

# CHARACTERISTICS, DEVELOPMENTS AND PRESENT STATUS OF CONSUMPTION TAXES

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Many and varied are the classifications of taxes devised by scholars in the past, but nearly all of them agree as to the existence of a category of exactions conveniently denominated as "consumption taxes." Hobbes, writing in 1651, in his *Leviathan*, distinguished taxes levied on citizens "according to the rate of what they spend." So did Petty in 1662 in his *Treatise of Taxes and Contributions*. Similarly, practically every important work on taxation published in any language during the past three centuries has treated taxes on consumption as falling within a separate economic category.

German students of public finance of the nineteenth century (Wagner, Cohn and others) classified taxes in three groups according as they were levied, respectively, on wealth in the process of acquisition, wealth in possession, and wealth in the stage of consumption. The first group in this classification would embrace business, general turnover, and severance taxes; the second, property, income, and possibly inheritance taxes; and the third, consumption taxes. The threefold classification is useful for economic analysis, even though not for practical administrative purposes.

But even more enlightening, from an economic point of view, is de Viti de Marco's suggested threefold classification of taxes<sup>1</sup> into (1) direct taxes on the income produced or the sources thereof, such as personal income taxes, taxes on specified types of income and taxes on real and personal property and business enterprise, (2) indirect taxes on the income consumed, embracing mainly excise and customs duties, and (3) indirect taxes on the income saved, including mainly taxes on transfer of property, gifts, and successions.

In his classification of taxes, de Marco starts with the premise, the correctness of which is undeniable, that all taxes are normally paid out of incomes earned in cur-

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<sup>1</sup> DE VITI DE MARCO, *FIRST PRINCIPLES OF PUBLIC FINANCE* (1936) c. 8.

rent production. Even taxes which are formally levied on the ownership of capital are paid in reality out of the income. "A tax, the continuing payment of which, in fact, consumes part of an individual's capital, is absurd," he rightly says, "because, even if we assume that it may exist, it would impoverish and ultimately exhaust the source of public revenues and would lead to the gradual disappearance of the State that levies such a tax."<sup>2</sup>

The direct taxes on income produced, according to de Marco, should be supplemented by indirect taxes on the income disposed, *i.e.*, on its consumption and its saving so that any possible concealment or undervaluation by the taxpayer of his income at the time of its production, may be corrected subsequently at the time of its disposition and the complete equality and rationality of the tax system, as a whole, insured. Indirect taxes, he insists, result not in the double taxation of the same income, but in a more effective taxation of it.

The present writer prefers a fourfold classification of taxes, made according to their economic characteristics, into (1) taxes on income in the process of production previous to its breakdown into differentiated shares to the various participants in production, represented by various business and occupational taxes; (2) taxes on income distributed, represented by the personal income tax and by the various classified or objective income taxes applicable to different types of income, such as salaries, wages, profits, dividends, interest, and net rent; (3) taxes on income consumed, as defined above, and (4) taxes on income saved, *i.e.*, duties on successions, gifts and transfers of property.

Recently in this country, however, some writers on public finance, such as Lutz, Buehler, Clyde King, Hunter and others have omitted the category of consumption taxes from their classifications of taxes, substituting groups called "commodity taxes" or "selected and general sales taxes," which are not altogether identical with it. They have done so on the grounds that it is generally impossible to determine whether a tax on a given commodity falls on its consumption or on its production, since the forces determining the incidence of taxation work in an uncertain way, and that certain property taxes infrequently may likewise fall on consumption. These writers appear to have misunderstood the substance of consumption taxes which consists not so much in the fact that these taxes are in the final analysis borne by the consumers, as in the fact that they are *intended* to be borne by them. For, in the final analysis, all citizens are consumers and consequently all taxes fall upon consumers in some way or another. This fact does not mean, however, that all taxes are consumption taxes, nor does it mean that no particular taxes can be called by that name. Taxes are never classified on the basis of their incidence. They are usually classified on the basis of their more apparent characteristics. One of the most useful classifications is that which has reference to the capacities in which taxes affect individuals and the manner in which they are apportioned among them. This classification distinguishes between property taxes, which strike at individuals in their

<sup>2</sup> *Id.* at 213.

capacities of property owners and in proportion to their property ownerships; business taxes, which reach individuals in their capacities of businessmen and are adjusted to the peculiarities of their business operations; consumption taxes, which strike at individuals in their capacities of consumers and are apportioned among them in accordance with the nature and extent of their consumption; personal income taxes, which deal with individuals as recipients of income and are apportioned among them in accordance with the size of their incomes; and a few other such categories of taxes. The fact that property taxes affect consumers does not make them consumer taxes, any more than the fact that consumer taxes affect property owners makes them property taxes.<sup>3</sup>

#### THE FIVE DISTINGUISHING CHARACTERISTICS OF CONSUMPTION TAXES

The foremost distinguishing characteristic of consumption taxes, as suggested above, is that they are levied on individuals as consumers rather than as producers, property owners, or simply recipients of incomes, and are adjusted to their consumption habits rather than to their productive activities, property holdings, or incomes. Thus, they are applied, as a rule, to certain selected types of consumption and not to others, the selection or exemption being based in each case upon a variety of considerations, which it is not necessary here to review in detail. Suffice it only to say that among such considerations, the desire to curtail certain types of consumption deemed injurious to public health, morals, or welfare, or not to interfere with others deemed essential thereto, frequently plays an important part.<sup>4</sup>

The second important characteristic of consumption taxes is that they are made to vary in amount with the character and extent of consumption expenditures of individuals. Persons consuming a large quantity of taxable services or goods pay a correspondingly larger amount in such taxes than do those consuming a small quantity of them. By changing their consumption habits, individuals may alter the amounts of consumption taxes they have to pay.

The third characteristic of these taxes is that they apply only to the spendable portions of the incomes of individuals and spare the saved parts thereof, and that they tend to be regressive, inasmuch as the poor spend larger proportions of their incomes on consumption than do the rich. The regressivity of the consumption taxes, however, must not be exaggerated, nor does it necessarily condemn them. First of all, it is possible to construct a system of consumption taxes which would apply proportionately to the spendable portions of all incomes, if not to the entire incomes. Secondly, the gap left open in their proportionate application can be closed

<sup>3</sup> Lutz fails to realize this when he says, "It is equally true that a tax on the retailer's stock of merchandise as personal property is a tax on consumption." He is in error when he considers the distinction between consumption taxes and property taxes to be fictitious and meaningless. LUTZ, *PUBLIC FINANCE* (3d ed. 1936) 568.

<sup>4</sup> See, on this latter point, the discussion by Hart, *Consumption Taxation as an Instrument of Economic Control*, *infra* this issue; on exemption policy generally consult Frampton and Smith, *Commodities and Transactions Exempt from Consumption Taxes*; Conlon, *Express or Implied Exclusions from Consumption Taxes—Types of Consumers*, both *infra* this issue.

effectively by the imposition of progressive income and property transfer taxes, which fall mainly upon the portions of income that are intended to be saved. The chief function of the consumption tax in modern times is normally to reach incomes which are exempt under the personal income taxes, and thus to round out the tax system and to make it more universal and more productive of revenue. Its secondary function is to reach proportionately, as far as possible, the entire spendable portions of incomes, be they large or small, and thus to make the tax system more equitable.

The fourth characteristic of consumption taxes is that they generally are imposed on the act of sale or purchase of the articles or services to be consumed, are collected from the vendors, and are expected to be passed on by the latter to the consumers in the form of higher prices. They are, therefore, indirect in character. It would be impractical in most cases for the state to try to collect the taxes directly from each individual consumer on each separate act of consumption. It is generally necessary to apply the tax before the consumption takes place, as the article leaves the vendor. The taxes are levied on the acts of sale or purchase because at this point the articles or services in question pass from the production to the consumption stage and their quantity and value can then be most easily ascertained.<sup>5</sup> The vendors are used as collecting agents because the consumable goods concentrate at their places, and collection can therefore be effected there on a mass scale. Not infrequently, special devices are employed by the state to insure the shifting of the taxes by the vendors to the consumers and to make the latter conscious of their imposition. To that end, either the vendors are required to add the tax to the price by entering it separately on the customer's bill or affixing a revenue stamp to the article; or else, the consumers are compelled to pay the taxes to the vendors with special token money issued by the state for the purpose.<sup>6</sup>

Only a very few consumer taxes are collected by the state directly from the consumers and consequently classifiable as direct. Such are the taxes levied on the use of durable commodities, such as carriages, automobiles, living quarters, pianos, billiard tables, clocks, or imposed on the employment of servants or the keeping of dogs; that is, uses which involve substantial and more or less conspicuous consumption. Consumption taxes form the bulk of the indirect taxes, the only other taxes belonging to this group being miscellaneous transactions taxes, protective customs duties, taxes on transfers of property, gifts and successions, and a few other miscellaneous exactions.

The fifth characteristic of consumption taxes is that they are imposed on goods and services in a finished state and at a point in the productive and distributive process which is fairly close to the consumer, such as the retailer's, wholesaler's, or,

<sup>5</sup> For discussion of measure see Ratchford, *The Measure of Consumption Taxes*, *infra* this issue. For analysis of the problems involved in levying on sale or purchase, see Herman, *Who Are Taxable?—Basic Problems in Definition Under the Illinois Retailer's Occupation Tax Act*; Cohen, *The Taxable Transaction in Consumers' Taxes*; Wahrhaftig, *Meaning of Retail Sale and Storage, Use or Other Consumption*, all *infra* this issue.

<sup>6</sup> On collection devices see Huston and Berryman, *Collection and Enforcement of State Consumption Excise Taxes*, *infra* this issue.

at the most, the manufacturer's sale of the objects in question. The imposition of these taxes on goods and services ready for consumption rather than on raw materials or other producer goods permits the introduction of differentiations in their rates of imposition in accordance with differences in the qualities of consumer goods and services and in the uses made of them. The collection of these taxes at a point in the productive and distributive process not far removed from the consumer facilitates the shifting of these taxes to him, inasmuch as it reduces to a minimum the number of places at which frictions interfering with shifting may occur.<sup>7</sup>

#### SCOPE AND DEFINITION OF THE CONSUMPTION TAX FIELD

Delineation of the distinguishing characteristics of consumption taxes provides a basis for defining the field of these taxes. It must, first of all, include internal taxes, or "excises" as they are generally called,<sup>8</sup> on various consumer commodities, such as liquor, tobacco, sugar, soft drinks, salt, yeast, playing cards, cosmetics, automobiles, gasoline and narcotics, and also on consumable services, such as amusements, travel, betting, lotteries, hotel and restaurant services, telephone service, and the like. The field must also include the so-called "use taxes" on automobiles, carriages and other durable goods, and taxes on living quarters, maintenance of servants, keeping of dogs, and like things, since they possess most of the characteristics of consumption taxes and resemble very closely the "excises." But it should probably not include agricultural processing taxes which are intended to help farmers to secure better prices without regard to whether the processors or the consumers may have to pay them. These taxes have more the characteristics of production, or business taxes, than of consumption taxes.

Secondly, the list of consumption taxes must include duties on the imports of various consumable products, such as wines, liquor, sugar, coffee, tea, cocoa, spices, and the like. It is debatable whether it should include also duties on the imports of raw materials, such as wool, cotton, silk and iron, which are not definitely intended to be borne by the ultimate consumers of the finished articles produced therefrom, but are considered equally appropriate if they should fall on the manufacturers producing the finished articles. Export duties should be excluded from the list of consumption taxes, since they do not affect domestic consumers but are aimed at either the domestic producers or the foreign consumers.

A question may also be raised as to whether purely protective import duties belong to the class of consumption taxes. For, although they are intended to raise the prices of the imports to the consumers and to prompt them to buy domestic goods in preference to the foreign ones, yet, at the same time, they are also intended to alter the pattern of domestic production. Both in the selection of the objects for

<sup>7</sup> Martin, *Distribution of the Consumption Tax Load*, *infra* this issue, considers the intricacies of consumption-tax shifting.

<sup>8</sup> The word "excise" comes from the Latin *excisio* which means "cutting out," and refers to the fact that a part of the price charged the consumer goes to the State. The use of this term in England dates very largely from the year 1643 when the Long Parliament enacted a comprehensive system of excise duties. But this term came into official use in Holland even earlier.

their imposition and in the fixing of their rates, prime attention is given to costs of production, prices of products and other such characteristics of the businesses involved. The burdens of the tax (or subsidy offered to the protected industries) are placed upon other industries and occupations. Since the protective duties thus take into account the characteristics of both consumers and producers, they embrace features of both consumption and business taxes and are on the borderline of the two.

Thirdly, the class of consumer taxes should include the three main categories of general sales taxes, namely, the retail sales tax, the wholesaler's sales tax, and the manufacturer's sales tax. For these taxes are definitely intended to be borne by consumers in proportion to their consumption, being collected from retailers, wholesalers, or manufacturers merely for reasons of convenience. The intention not to make these taxes a burden on the dealers or manufacturers is generally evidenced by the fact that the sales of the products as between retailers, in the case of a retail sales tax, or as between wholesalers, in the case of a wholesaler's sales tax, or as between manufacturers, in the case of a manufacturer's sales tax, are specifically exempted from the levies in question. Their character as consumption taxes is evidenced further by the fact, already stated, that certain types of goods considered as being essential to a minimum of subsistence are frequently exempted from their application.

It would be scarcely proper, however, to include among consumption taxes, general turnover taxes or gross income taxes applied at every stage of production and to every type of exchange. Nor would it be proper to place in this category the tax on "value added" by production, *i.e.*, a tax on the gross receipts of an enterprise less the costs of materials and services purchased by it from other enterprises. For these taxes are definitely geared to the peculiarities of business operations and vary in amount in accordance therewith. They affect the producers much more intimately and directly than they do the consumers. Clearly, these types of exaction belong to the category of business taxes.

In the fourth place, the list of consumption taxes should include the net profits of fiscal monopolies engaged in the manufacture or distribution of consumable products ordinarily subjected to excise taxation, such as liquor, tobacco, sugar, salt, matches, and the like. These monopolies are established, as a rule, for the purpose of deriving a net revenue for state purposes from the sale of the products in question. The net revenue earned by them is, therefore, tantamount to a consumption excise.

In the fifth place, the list of consumption taxes should include the so-called "octroi" duties, which are levied in some European countries at the city gates on goods brought in from country districts. They are excises on the food of the urban populations, collected from the vending farmers.

#### CLASSIFICATION OF CONSUMPTION TAXES

Consumption taxes may be classified in various ways. According to their relation to the subjects taxed, they must be distinguished as (1) direct, *i.e.*, collected directly

from consumers and (2) indirect, *i.e.*, collected through vendors. The first group, as already mentioned, applies, as a rule, to the purchase or use of durable, relatively costly and easily ascertainable goods and services, such as automobiles, carriages and horses, living quarters, furniture, and servants. The second group covers the bulk of consumer taxes.

According to their scope, consumer taxes should be classified as (1) general consumer taxes, such as general retail, wholesale, manufacturer's sales taxes, and (2) selective or special consumer taxes, such as liquor excises, tobacco excises, gasoline taxes, and special "use taxes."

On the basis of the economic characteristics of the consumption involved, *i.e.*, the urgency of the wants served thereby, the consumer taxes should be classified as (1) those levied on necessities, such as bread, yeast, salt, starches, meat, vegetables, soap, shoes, clothing, matches, candles, fuel, and so on; (2) those levied on semi-luxuries, such as liquor, tobacco, sugar, coffee, tea, cocoa, amusements, low-price automobiles; (3) those levied on luxuries, such as cosmetics, perfumery, jewelry, furs, carriages, servants, finer qualities of wines, expensive types of automobiles; and (4) those levied on objects of harmful consumption, such as narcotics. Manifestly, a classification of this type must be flexible. It must be adjusted to the peculiar standards of living of the population of the given country at the given time. For an item of consumption which at one period in the development of a country is considered to be a luxury available only to the rich, at another period assumes the character of a semi-luxury available to nearly all the people, or even of a general necessity. Similarly, some commodities which in one country belong to the class of luxuries, in another belong to the class of necessities.

Classification on the basis of the physical characteristics of the objects taxed would divide consumption taxes into those levied on (1) foods, (2) beverages, (3) other goods, and (4) services. This classification is used in a number of foreign treatises, but it is not particularly illuminating.

According to their administrative characteristics consumption taxes should be classified as (1) internal duties, or excises, (2) customs duties, (3) fiscal monopolies and (4) "octroi duties."

Finally, according to the objects of their levy they should be classified into (1) those levied primarily for revenue purposes and (2) those levied primarily for purposes of control of the consumption involved, *i.e.*, for the safeguarding of public health and morals. Some of the latter taxes are sometimes called "sumptuary taxes."

#### HISTORICAL DEVELOPMENT

Historically, customs duties have preceded the excises. In fact, they constitute probably the oldest form of taxation. "They seem to have been called customs," says Adam Smith,<sup>9</sup> "as denoting customary payments which had been in use from time immemorial. They appear to have been originally considered as taxes upon

<sup>9</sup> SMITH, *WEALTH OF NATIONS* (1776) Bk. 5, c. 2, Pt. II, art. 4.

the profits of merchants." Within the sphere of internal taxation of consumption, direct levies on consumers have preceded the indirect ones. They developed in part out of the system of taxation of personal property and originated in the sentiment responsible for the enactment of various sumptuary laws aiming at the repression of luxurious expenditures.<sup>10</sup>

The indirect internal taxes on consumption are relatively modern. The Dutch and English excises are only three hundred years old, and the corresponding branches of revenue in other countries are even more recent. This type of taxation had its historical roots in the prerogatives of the feudal overlords as expressed in market fees and tolls and in customs duties, and it could develop only when production for one's own consumption gave way largely to production for exchange and when monetary transactions became all-pervasive. "Any attempt to tax producers or dealers in the expectation that they will recoup themselves by charging an increased price for their wares," says Bastable,<sup>11</sup> "is obviously impracticable when most production is for domestic use, and such exchanges as do take place are transacted by means of barter." Moreover, it was natural that the internal taxation of consumption should have been preceded by the external one, since customs duties were easier to collect and were believed to be falling mainly on foreign producers. A further prerequisite for the creation of an extensive system of excises, as Bastable observes in the course of the same discussion,<sup>12</sup> was the "formation of an administrative organisation capable of effectively supervising the production of the dutiable articles within the territory of the State."

The early forms of excises were extremely oppressive in character, since they were applied as a rule to prime necessities like salt, vinegar, candles and coal, were imposed at rates manifoldly increasing the prices of these articles to the consumers and were collected frequently through unscrupulous private agents interested only in deriving the utmost profit for themselves from their collection and treating the taxpayers in a most high-handed fashion.<sup>13</sup> As a result, the consumption taxes became so unpopular in the middle of the eighteenth century that their further spread was halted for a while. In England, a popular cry arose, "no slavery, no excises, no wooden shoes." Dr. Johnson defined the excise as "a hateful tax levied upon commodities and judged not by common judges of property, but by wretches hired by those to whom excise is paid." Walpole dropped a proposal to extend the excises, saying "I will not be a minister to enforce taxes at the expense of blood." In America, the colonists rebelled against the introduction of an imperial system of internal excises. In France, one of the first acts of the Revolution was to repeal all excises.

But the State could not get along without consumption excises. Nor did fiscal

<sup>10</sup> BASTABLE, PUBLIC FINANCE (3d ed. 1903) Bk. 4, c. 6.

<sup>11</sup> *Id.* at 505.

<sup>12</sup> *Ibid.*

<sup>13</sup> The classical example of a tax levied at exorbitant rates is the tax on salt. Levied in England through the salt monopoly in the beginning of the seventeenth century, it raised the price of salt from 1s. 4d. to 15s. per bushel. The rate of the tax was lowered towards the end of the century, only to be raised again drastically a hundred years later. At 10s. per bushel, the rate of tax in 1798, it was thirty times the cost of production, which was only 6d per bushel. SHIRRAS, THE SCIENCE OF PUBLIC FINANCE (1925) 379.

justice really require that it give them up. The trouble with the existing excises was not that they were inherently unjust, but rather that they were improperly organized, and were levied under unfavorable social, economic and political circumstances. When the excises were reorganized in the nineteenth century and, at the same time, the political, social and economic atmosphere cleared up, the excises proved quite acceptable to the general public and suitable for a more extended use by the State. In France, the consumption excises were restored on a reformed basis within a few years from the time of their abolition by the Revolution, and were refined considerably during the following several decades. In England, the excises were freed of their most objectionable features during the second quarter of the century. In practically every country the consumption excises were overhauled fundamentally and developed along more acceptable lines.

This reorganization of consumption taxes during the nineteenth century took several directions. First of all, the taxes on necessities, such as salt, candles, leather, starch, yeast, soap, paper, and glass, and the duties on the foodstuffs of the urban populations were either repealed outright or were greatly moderated as to their rates. The excises were concentrated, instead, on a few articles of general, but not indispensable consumption, comprising the luxuries of the common people—liquor, beer, tobacco, sugar, tea, coffee, playing cards, lotteries and betting. Secondly, the vicious system of exemption of certain privileged groups of society from the payment of the excises, inherited from feudal times, was abolished. Thirdly, the system of collection of the excises was simplified, made more effective and also less expensive through the organization of collection at the points of manufacturing or wholesaling of the articles in question, where they could be found in greatest concentration, easily recorded and appraised, and where the taxes could be collected in bulk. In some cases, new fiscal monopolies were organized for the more effective collection of the revenue or the existing monopolies were reorganized on a more efficient basis. In the fourth place, the administrative personnel charged with the collection of the excises was improved through the substitution of a fixed compensation for the old system of payment of commission or fees for the work, introduction of a system of appointment and promotion on the basis of merit, elimination of graft and other like reforms.

By attaching the excises to articles which were either rapidly coming into general use and, when used in moderation, constituted an important element in a rising standard of living, or which, when used to excess, were harmful to the individuals, the State was not only raising necessary revenue in a relatively fair and painless way, but was, moreover, raising it on an ever-expanding scale. For the burdens of these excises were being easily absorbed in most countries in the rising standards of living resulting from the rapid industrial development occurring there at the time. They were also absorbed, in part, in the reduction in the prices of the articles in question resulting from the fact that they were produced now in huge quantities and, hence, at lower costs. Thus, although the excises were regressive so far as the entire population, including the rich, was concerned, yet within the broad confines of the middle and lower income groups they bore a relatively fair relation to incomes.

With the further rise in the standards of living of the population in the present century, the excises were extended to such newly popularized articles and services as motion pictures, automobiles, gasoline, radio, soft drinks, chewing gum, patent medicines, cosmetics, railroad travel and telephone service. At the same time, during the first World War, or the period immediately thereafter, a number of countries, in consequence of a pressing need for additional sources of revenue, introduced either general manufacture, wholesale and retail sales taxes, belonging to the category of consumer taxes, or general turnover taxes which, in part at least, fall within this tax category.

#### PRESENT STATUS OF CONSUMER TAXES IN THE TAX SYSTEMS OF THE WORLD

A glance at Table I reveals that consumption taxes at the present time normally furnish in most countries between 30 and 50 per cent of the combined national and

TABLE I  
RELATIVE IMPORTANCE OF CONSUMER TAXES IN THE REVENUE SYSTEMS OF 23 COUNTRIES  
DURING THE YEARS 1936-1938<sup>14</sup>

Countries	Percent Ratios to Total National, State and Local Tax Revenues						
	NATIONAL Customs Duties	CONSUMER TAXES Excises	FISCAL Monopolies (*)	STATE AND LOCAL General Sales	CONSUMER TAXES Excises	GENERAL TOTAL CON- SUMER TAXES	
United States .....	2.3	11.4			10.7	3.6	28.0
Great Britain .....	20.8	13.7					34.5
Australia .....	23.7	12.0		5.8	6.9		48.4
New Zealand .....	24.8	8.4		8.1			41.3
Canada .....	10.9	6.0		19.8	7.7		44.4
Ireland .....	31.0	20.0					51.0
Union So. Afr. ....	18.0	6.0			5.0		29.0
Belgium .....	15.3	15.5			1.0		31.8
Denmark .....	11.9	19.8		2.5			34.2
Estonia .....	38.1	12.1	1m				50.2
Finland .....	39.5	13.0	1		7.4		59.9
France .....	15.0	11.6	1.0 <sup>tlm</sup>	6.6 <sup>(b)</sup>	3.0		37.2
Germany .....	8.6	13.1	1.6 <sup>lm</sup>	5.7 <sup>(b)</sup>	4.3	1.9 <sup>(b)</sup>	35.2
Hungary .....	3.9	8.9	9.5	7.7 <sup>(b)</sup>	2.7		32.7
Italy .....	7.0	13.7	13.1 <sup>tmlx</sup>	3.1 <sup>(b)</sup>		7.4 <sup>(d)</sup>	53.8
Latvia .....	16.0	11.9	16.0 <sup>1</sup>	2.5 <sup>(b)</sup>			46.4
Netherlands .....	11.5	20.2	1		0.9		32.6
Norway .....	19.8	9.4	4.4				33.6
Poland .....	4.1	8.7	31.7 <sup>tlmx</sup>	4.2 <sup>(b)</sup>	1.7	1.6 <sup>(b)</sup>	52.0
Sweden .....	33.1	11.0	t		0.8		45.6
Switzerland .....	27.0	4.0	1.4 <sup>lx</sup>		3.6		36.0
Turkey .....	16.5	10.0 <sup>(c)</sup>	12.2 <sup>tlmx</sup>	4.2 <sup>(b)</sup>			42.9
Yugoslavia .....	9.7	12.4	22.5 <sup>tlmx</sup>		6.0		50.6

(\*) The letters below designate the character of the monopolies: t = tobacco; l = liquor; m = matches; x = salt.

(b) This is a general turnover tax. Only one-half of its revenue yield has been included, on the theory that the other half belongs to the field of business taxation.

(c) Estimated.

(d) Octroi duties.

<sup>14</sup>Based on figures compiled by the author with the assistance of the Works Progress Administration and published in *Tax Systems of the World* (8th ed. 1940).

local revenues. The lowest proportion among the 23 countries covered by the table is found in the United States, where it is 28 per cent; the highest obtains in Finland, where it is 60 per cent. Other countries with a very high proportion of consumption taxes, ranging between 50 and 52 per cent, are Ireland and, before their absorption by Germany and Russia, Poland, Estonia and Yugoslavia. In preparing these figures the entire revenue from customs duties has been included on the assumption that the greater part of it has been collected under duties of fiscal or semi-fiscal types. It proved impossible, owing to lack of data, to break down the tariff revenue exactly into the consumption and non-consumption tax portions. So far as the revenue from general sales taxes is concerned, there are included in the figures the entire proceeds of manufacturers, wholesalers and retailers sales taxes, but only half the revenue of the general turnover taxes on the assumption that the latter taxes are partly consumption and partly business taxes.

The consumer taxes shown in Table I are predominantly national in character, local excises furnishing only a relatively small proportion of the total tax revenues represented in the table. General turnover taxes, although very recent, play a very

TABLE II  
SOME OF THE OBJECTS TAXED INTERNALLY OR THROUGH CUSTOMS DUTIES  
IN 23 COUNTRIES

Countries	Liquor	Tobacco	Sugar and Sweets	Amusements	Automobiles	Gasoline	Betting and Lottery	Matches and Lighters	Salt	Consumer Goods Generally
United States . . . . .	X	X	X	X	X	X				
Great Britain . . . . .	X	X	X	X	X	X	X	X		
Australia . . . . .	X			X	X					X
New Zealand . . . . .	X			X	X	X	X			X
Canada . . . . .	X	X	X	X	X	X	X	X		X
Ireland . . . . .	X	X		X						
Union So. Afr. . . . .	X			X			X			
Belgium . . . . .	X			X	X		X			X
Denmark . . . . .	X	X	X	X	X	X	X	X		
Estonia . . . . .	X	X		X	X	X		X		
Finland . . . . .	X	X	X		X			X		X
France . . . . .	X	X	X	X	X	X	X	X	X	X
Germany . . . . .	X	X	X	X	X	X	X	X	X	X
Hungary . . . . .	X	X	X			X	X	X	X	X
Italy . . . . .	X	X	X	X	X	X	X	X	X	X
Latvia . . . . .	X	X	X			X		X		X
Netherlands . . . . .	X	X	X	X	X				X	X
Norway . . . . .	X	X	X	X	X	X				X
Poland . . . . .	X	X	X		X	X	X	X	X	X
Sweden . . . . .	X	X		X	X	X	X			
Switzerland . . . . .	X	X	X	X	X				X	
Turkey . . . . .	X	X						X	X	X
Yugoslavia . . . . .	X	X				X		X	X	

important part in the revenue systems of many countries even when as in the present compilation only a half of their revenue yields is considered. Fiscal monopolies are more prevalent among agricultural than industrial countries. The latter seem to prefer to collect the corresponding revenues from their consumers through the levy of excises.

Every country, as shown in Table II, is taxing liquor in some form or another. Nearly every country levies taxes on tobacco, sugar, amusements, automobiles, and gasoline. A number tax lotteries and betting, and matches. Less than half of the countries covered by the table are taxing salt; only one, Italy, taxes grain, a prime necessity.

Table III reveals in considerable detail the pattern of consumer taxes for four countries—the United States, Great Britain, Germany, and Italy. It will be observed that the proportion of revenue supplied by these taxes is relatively high in Italy (45.1%), comparatively moderate in Great Britain and Germany (35%), and rather low in the United States (28%).

TABLE III  
RELATIVE IMPORTANCE OF VARIOUS CONSUMPTION TAXES IN THE REVENUE SYSTEMS  
OF FOUR COUNTRIES IN 1936-1938<sup>15</sup>

Types of Consumption Taxes	Revenue Yields in Millions of National Currency				Percent Ratio to Total National, State and Local Tax Revenue			
	United States 1938- 1939 \$	United Kingdom 1938- 1939 £	Germany 1936- 1937 Rms.	Italy 1937- 1938 Lira	United States	United Kingdom	Germany	Italy
Liquor .....	843	105	799 <sup>(*)</sup>	200	6.1	9.6	5.1	.8
Tobacco .....	660	85	999	2560	4.8	7.7	6.4	10.4
Sugar .....	109	14	330	1100	.8	1.3	2.1	4.5
Coffee, Tea, Cocoa ...		12	300	430		1.2	1.9	1.8
Automobiles .....	435	37	135	155	3.1	3.4	.8	.6
Gas and Oil .....	1041	58	450	1000	7.6	5.3	2.9	4.1
Railroad Travel .....			136	250			.9	1.0
Amusements .....	41	8	43		.3	.7	.3	
Lottery and Betting ...			30	426			.2	1.7
Matches and Lighters		4	31	120		.4	.2	.5
Salt .....			61	321			.4	1.3
Meats and Fats .....			497				3.2	
Grains .....				60				.2
General Sales .....	490		1200	650	3.6		7.6	2.7
Octroi .....				1829				7.4
Miscellaneous .....	233	53	489	2001	1.7	4.8	3.1	8.1
Total Consumption Taxes .....	3,852	376	5,500 <sup>(*)</sup>	11,102	28.0	34.4	35.2	45.1
Total National, State and Local Taxes	13,795	1,091	15,636	24,604	100	100	100	100

(\*) Estimated.

<sup>15</sup> Compiled from figures prepared by the author with the assistance of the Works Projects Administration and published in TAX SYSTEMS OF THE WORLD (8th ed. 1940), brought to date on the basis of official reports of the countries involved.

Liquor taxes supply a higher proportion of the total tax revenue in Great Britain (9.6%) than in the other three countries. This fact can be explained by the higher rates at which these taxes are imposed in Great Britain rather than by any greater consumption of liquor by the population of that country. The proportion of revenue supplied by liquor taxes in Italy, really taxes on wine, is extremely low. Since the production of wine is carried on in Italy by the people largely in their own homes, its consumption does not lend itself readily to taxation by the State.

On the other hand, tobacco furnishes a larger proportion of the total revenue in Italy than in any of the other three countries. By taxing heavily the consumption of this article, through a fiscal monopoly, the Italian State compensates itself for its inability to reach the incomes of the population through the taxation of their consumption of alcoholic beverages. Curiously enough, the United States obtains a smaller proportion of its revenue from the taxation of liquor than do the other three countries. Taken together, liquor and tobacco consumption taxes normally supply the largest proportion of revenue in Great Britain (17.3%), and only 10 to 11 per cent in the other three countries.

The taxation of automobiles supplies approximately three per cent of the revenue in the United States and the United Kingdom, but less than one per cent in Germany and Italy, thus reflecting the more extensive utilization of motor vehicles in the two first-mentioned countries. The taxation of gasoline and other oil products similarly supplies much greater proportions of revenue in the first two countries than in the other two.

Railroad travel is taxed substantially in Germany and Italy, but is free from taxation in the United States and Great Britain. The taxation of amusements supplies less than one per cent of the revenue in the United States, Great Britain, and Germany, but is not represented in the tax system of Italy. The taxation of lotteries and betting, on the other hand, which belong to the class of amusements, furnishes almost two per cent of the Italian revenue.

The taxation of matches and salt produces approximately one to two per cent of total revenue in Germany and Italy. In addition, taxes on meats and fats furnish three per cent of the revenue in Germany and the local octroi duties which apply to foodstuffs generally, supply over seven per cent of the revenue in Italy. All such necessities are practically free from taxation in the United States and Great Britain.

General sales taxes play a very important part in the revenue systems of Germany and Italy, but a relatively small role in that of the United States. They are not employed in any way in Great Britain, save that in 1940, a purchasing tax, limited in its application to luxuries, was introduced in that country as a part of the program of taxation for national defense.

It will be observed from this survey that the consumer taxes are in the United States and Great Britain limited, in the main, to a few articles associated with a relatively high standard of living of the population, but are spread in Germany and Italy over practically the entire field of consumption and bear quite heavily upon necessities. The field of consumption taxes, although quite old, is by no means out of harmony with the spirit of modern times. It has shown great adaptability to changing economic conditions and is here to stay.