bastable, LL.D., Professor of Political Economy in the University of Dublin. London, 1892.

In the first place, it is to be regretted that Professor Bastable does not employ the term "science of finance." It is true that "finance" is used in English to include private as well as public finance, and that several books on "finance," like those of Jevons and Giffen, deal chiefly with monetary problems. This unclearness, however, attaches to the word in foreign languages to almost the same degree. The French speak of *la haute finance*, and the number of titles on what might be called "private" or "monetary" finance is legion; yet this has not prevented them from using the phrase *science de finance* or *science des finances*, as the technical term for public finance. The whole matter was there discussed and laid to rest years ago by Joseph Garnier. In Italy and in Germany the matter of terminology has reached a similar settlement. It is therefore to be deprecated that Professor Bastable should not have pre-empted the phrase for English scientific use. Sooner or later we shall have to conform to the usage of the French and the Italians.

The introductory chapter on the history of the science gives a clear picture of the main lines of development. Some mention might, perhaps, have been made of the discussions in mediæval Florence, which in some points foreshadow modern doctrines. Moreover, if a fuller history of the science in England is ever written, attention will have to be paid to writers to whom may be traced much of what is today current coin in fiscal discussions. To speak only of nineteenth-century authors, Frensdorff, Craig, Buchanan, Buckingham and Sayer will be able to hold their own with many of the German writers whom their compatriots delight to honor.

An important point in which the volume differs from some others is the inclusion of the subject of public expenditures. It is a difficult and delicate task rightly to proportion the space to be devoted to this topic in a work on finance. From one point of view public expenditure is simply administration; from another point of view it is political economy in the original sense of the term. How far government should assume definite functions is a problem of economic politics; in what manner it should actually carry on these functions is a problem of administration. Yet almost every political or administrative act involves some outlay, and is in so far a fit subject for discussion in systematic works on finance. Professor Bastable, in dealing with

this branch of his work, has avoided on the one hand unsuitable details, and on the other mere commonplaces.

It is in the next three books that are to be found most of the controverted doctrines, and it is naturally here that the critic will be apt to take issue with the author. Professor Bastable first takes up the classification of public revenues. He sees the inadequacy of the older continental division into taxes and lucrative prerogatives (*regalia*) and correctly relegates the latter class to the limbo of *überwundener Standpunkte*. But he is equally aggressive in his onslaught on the class of "fees," the creation of which he ascribes to "a want of analytic power in the originator." He simply distinguishes between taxes and what he calls in some places "semi-private economic income," and in other places "public economic income."

It will be questioned whether Professor Bastable is not here taking a step backward. He shows, it is true, the many inconsistencies of recent writers. But does it not seem unwise to cut the knot in despair of untying it? In refusing to acknowledge fees as a separate class, the author only creates fresh difficulties. Where, for instance, shall we put school fees? They are surely not industrial income; and Professor Bastable himself would not class them among taxes. And where shall we put the charges for marriage certificates, and sheriff's fees, and copyright payments, and a host of other similar receipts? The author later speaks repeatedly of "economic receipts" as different from fees, as well as from taxes, seeming to forget that in the earlier portions of the volume he includes fees in the "economic receipts." Further, why speak so frequently later of the "fee principle" as opposed to the "tax principle," if fees do not form a separate class?

Again, Professor Bastable sharply separates economic from compulsory receipts; but he fails to distinguish between different kinds of compulsory receipts, and assumes that all of them are taxes. Where, then, shall we put fines and penalties? They are certainly compulsory receipts, and just as certainly not taxes. Where, too, shall we put special assessments, which are completely ignored by him? In fact, it almost seems as if the author, in the endeavor to simplify matters, has really added to our difficulties.

A similar criticism may be urged against his classification of taxes. He objects to all the recent methods, and reverts to what is virtually Adam Smith's classification into primary and secondary.

But it is hard to see why a tax on the property of a living person should be primary, and that on the property of a deceased person, in the shape of an inheritance tax, secondary; or why a tax on the business of a corporation should be primary, and a tax on the receipts of a corporation secondary. It may also be noted that, when he calls attention to the distinction between direct and indirect taxes made by practical "financiers," his statement applies only to French, not to English or to American practice.

The book on the whole exhibits independent judgment, although in a few instances the author allows his German models to influence him unduly in matters of nomenclature. Thus he introduces the German distinction between the "object" and the "subject" of taxation, meaning by the former the thing on which, and by the latter the person on whom the tax is imposed. This is not English. When we speak of the subjects of taxation, we mean not the taxpayers (or "subjects," in Professor Bastable's language) but the phenomena subjected to taxation (or "objects," in Professor Bastable's language). And when we speak of the objects of taxation, we commonly mean the aims of taxation, not the things taxed. In other words, the author's (German) "tax object" is really the English "subject"; and his "tax subject" is the English "taxpayer" or "taxbearer," as the case may be. Again, the terms "forward incidence," "backward incidence," and "diffused incidence" are not English; moreover, they confound the terms incidence and shifting. Finally, when Professor Bastable employs the word "rated" tax as opposed to "apportioned" tax, he is ignoring the equivalent term, "percentage" tax, which has become quite common, and which clearly expresses the meaning on its very face.<sup>1</sup>

But all these matters, it may be said, are of minor importance. The crucial point is not so much the arrangement and terminology as the substance, and in the substance of the book the author must meet with greater appreciation.

Passing over the chapters on the state domain, the industrial domain, and the state as capitalist, in which he always seeks to maintain the golden mean between the laissez-faire theories of the earlier English writers and the semi-socialistic doctrines of the modern German authors, we come to the more difficult problems of taxation.

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<sup>1</sup> In the later editions some of these defects have been removed.



A good account is given of the theory of benefit, which is discarded as the general basis of taxation; but less satisfactory is the discussion of the theory of faculty. Professor Bastable speaks of its "convenient vagueness," but does not really make any serious effort to give a deeper analysis of the doctrine. He tells us of Mill's doctrine of "equal sacrifice," but does not succeed in correlating it with the doctrine of ability. His whole discussion of the theory of progressive taxation is therefore not quite up to the level of recent investigation. On other points, too, he is very conservative. He opposes the differentiation of the income tax, which was demanded by Mill, accepted by Disraeli and recently introduced by Lloyd-George; he seems to be opposed to graduation in the inheritance tax, which was also demanded by Mill and which has now been definitely introduced into English practice; and he even differs from the conservative French writers in disapproving of progression in the income tax as a counterpoise to regression in other taxes.

On the other hand, the discussion of the incidence of taxation is good. The author shows the weakness of both the diffusion theory and the absolute theories of Smith and of Ricardo, and calls attention to the complicating conditions of modern society. It might be urged that his analysis is not rigorous enough in the case of the taxation of profits; that not enough attention is called to the distinction between monopolies and competitive undertakings; that the house tax is viewed only from the characteristically English point of view as being assessed on the occupier; and that the general capitalization theory is not brought into due prominence. Nevertheless, the treatment as a whole is far superior to that found in most of the manuals on public finance.

Perhaps the least satisfactory part of the work is the discussion of universality of taxation. Double taxation, as we know, is of importance chiefly in federal states; and that is no doubt the reason why a book written primarily for Englishmen pays so little attention to it. But international relations are here of increasing importance and deserve more than the half-page allotted to them. Moreover, the conclusion itself is not beyond criticism. "The more modern solution," he says, "would be that the income tax should be levied by the country of residence, the land or property taxes by that of situation."

What, then, shall be done if the income is derived from land; or, conversely, if the property consists of intangible goods? Whatever we say about this, it is to be regretted that the author passes over the other forms of double taxation. Even if there were no space for details, the main points of the controversy should at all events have been outlined.

The following book, on the several kinds of taxes, shows the author at his best. A broad knowledge of the facts of taxation in all the important countries, and a wide acquaintance with the special literature, enable him to give a concise and clear account of actual conditions, as well as of the chief movements for reform. He suggests a judicious combination of the three principal forms of taxation as best calculated to reach substantial justice.

So far as the practical problems of American taxation are concerned, Professor Bastable opposes the suggestions for a direct income tax to replace the local tax on personal property, and he also deprecates the taxation of gross receipts of corporations. His statement that "the most promising sources of state revenue seem to be the real property and the license taxes" is, however, obviously a slip. Americans will also take exception to the assertion that "taxation of inheritances is unsuited for a community where the family is the unit of society and property is really held by corporations, not by individuals." There is an obvious discrepancy between this and the author's statement that "taxation of corporations is the taxation of their members." This last statement again is unclear. Do the "members" of a corporation mean its stockholders, or its bondholders, or both? The discussion of these questions, which have led to some of the most perplexing problems of public finance in America as elsewhere, ought not to be so lightly "eliminated."

We have not hesitated to call attention to some of the minor defects in Professor Bastable's volume or to indicate a belief that it will not be found wholly satisfactory for the American student. We must, however, remember that it was written primarily for Englishmen. It is to be hoped that no one will leave these criticisms with the idea that the book can be lightly cast aside. It is so admirable in arrangement, so accurate in statement, so catholic in temper, so sagacious in judgment, and so broad in erudition, that it will undoubtedly give a new impetus to the scientific study of fiscal problems in England.

## VI. *United States*

When Professor Bastable's book appeared the hope was expressed that there might soon appear in America a similarly comprehensive treatise, intended primarily for our own public and dealing more specifically with the problems that are, in a measure, peculiar to the United States. This hope was soon realized by the publication of Professor Adams's *Science of Finance*,<sup>1</sup> which at once commanded attention as a signal contribution to economic literature.

That such a book is timely it is scarcely necessary to say. The United States has so rapidly outgrown the swaddling clothes of its infant economic surroundings, it has stepped with such prodigious strides from its youthful social environment to the complex conditions of a full-grown industrial society, that we are suddenly confronted on all sides by the new problems of political, economic and social maturity which are at present engaging the public mind. America presents in some respects most curious contrasts. It is at once the youngest and the oldest of economic societies—at once the most youthful and the most mature of social experiments. It is the youngest, in the sense that there are still in our territory vast tracts untouched by plough or harrow, awaiting the coming of the first settler and needing only irrigation to convert the desert into a garden. It is young, because there are other huge sections of the country which are only one step removed from the primitive agricultural stage, in which the local life is still largely dominated by frontier conditions—conditions analogous to those which the old world faced centuries ago. In another sense, however, America is not young, but old. Nowhere on the face of the globe has capital been applied to productive purposes with such intensity and such energy. Nowhere has man's victorious contest with the powers of nature been waged with such intelligence and with such relentless vigor. Nowhere have the captains of industry prosecuted their quest for industrial supremacy with such alertness and with such ability. As a consequence, nowhere have the most advanced forms of a highly organized, fully differentiated and thoroughly complex industrial organism been evolved with such startling rapidity and with such complete success.

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<sup>1</sup> *The Science of Finance: an Investigation of Public Expenditures and Public Revenues*. By Henry Carter Adams, Ph.D., LL.D. New York, 1898.

In no department of social and political life have these warring forces engendered more confusion than in the domain of public finance. In former times the fiscal problem was comparatively simple. The collective wants of individuals were small in comparison with their private wants; public expenditure was insignificant; and the needs of government revenue were easily satisfied. With the growth of industrial democracy, however, all this has been suddenly changed. A scale of public expenditure which would have appeared absurdly lavish to former generations now seems barely adequate to modern necessities. The resulting prodigious increase in public revenues has called into being problems of the utmost nicety, not because the growth of these revenues is necessarily more rapid than that of the private wealth on which they are based, but because the constituent elements of this private wealth have in themselves become so complex and have so intertwined themselves with the integrated forms of modern industrial life. What is peculiarly confusing in the American situation is the fact that, on the one hand, we have sections where the economic conditions, and therefore the fiscal conditions, are still, as compared with the great mass of modern communities, of the primitive type; while, on the other hand, in numerous parts of these sections themselves there have been grafted upon the still dominant and persistent primitive stock the shoots of the newer industrial type; or, to put it in other words, although the basis of such communities is still primarily agricultural, the newer methods of transportation, as well as the more modern media of exchange and distribution, have superimposed upon the simplicity of the old and still persistent the complexity of the new and ever extending. The consequence is that the fiscal conditions of this country to-day are supremely heterogeneous and that, because of this contest of the old with the new, we are all still groping almost in the dark, dissatisfied in the more progressive communities with the survivals of old conditions, and trying to discern in the dim light of the future the fiscal expression of the newer conditions which are soon to become universal.

The appearance of Professor Adams's work bears eloquent testimony to this change of view. We have for a long time had American treatises on political economy, although these treatises have been, until comparatively recent times, for the most part simply copies of

their English predecessors rather than adaptations to our own peculiar conditions. In the science of finance, however, there have been no American treatises, just as there have been until recently no English ones, chiefly because the fiscal problems have been so simple as not to warrant any separate or extended discussion. An insignificant addendum to the ordinary work on political economy has sufficed for the consideration of the few questions that have presented themselves. For the reasons mentioned above, however, the fiscal problems have now come to the very forefront of modern controversy; and it is time for the science of finance to take its place side by side with economics in the narrower sense; for while economics proper is primarily social in its character, laying emphasis on the industrial relations of man to man, the science of finance, as a part of the broader political economy, is primarily political, laying the emphasis on the fiscal relations of the individual to the government. The appearance of a comprehensive treatise on finance accordingly marks a turning-point in the history of American political and economic literature; and when such a treatise attempts, as none of its English or continental predecessors have done, to call attention to the close connection between changing social and changing fiscal conditions, it is doubly deserving of attention.

A word should first be said regarding the formal arrangement of the volume before us. After an introductory chapter on the character of the science and the nature of public wants, the subject of public expenditure is taken up in Part I. The first book of this part deals with the theory of public expenditure; while a second book, to our surprise, treats of the budget. Why the budget should be dealt with under the general heading of expenditure is not apparent. It is true that much of the time spent in budgetary discussion in modern legislatures is devoted to expenditure; but there is also a revenue side to such discussion. Another departure from customary methods of arrangement is found in a subdivision of the book on the budget, in which Professor Adams discusses the subject of financial organization and administration. It may be urged that either this subject should be treated separately or the general heading of the book should be "Budgets and Financial Organization."

Part II. of the work deals with public revenue, taking up in three successive books the public domain and public industries, taxation

and public credit. This arrangement is followed in pursuance of the division of all revenue into three classes: "direct," "derivative" and "anticipatory." While this distinction is clear enough, it must be said that the inclusion of credit under the head of revenue is, to say the least, unusual; and that the choice of the terms "direct" and "derivative," to mark the difference between income from the domain and income from taxation, is not entirely beyond criticism. "Direct" revenue is defined as that which accrues to the state from public ownership or management, or which falls to it by virtue of its sovereign character; and "derivative" revenue is that which forms in first instance a part of the income of the citizen, but which is paid to the state in satisfaction of some revenue law. It is further stated that "direct" revenue constitutes a positive addition to the social income, while "derivative" revenue is a transfer of a part of the earnings of the citizen to the state. In regard to the first point, however, it is to be noticed that all revenue from taxation falls to the state in virtue of its sovereign character; and that, on the other hand, much of the so-called "direct" revenue is originally a part of the income of the citizen and is paid in virtue of some revenue law. Post-office charges, for instance, are included by the author under "direct" revenue; yet the receipts originally form part of the income of the citizens, and are paid in virtue of a very definite revenue law—if by revenue law we mean a law which prescribes the raising of revenue. Again, referring to the second distinction, it must be noted that "direct" revenue, no less than "derivative" revenue, implies a transfer of the earnings of the citizen to the state. For, even if the government rents out its land, or runs its industries for profit, the prices are paid by the citizens, and the revenue involves a transfer of the earnings of the citizens to the state. While, therefore, the intent of the classification is obvious, it cannot be said that the nomenclature is a very happy one.

One other feature of the general arrangement may be mentioned. Within the separate books themselves there is nothing particularly worthy of note until we come to that on taxation. Here the arrangement is at once novel and interesting. Beginning with general considerations, successive chapters are devoted to the principles of apportionment; to the classification and characterization of taxes; to the manner in which taxes work, to the administrative consideration of taxes; and to suggestions for a revenue system. It may, perhaps, be

urged that this necessarily gives a somewhat disjointed account, as there is no place where any particular tax can be judged as a unit from every point of view. But no arrangement can satisfy conflicting claims; and it is undeniable that the one adopted in this treatise does succeed in putting a fresh aspect on some familiar topics. Coming to the subject-matter of the work, attention must first be directed to the chief merit in the whole presentation—the masterly power of analysis disclosed by the author. The emphasis is everywhere laid, not upon facts and figures, but upon the principles involved; and to those who approach the subject for the first time, as well as to those already familiar with the general nature of the problems, the serried phalanx of argument upon argument, of closely reasoned analysis upon analysis, must be both a surprise and a delight. Not that all is new—for here, as in every other department of human thought, one can build only upon the basis of the known; but the whole work is so permeated with the doctrines of continuity, and of the essential dependence of fiscal upon economic conditions, that almost every single discussion is put in a new fight. The insistence upon principle has indeed, as the French say, the defects of its virtues. With a few exceptions, we miss not only historical examples, but also any detailed statement of actual fiscal methods in America and any comparison with the institutions of other countries. The exceptions are to be found chiefly in Part I., devoted to expenditure, where the necessarily brief discussion of theory is pieced out with a separate chapter on "some facts." In the second part, however, dealing with public revenue, the student will, for instance, search in vain for any description of actual taxes, whether in the United States or abroad. Professor Adams evidently takes for granted that the reader is familiar with all such details, and he prefers to dwell on the more important matters of principle. It may be queried, however, whether he has not gone a little too far in this respect, and whether the book would not be still more valuable to the general reader, if it contained the essential facts as well as the interpretations to be put upon the facts.

In considering the work in detail the reviewer is obliged not only to call attention to the remarkable brilliancy and general solidity of the results, but also to attempt the less grateful task of noting the shortcomings that are inseparably connected with any such comprehensive effort.

In the discussion of public expenditures, the author brings out clearly their dependence upon the stage of industrial development. He lays down the principle that a profitable investment for a state is one which results in raising industry to a higher level of efficiency. From this point of view, increased expenditure is not necessarily an evil. Attention is also directed to the connection between public expenditures, on the one hand, and political conditions, as well as social organization, on the other. Perhaps the only point lacking in this analysis is a discussion of the influence of modern democracy upon expenditures, and of the gradual ascendancy of the preventive over the repressive principle in modern legislation. A suggestive section compares the English with the German view of expenditures, with the conclusion that the English writers did not need any definite theory, because their conception of the state implied a fixed limit to governmental functions, while the more extreme German economists erred in setting up too strong a presumption in favor of the state. Professor Adams's position lies midway between the extremes of *laissez faire* and socialism.

In Chapter III. an attempt is made to classify expenditures in accordance with governmental functions. The classification adopted is that of "protective," "commercial" and "developmental" functions, including under the latter head expenditures for education, recreation, public investigation, maintenance of equitable conditions for the prosecution of private business and development of the physical basis of the state. It may be conceded that the particular classification adopted is not of so much importance as the method pursued in dealing with the principles themselves; but classification may emphasize or obscure principles, and the scheme employed by Professor Adams may, perhaps, be subject to criticism. Why, for instance, should the outlay for reformatories be called "protective" and that for schools "developmental"? Why should expenses for rendering justice be termed "protective" and those for maintaining "equitable conditions" for private business "developmental"? Why, in fact, are not all expenditures "developmental"? If it be claimed that protective expenditures look at the bad in human nature, and developmental expenses at the good, how can expenditures for the factory acts, for railway commissions and the like, be put by Professor Adams under the head of "developmental"? We may, indeed, desire to educate the good



impulses of the factory owners and the railway managers; but precisely the same result is sought to be attained by a well-digested poor-law system, or a well-arranged penal system, or a good judicial system, all of which are classed under the head of "protective" functions. And why the building of a railway is the exercise of a "commercial" function, while the building of a canal or dock is the exercise of a "developmental" function is still more difficult to comprehend. In fact, while the whole of this chapter on public expenditure is remarkably suggestive, it confuses things that ought to be kept separate, and it separates things that ought to be united. Moreover, almost the only question of principle that emerges from the discussion is the tendency of given expenditures to grow larger or smaller. Even here it may be queried whether the author gives due weight to facts like the tendency of expenses for justice to increase—not, as he says, to diminish. The explanation of this tendency is not that people grow worse as they become civilized, but that the complexity of modern industry is continually augmenting the chances of collision of interests and thus creating new classes of crime. In this detail Professor Adams has forgotten the general doctrine which he elsewhere so eloquently inculcates.

In the book devoted to the budget the author keeps closer to the beaten track. Attention may, however, be directed to two interesting novelties. The one is the series of suggestions looking to a reform of the American budgetary system. Professor Adams believes that this can best be accomplished, first, by the abolition of the committee on appropriations and the assignment of its duties to the committee on ways and means, together with the abandonment on the part of all other committees of their right to introduce appropriation bills; second, by the abolition of the right of individual initiative of money bills, as well as of the right of indiscriminate amendment; third, by a closer connection between the secretary of the treasury and this new budgetary committee. The reasons advanced for these changes, all of which are within the realm of legislative competence, seem to be in many respects sound. The other important discussion, to which only a bare allusion can be made, is the treatment of the theory of accruals as a basis of public accounting. Here not only is the plane of this discussion, as elsewhere in the book, an elevated one, showing on the part of the author a comprehensive grasp of the principles at issue,

but, in addition, we have the satisfactory feeling of being in touch with the actual practice and the details of real life.

Part II. deals with public revenue. A section treats of the subject of classification, in the course of which it is to be noted that Professor Adams recognizes the existence of fees and special assessments, and declares that they deserve an analysis separate from the general discussion of taxation. But after this frank confession—in which he takes issue with the English writers—it is a distinct disappointment to find no further discussion of these topics. The omission will be deplored, not only by those interested in the correlation between legal ideas and economic conditions, but also by those who believe that underlying our American practice there are some not unimportant questions of principle. The treatment of the public domain and of public industry, on the other hand, is characterized by much fresh and keen analysis. Occasionally, however, Professor Adams gets into difficulties—as, for instance, when he asserts that the phrase "quasi-private price" is inapplicable to governmental industry. His argument is that private prices, as "commonly" competitive, always seek the maximum profit, while public prices are adjusted to the idea of social utility. Nevertheless, not only does he speak, a little later, of the fiscal monopolies of government which seek to secure only profit, but he also calls attention to the private monopoly charges, adjusted to the standard of what the traffic will bear. Between the extreme of competitive private prices and social public prices there is a broad field to which neither term is applicable. This whole analysis is susceptible of improvement. Again, while the discussion of the principle of charge to be adopted by public industries is excellent, it may be questioned whether it is complete, and whether the treatment of the post-office, of the telegraph and of the telephone, for instance, might not be considerably amplified with profit. Finally, when it is stated that the industries fit for government ownership are primarily those which are subject to the law of increasing returns, Professor Adams forgets that this law can no longer be confined to industries dealing with transportation, but that the field of monopoly, so far as it is due to the existence of this law, is constantly growing in modern society. A more careful analysis would have shown a far greater complexity in the relation of the law of increasing returns to that of diminishing returns in actual industry.

We pass over the final book on public credit, where the author substantially sums up the well-known conclusions of his earlier work on Public Debts, in order to come to what constitutes at once the most solid and the most valuable part of the treatise—the book on taxation. This occupies 332 out of the 564 pages of the work. It is here especially that we see the excellent qualities of the author and the break with the old English ways of regarding the subject, as well as the recognition of the changes necessitated by the newer structure of industrial society. The discussions of the essential nature of taxation, of the difference between the legal and the economic point of view, of the duty to pay taxes and of the principle of tax exemption, are at once striking and admirable. Not less noteworthy are the abandonment of the benefit theory of taxation, with all that that implies, and the acceptance of the progressive principle. The analysis which lead up to the relinquishment, not alone of the doctrine of proportion, but also of the theory of the general property tax, are as brilliant as they are profound. In one respect, however, Professor Adams seems to be laboring under a delusion. In his treatment of the general property tax he several times repeats the assertion that the secret of its success in the middle ages lay in the fact that the tax was assessed not on individuals but on the organizations within the town, and that there was thus a collective responsibility. Professor Adams is here confusing the town as a taxing unit with the organization within the town. It is true that in England, for instance, the town as such paid its *firma burgi*; but this was in no wise different from the situation in modern times, where the county or city pays a lump sum toward state expenses as its share of the property tax, or where, as in France, certain cities compound for the octroi duties. In the mediaeval town, as in the modern American locality, this aggregate was distributed directly among the individual citizens according to their property. There is no warrant for the assertion that there was collective responsibility of any kind of a degree lower than the local community itself. Yet upon this mistaken assumption Professor Adams subsequently builds up a part of his scheme of reform. The only exception to the above statement was an arrangement in a part of Spain, an acquaintance with the failure of which would have preserved the author from this curious slip.

The classification of taxes followed by Professor Adams is instructive. He divides them into taxes on income, on property as the source of income, and on business as a means of securing an income. This is in some respects convenient; but it is no less open to objections than are the other classifications which he discards. Where, for instance, shall we put a tax assessed on the net profits of land? To the extent that it is imposed on land, it is a tax on property; to the extent that it hits the income of the landowner, it is an income tax; to the extent that it reaches the business of the farmer, it is a business tax—unless indeed we arbitrarily confine the term business to non-agricultural enterprises. Again, where shall we put a poll tax? Moreover, in the chapter on incidence, Professor Adams recognizes another classification, that between direct and indirect taxes; but he makes no attempt to correlate these two distinct criteria of classification.

The chapter on the shifting and results of taxation is clear and seemingly convincing. But it may be queried whether the author has not here secured clearness and simplicity at the expense of accuracy. The conclusion that a business tax is "indirect," for all competitive occupations and "partly direct, partly indirect," for monopolies is not warranted. It implies that every tax upon a competitive industry is completely shifted to the consumer, while this is far from being the case. Moreover, the author's classification of goods into those produced at uniform cost, those produced at expanding cost, and those produced under conditions of monopoly is not convincing. He forgets that a distinction must be drawn between production at constant cost and production of various parts of the supply at different costs. A competitive industry may obey the law of constant returns (that is, it may be possible to produce more of the article at a proportionally greater outlay), and yet, under dynamic conditions of actual industry, the various parts of the supply are always produced at different costs, some producers being more efficient than others—else there would be no profits. The production of all parts of the supply at the same cost, in fact, always implies a monopoly, because monopoly profits alone are independent of any marginal producer. The development of this idea would take us too far afield; but it may be stated that Professor Adams's treatment of shifting is not entirely adequate. It must be noted also that here again only a few broad principles are laid

down, and that, except as regards the tax on land, no attempt is made to apply the principles to the separate taxes. Another point, moreover, in which Professor Adams's exposition fails to command assent is his unqualified opposition to productive taxes. Here again he proves untrue to the general principle of historic relativity with which the rest of the work is permeated.

Perhaps the most interesting chapters in the book—certainly the chapters to which the ordinary reader will first turn—are those on "the administrative consideration of taxes" and on the reform of the American revenue system. Professor Adams is opposed to a single tax of any kind, as well as to a direct income tax. As to the property tax, he advances the now familiar view that it should be confined to real estate and that it should be levied only by the local divisions. In the case of the corporation tax, he points out that net receipts constitute the proper basis of assessment, and that the taxation of interstate commerce falls naturally to the federal government. This would leave intra-state business, as well as inheritances, to be taxed by the states, while excises and import duties would fall to the nation. The municipal revenues, he thinks, should be supplemented by a tax on municipal monopolies, as well as by one on professional incomes, to be assessed on guilds that are to be created for the purpose.

While some of these suggestions are in harmony with the present tendencies,—with the exception of the rather fanciful scheme for guilds, which as we have seen, rests upon a misinterpretation of mediaeval conditions,—the chief criticism to be urged is that the whole plan is based on the avowed principle that the "government must address itself to the industrial property, the industrial process or the industrial organization, rather than to the individual." From the point of view of administrative efficiency or of increased revenue this principle is exceedingly important; but it is hard to see how it can be made to square with the principle of the citizen's ability to pay, which the author accepts as the fundamental canon of taxation. If the property, the process or the organization can be regarded as the indirect source of income, well and good. But under Professor Adams's scheme, no such correlation is worked out. Corporation taxes, according to him, are to be confined to business essentially public in character; and even here it is not shown how the bondholders can be made to pay taxes. Ordinary business taxes are to be limited to a very

few occupations, assessed by the federal government; and here again, according to his theory, the taxes will be shifted to the consumer. Thus the owners of some of the chief sources of modern wealth would virtually escape taxation; and the criticism which Professor Adams urges against schedule D of the English income tax may be turned against himself. It is hopeless to expect the American farmer to consent to an abolition of the general property tax, even in those states where the conditions are ripe for a change; just as it is hopeless to expect the American laborer to rest content under an increase of the taxes he pays in the shape of federal excises, unless we show both the one and the other that our proposed scheme of reform is calculated, either directly or indirectly, to reach with rough but substantial accuracy the real earnings of those classes who are to-day fast getting into their hands the increment of social wealth. The earlier chapters of Professor Adams's book deal with problems of justice; the later chapters with questions of administrative expediency; and the conclusions reached from the first point of view do not always harmonize with those reached from the second.

We have not hesitated to call attention to the few points in which the treatise seems to invite criticism; but all these criticisms pale into insignificance when compared with the praise that must be accorded to the solid merits of the book. It is perhaps no exaggeration to say that Professor Adams is at the head of those American scholars who have grasped the essential spirit of modern industrial life; and it is likewise no exaggeration to claim for this volume the distinction of being one of the most original, the most suggestive and the most brilliant productions that have made their appearance in recent decades. At all events, it is safe to assert that, in America at least, the publication of this treatise marks an epoch in the discussion of fiscal problems. We may congratulate ourselves that we have in this country so masterly a representative of the newer and saner views as is the author of this remarkable work.

Shortly after the publication of Professor Adams's book, there appeared a work by one of the most distinguished exponents of practical tax-reform. In any catalogue of recent literature a prominent place must be awarded to a work that is at once new and old—the stately volume of Mr. Wells, on *The Theory and Practice of Taxa-*

tion.<sup>1</sup> phrase "at once new and old" is used advisedly; for the book is new, in that it is the result of the studies and experiences of a long and useful life devoted to public interests, and in that it deals with a problem which is perennially fresh; and yet the work is old, because it restates doctrines that have been associated with the name of the author for over a quarter of a century, and because Mr. Wells had been so deeply immersed in certain parts of the problem that he has been unable to turn his attention to some of its newer and more important phases.

To the merits of the book it is scarcely necessary to call attention. Mr. Wells had scarcely an equal in this country in the ability to marshal facts from out-of-the-way and recondite sources in an attractive manner, and to present his results in a style so simple and so clear that they are sure of attracting the notice of the public; while his long experience in dealing with the difficulties of fiscal administration afforded him a unique opportunity for approaching the problems from a practical standpoint. Moreover, his intense Americanism, and his recognition of the fact that in a democracy like ours the legal and constitutional aspects of economic problems are of supreme importance, always made him careful to call attention to the adjudications of the courts and to consider the whole problem in the light of possible legal changes.

All these characteristics of his work are well illustrated in the present volume. Mr. Wells has ransacked the records of fiscal practice, so far as they can be found in the literature of English-speaking countries; he gives fresh and attractive accounts of the system, or lack of system, as it exists or used to exist in countries so unlike as Mexico, Egypt and China; he draws upon his own store of rich experience in connection with the system of internal revenue in the United States; and, finally, his quotations from the leading tax cases in the state and federal courts are so full, and in some respects so well selected, that the book possesses a value for the lawyer only second to that which it has for the economist.

Nevertheless, with all its good points, the work is in some respects distinctly disappointing. It is not, indeed, written primarily for the student, and, therefore, we need not consider it as a shortcoming that

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<sup>1</sup> D. A. Wells, *The Theory and Practice of Taxation*. New York, 1900.

the author's acquaintance with scientific literature is limited to works in English. But Mr. Wells, as is evident from the title, proposed to treat the subject from the point of view of theory, as well as of practice. Now, it is well known that Mr. Wells was not especially strong in theory; and, whatever can be said of the work, no one can accuse it of over-precision in systematic treatment. A cursory examination of the table of contents will suffice to convince anyone of this. Mr. Wells possessed, indeed, so much common sense, such an instinct for what was practicable and expedient, that his conclusions are almost always better than his theory. It might almost be said of him that he was often correct in spite of his theory, and not because of it.

His opinions are, as has been stated, precisely the same as those that were advanced by him thirty years ago; for the waves of recent economic discussion seem to have dashed unavailingly against his adamantine convictions. Thus, we still find it laid down as a fundamental doctrine that taxation for any other purpose than revenue is confiscation. His well-founded fear of the use of the taxing power for promoting private, rather than public, purposes drove him to the length of refusing to countenance the use of taxation for any public purpose other than revenue. It is significant, however, that we find in the entire book no allusion to the theory of high license or to the recent practice of American commonwealths in this respect. Mr. Wells is such an uncompromising partisan of free trade that he cannot afford to accept a principle which would even indirectly justify the imposition of a protective duty.

Again, we find among the maxims of taxation our familiar friend, the reciprocity or protection theory. It is true that Mr. Wells writes rather plaintively: "This assumption, it is believed, has been endorsed and accepted by every writer of repute on economic subjects who has discussed taxation, from the time of Montesquieu down to a very recent period." In the few lines that he devotes to the "very recent" doctrine, he complains that the antagonism to the old theory is wholly due to an inadequate comprehension of the subject; but, unfortunately, he does not aid us to a more adequate comprehension. Of a piece with this is the repetition of his familiar opposition to the theory of progressive taxation. He is somewhat hard-pressed, however, to find facts to justify his gloomy predictions; and, although he does refer in passing to the results in the Swiss cantons, which "are



reported to have already verified the prophecies of the European economists," he does not attempt to explain how it is that the movement is commending itself more and more, not only to these Swiss cantons themselves, but to the European economists as well.

In the (discussion of the distinction between direct and indirect taxes we meet the venerable error that direct taxes are compulsory and indirect taxes are voluntary—a statement the inaccuracy of which has been so often and so effectually exposed as to need no further comment here. Although Mr. Wells tells us (on page 356) that the British tax system has been immensely improved in the past half century, through an extensive substitution of direct for indirect taxes, his opposition to any income tax is so strong that on page 516 he forgets what he has said before and approves Mr. Gladstone's statement as to the odious character of the impost which forms the very basis of the English fiscal system and which alone rendered possible the change from indirect to direct taxation.

The last three chapters of the volume are devoted to a restatement of the law of incidence and to the best methods of framing a system which will conform to this theory. Our old friend, the equal-diffusion theory, is again paraded in new and shining harness. Tucked away, however, on page 597 is a little sentence, the import of which must have escaped the notice of even the author himself. He says: "It is not, however, contended that unequal taxation on competitors of the same class, persons or things, diffuses itself." A statesman like Mr. Wells, who has been dealing with the practical details of actual tax systems in each of the states and territories of this country, ought to have seen that, when to the inherent difficulties of making taxes under any one government precisely equal are added the complications of numerous competing jurisdictions, a theory based upon equal taxation has a very remote relation to actual problems. Even on the supposition of equal taxation, however, the strength of Mr. Wells's position can be gauged by his answer to the question he proposes on page 586: "Would an income tax on a person retired from business be diffused?" The reply is: "Yes, if the tax is uniform on all persons and on all amounts." For this statement the very convincing reason is adduced: "Would anyone pay the same price for a railroad bond which is subject to an income tax, as he would pay for it if it was free from taxes?" It is such essential incapacity to grasp a theoretical

proposition that has made Mr. Wells's reputation among scientific thinkers rest on other grounds than the ability to draw logical conclusions from definite premises.

And yet, with all these evident shortcomings, Mr. Wells's practical inferences as to reform in state and local taxation are in harmony, so far as they go, with those of modern investigators. We say, "so far as they go," because, for aught that is found in the book, there is no such thing as a corporation-tax problem, or even an inheritance-tax problem, not to speak of many of the weighty problems of interstate double taxation. In respect to these, Mr. Wells has slept the sleep of Rip Van Winkle. To the extent, however, that a large part of the problem is now precisely the same as it was thirty years ago, the new book of Mr. Wells is both welcome and timely. Let us read it for the good that is in it, and not complain because it is not ideal. It is given to few writers to be strong in both theory and practice. Let us be thankful that in Mr. Wells we have a man who is not, like so many would-be authorities, weak in both.<sup>1</sup>

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<sup>1</sup> The above chapter deals, as stated on p. 543, only with the period up to 1900. Since that date a number of significant additions to the literature of public finance have been made. The most important are, in the respective languages as follows: M. von Heckel, *Lehrbuch der Finanzwissenschaft*, vol. i., Leipzig, 1907, vol. ii., 1911; Gaston Jeze, *Cours élémentaire de science des finances et de législation financière française*, 5th ed., Paris, 1912; Augusto Graziani, *Istituzioni di scienza delle finanze*, 2d ed., Turin, 1911; C. C. Plehn, *Introduction to Public Finance*, 3d ed., New York, 1909. In Italy we have also to signalize the volumes each entitled *Scienza delle Finanze* by Nitti (2d ed., 1905), by Flora (4th ed., 1912) and by Lorini (1912) as well as various suggestive works by Einaudi. In England there is unfortunately no comprehensive work to be mentioned.