

**QUESTIONS OF THE DAY,
NO. LV. TRUE
OR FALSE FINANCE,
THE ISSUE OF 1888**

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Questions of the Day, No. LV. True or false finance, the issue of 1888 by A Tax-Payer

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A TAX-PAYER

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BY

A TAX-PAYER

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TRUE OR FALSE FINANCE . . .

THE REAL ISSUE.—It is very often said, on both sides, that the issue of the Presidential election of 1888 is one of tariff reform, of revenue reform, of free trade or protection, or equivalent phrases. The real issue, however, is much easier to comprehend: it is the issue between a true and a false system of national finance. It is true that this real issue has been forced upon us by our long-continued system of protection; that it is the inevitable and logical outcome of any attempt by a great and rich country to keep up a high protective system. But the real question, after all, is one of national book-keeping and business methods, which any business man can comprehend as soon as it is stated to him. He may be quite unable, as many of us are, to dissect and decide upon the arguments and counter-arguments in regard to the possible benefits of a system of "moderate protection." He is perfectly able, however, to understand and decide upon the overwhelming disadvantages and even perils of the false financial system of which ultra-protection in this country has chosen to make itself a part.

THE TRUE SYSTEM.—How shall a government adjust its revenues and its expenditures? What system will common-sense and experience recommend as the true system of national finance? Evidently there will be little departure, at bottom, from the system which any business man would follow in the case of his own store or factory, the system

which is followed by our own State and local governments. The government's need of money varies from year to year. It should have a finance system, then, under which it can adjust its revenue to its expenditures without the slightest difficulty, and without any fair reason for objection by selfish interests. If it needs a considerable increase of revenue for the coming year, it should be able to increase its rates of taxation for the year, just as a city or a county would do under like circumstances; and when the emergency has passed, the government should be able to decrease its rates of taxation again. The principle of the true system is so simple that it only needs to be stated in order to compel acceptance.

THE FALSE SYSTEM.—The false system of national finance enters as soon as any part of the taxation is so levied as to give rise to "vested interests," which depend upon it, or think they depend upon it, for their existence. Every man will struggle for his property. When his property has been invested in a particular manufacture, not because that manufacture is profitable in itself, but because the government has put extra taxes on his foreign competitors, and has thus shut them out of his market, he will naturally fight and fight very hard against any reduction of this taxation. The exigency may be ever so pressing and imperative for the rest of the country. There may be a constant process of sapping the money-supply, by drawing it off through taxation and locking it up uselessly in the government treasury, with a consequent imminent danger of panic and financial convulsion. There may be a steadily stronger temptation and disposition to counterbalance unnecessary taxation by extravagant expenditure, to the common demoralization of Congress, the beneficiaries, and the tax-payers. All these things move not him who has built his manufacture solely on protective taxes. He fights against any reduction of taxation with a sense of personal injury and injustice; and

his voice is so loud, emphatic, and angry that it holds the legislator in check. And the case is no different with him whose manufacture does not really depend upon the protective duties, but who has always been accustomed to considering them as a fixed element in his process of production; he is impatient of any attempt to "disturb business" by introducing a state of affairs to which he is not fully accustomed, and his active or passive protest reinforces that of the man who is more directly interested. The influence of all these "vested interests" upon the action of the legislative body is powerful at all times; but when, as in the present condition of affairs, the reduction of taxation is imperatively necessary, and yet cannot be made advantageously or properly except on some of the protective duties, the combined opposition of all the protected interests may become the most tremendous obstacle to the proper fiscal management of the government. The slough of despond into which a protective system carries the whole tax-system of such a rich and prosperous country as ours is a proof which any one can understand that the worst aspect of protection is that of a false system of national finance. And it is only in this aspect of false finance that protection has become the issue in 1888.

A RELIC OF ANTIQUITY.—Two hundred years ago, government revenues were meagre and stinted. The most powerful European governments had a revenue of but a few million dollars a year. Gustavus Adolphus was ready to take part in the Thirty Years' War, which made Germany a desert, on the payment of a subsidy of a few hundred thousand dollars a year; and twice as much would have bought peace from the most triumphant conqueror. Manufactures amounted to little; commerce to less; and taxation on either gave the government but a petty amount, as we should regard it. Under such circumstances, a protective system of taxation would have had no more chance

to show its full and final features of false finance than among the Zulus or the Mic-macs of more recent times. If it could not help manufactures and commerce much, neither could it hurt them much, for there was not much of them to hurt; it was like putting an extra weight of fifty or sixty pounds on a dead horse. The various schemes of protection, in which statesmen of two centuries ago dabbled, had at least this advantage, that they amused the statesmen and kept them out of worse mischief, while they did comparatively little direct injury to the country.

THE MODERN CONTRAST.—The attempt to apply such a system of taxation to a highly developed modern nation, with an enormous commerce, on which the smallest percentage of tax produces great masses of revenue, is a very different matter. When Andrew Jackson came into office, all the imports of this country amounted only to \$57,000,000, and in the flush times of 1849 they had grown to but a little more than \$130,000,000. In 1887, they were \$726,000,000! Consider how this one fact influences the whole matter of taxation. A tax of one per cent. on this volume of imports makes the American statesman of 1887 responsible for the management of a revenue nearly twice as large as the whole revenue of the government from all sources when Washington came into office (about \$4,000,000); and yet we are told that a "comprehensive and consistent system of protection" requires more than thirty times as much taxation. Evidently, the results of such a system in 1790 and in 1888 bring in radically different conditions, of which Washington and Hamilton knew nothing. The amount of revenue is now the absorbing question; and on that point the moderate free-trader may fairly appeal to the moderate protectionist to subordinate a part of his theory to the good of the country. There were arguments in plenty for "high protection" in 1790, when manufactures were few, the tariff revenue was small,

and the development of manufactures was inextricably complicated with the development of national unity; or in 1861, when there was a pressing need for revenue, when much of that revenue was to be drawn from taxes on American manufactures, and when these manufactures in turn had to be protected against their foreign competitors. The case is very different in 1888, when the volume of imports and tariff revenue is enormous and continually increasing, while the government's need of revenue is as continually decreasing. It is this change of national circumstances which makes it an historical truth, brilliantly stated, that it is a "condition which confronts us, not a theory." Nor is this "condition" limited to our own country; it really confronts every nation whose growth of commerce has fairly begun to assume modern proportions. If a tax on modern imports rises high enough for a general protection, it produces revenues so large that super-extravagance of some sort is needed to expend them. In modern European nations, a vent for this necessary super-extravagance has been found in their system of international armament, with its frightful expenditure for improved arms, munitions, iron-clads, etc. This has been one side of *their* system of finance, which has made the continuance of the other side, the high taxes on commerce, a possible thing. The modern use of credit has of course had its effect; but after all, the process in modern Europe has been the introduction of extravagant war expenditures in time of peace as an excuse for the maintenance of the mediæval high rates of taxation on the enormously swollen commerce of modern times. Stop the system of international armament, and false finance would carry every prosperous nation of modern Europe into the same dilemma in which we are beginning to find ourselves.

THE CASE OF GREAT BRITAIN.—Great Britain is spared a very large part of the difficulties of her neighbors by her insular position. The bulk of her armament is naval, and