The Concept of a Duty of Excise in the Continental Public Finance Literature of the 1890s

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Indirect consumption taxes on particular commodities like drinks, tobacco, sugar and salt provided the principal source of revenue for all European governments before the turn of the century. If something like a general sales tax existed in the United States during the Civil War it was considered as an aberration excusable under war conditions, but otherwise on a par with a Spanish alcabala pilloried by Adam Smith in the *Wealth of Nations*. Adolph Wagner does not mention a sales tax in his *General Theory of Taxation*, although he does there discuss a direct consumption tax whose day had not yet come and which would be enacted for the first time only seventy years later.

That a sales tax was against the conventional wisdom of the time can be seen from the conclusion of Chapter 14 of Leroy-Beaulieu's *Treatise* which implies that only an economic ignoramus would advocate a tax affecting more than half a dozen commodities. European sales taxes were enacted only after the First World War.

As for the word itself the French form *accise* was in current use only in Belgium (leaving aside Canada). In German-speaking countries *Akzise* became obsolete in the early 19th century. Its meaning corresponded to the French *octroi*, a local consumption tax collected at the city gates.

As the rich periodical literature of the period is not available in Australia I confine myself to two leading treatises of the time: Adolph Wagner, *Finanzwissenschaft*, Part 2, Theory of Taxation, Leipzig, 1890, and Paul Leroy-Beaulieu, *Traité de la Sciences des Finances*, Paris 1892. Wagner was a leader of the so-called Academic Socialists while Leroy-Beaulieu was more in sympathy with the English Classical School.

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I Adolph Wagner

In his *General Theory of Taxation* Wagner distinguishes three groups of taxes *Erwerbsteuern* = acquisition taxes on generalised income, *Besitzsteuern* = property taxed on generalised assets; and last *Gebrauchsteuern* = use taxes on generalised consumption. A sub-group of the latter are *Verbrauchsteuern* or consumption taxes on non-durable consumables. Under this heading we should find excises. Taxation of consumer capital like pianos and billiard tables might also be considered as excises on luxuries. A non-excise approach to consumption taxation would be a general consumption tax corresponding to an income tax with saving exempted.

He then gives a rough and ready classification of excises based on physiological and customary factors:

(1) Basic necessities: salt, bread of the common sort, flour, mostly also meat, agricultural victuals (vegetables), heating and lighting fuel (kerosene), soap. (Lodging though a basic necessity comes under another fiscal category.)

(2) Other necessities: meat, wheat bread, the more widely consumed of either wine or beer; similarly for coffee and tea, sugar already widely used, common spices, some tropical fruit, tobacco.

(3) Goods relatively dispensable as luxuries: wine in non-wine countries, spirits, tobacco, finer spices, tropical fruit, delicatessen.

(4) Goods for satisfaction of intellectual and social requirements: newspapers, calendars, also paper, use of consumer capital for purposes other than lodging.

Making allowance for fluidity in linguistic usage one may refer to taxes on (1) and (2) as consumption taxes and taxes on (3) and (4) as luxury taxes.

Consumption Taxation in Particular Countries in the 1880s

U.K. In 1884-85 consumption taxation raised £46m, or 61% of all tax revenue, of which £45m were related to drinks and tobacco, (£5m from alcoholic drinks, £9m from tobacco, and £5m from tea). The last two amounts were customs duties only, while the others were mainly excise duties. There were no protective duties. Food was tax-free while stimulants were highly taxed. Direct taxes on consumption were levied on those that kept dogs, employed male servants, had a coat-of-arms or carriages, and went a-hunting.

France While the indirect taxes of the Ancien Regime in France had been swept away by the Revolution, this was its least durable achievement. For despite the large expansion of direct taxes, particularly in the field of transaction taxation, indirect taxes provide now well over half of fiscal requirements, and they are found in the field of customs and internal consumption taxes. There are three Government monopolies, primarily on tobacco, then on gunpowder and matches; and an extraordinarily developed taxation on beverages (spirits, wine, fruit wine, beer). There is also a beet-sugar tax and minor consumption taxes mostly imposed on the occasion of the Franco-Prussian war and partly repealed since. There are licence fees in connection with the beverage taxation. There is a moderately high duty on salt, completing a very burdensome internal consumption tax system. Besides, there are customs, navigation fees, and other auxiliary duties, constituting very productive sources of revenue. Although fiscal duties are the most important part, especially on coffee, cocoa, sugar and kerosene, there has been recently a raising of agricultural and manufacturing protective duties, as well as a duty on imported coal. The very complicated taxes on beverages involve multiple charges among which figures the entry charge on wine in cities, which is not a local but a state charge, while spirits attract a manufacturing duty. There are direct taxes on coaches and horses, billiard tables, and the membership of clubs; charges on hunting licences; and duties on playing cards. In the opinion of Wagner, the French government consumption taxation is the most magnificent existing and most interesting for Public Finance theory. Local taxation relies on a modernised *octroi* which being broadbased is very productive.

Belgium has, besides import duties, internal consumption taxes on spirits, beer, vinegar, sugar, tobacco and especially on imported wines. The former local *octrois* were abolished and the authorities were compensated by shares in the internal consumption tax, customs duties and postal charges.

Netherlands The internal consumption duties are the main source of revenue, particularly the excise on spirits. Taxes are levied on salt, meat, soap, sugar, wine, beer and vinegar. There is also a state lottery. Custom tariffs are kept very low in the interest of international trade. Local excises have been abolished and replaced by direct taxes.

Switzerland The principal Federal revenue came from customs, which have recently been made more productive. The net profits of a Federal monopoly on spirits are to be distributed among the cantons according to population to enable them to dispense with indirect taxation.

Italy has, besides substantial custom revenues, profitable monopolies in tobacco and in salt. It has also a system of internal consumption taxes on food in the form of communal *octrois* in which the Government participates. It particularly affects wine and meat. Further taxes on manufactured products are levied on spirits, beer, soda water and gunpowder. An onerous grist tax introduced during the fiscal stringency consequent on the unification of the country has already been abolished. This is a good example of why taxes of this kind should on occasion not be avoided despite objections, since justification is found in the principles governing fiscal policy.

Austria-Hungary As in a federation, customs duties are a federal revenue used for the purposes of the federal budget. The government monopoly of gunpowder is also federally administered by the Department of Defence. Other indirect consumption taxes, including those accruing to monopolies, belong since 1868 to that half of the Union where they have been collected. In the Austrian half there are government monopolies of tobacco and salt. Then there is the so-called State consumption tax which comprises separate taxes on beer, spirits and sugar. In some large cities, referred to as closed cities, a gate tax is levied on wine, cattle, meat, breadfruit, flour, rice, vegetables and other agricultural produce, heating and lighting fuel, etc. In the country and in open towns special methods are used to levy taxes on beer, wine, cider, spirits and cattle for slaughter. In certain closed places gate taxes include contributions for the local community. Another source of income for Austria is the game of lotto. Hungary has on the whole a similar structure of consumption taxation. In Austria-Hungary, as in Italy, countries on a lower standard of living, but with urgent needs of finance, have to put up with higher rates on basic necessities, since luxuries (with the exception of tobacco) are not consumed in sufficient quantities to meet the fiscal bill.

Russia Government taxation consists mainly of indirect taxes, i.e. import and internal consumption duties. The latter are mainly made up of the enormously productive taxes on beverages, especially on spirits. Despite suspected fraud, which has so far not been overcome, the tax on spirits seems to be the true pillar of the Russian budget. There are also taxes on tobacco, beet-sugar, kerosene and matches - which are remarkable for their peculiar methods of levying. The monopolisation of tobacco has been considered, but has not been realised up to date.

Germany Political unification came with duties on tobacco and salt as exclusively imperial taxes. With the widening of the customs system and the building up of protective agrarian tariffs on grain and cattle, revenue from customs has markedly risen. The financially most productive items are coffee, tobacco, kerosene, wine, grain, tropical and sub-tropical fruit, rice, herring, spices, timber, and cattle. Plans for the establishment of tobacco and spirits monopolies have been unsuccessful. A beet-sugar tax on raw material input was followed by a large expansion of the industry, but export refunds of the tax came to be suspected as export subsidies. Hence a provisional reform combines a reduced input tax with a newly introduced tax on finished product. Customs and a set of consumption taxes are the principal revenues of the Empire. Administration and levying, though under imperial control, remain in the hands of the member states, which are reimbursed for their efforts. Net revenue in excess of 130m marks is distributed among the States on a *per capita* basis. Ultimately the States obtain shares of imperial revenue from the customs-consumption tax system, and constitutionally the shares will tend to be increasing. This is a notable development which, as in other modern States, implies that not only the expenditures of the central government, which essentially serve purposes of justice and power, but also the expenditures of the federal member States, which (ideally) serve purposes of welfare and civilization, benefit from indirect taxation.

II Leroy-Beaulieu

We now turn to Chapter 14 of Leroy-Beaulieu's *Treatise of Public Finance* which deals with consumption taxes or internal indirect taxes corresponding to what the Belgians call *accise*, the British excise and the Italians *dazi*. The author asks rhetorically whether consumption taxes are equivalent to a poll tax, i.e. totally independent of income. Of course they are not, but they are far from proportional to income, which in itself would make them "detestable" and "iniquitous", were it not for their ability to increase fiscal yield without increased rates or even with reduced rates. This is made possible by increasing public wealth, which is brought about by technical and commercial progress. The financial requirements result from expenditure on military establishments and their armaments at the end of the nineteenth century.

An attempt to abolish indirect taxes was made during the French Revolution, but failed mainly because of the wars in which the revolutionary government became involved.

Should all consumables be taxed? Division of labour increases productivity but also the number of possible taxable goods. Therefore, unless levying tax were costless, it will be more economical to leave some goods untaxed. Two examples are mentioned of uneconomic excesses in this respect: the *alcabala* in

Spain which applied to sales of all commodities, and a tax on manufactures during the American Civil War.

Advances in financial and economic knowledge has induced civilized countries to modify their domestic consumption taxes by limiting the number of taxable commodities. In most countries the most frequently and most heavily taxed are beverages, salt, sugar, tobacco, and sometimes flour and meat. Added to this are moderate licence fees imposed on the manufacturers and retailers of the taxable commodities.

Why tax some commodities rather than others? The reasons are complex and much more of a fiscal than of an economic or equitable nature. Generally one levies taxes in various countries on such and such commodities, almost always the same, simply because their consumption is substantial and they are easily accessible to the fiscal authorities. There may be a sumptuary motive concerning health or public morality with tobacco or spirits, but if it exists at all it is of a secondary nature.

Assessment of output varied between: (i) strict observation and calculation by fiscal agents permanently stationed on the premises *(exercice)*, which is most accurate and most expensive; (ii) estimates with measured capacity without permanent observation *(abonnement)*, which is less accurate and less expensive; and (iii) a special tax based on a rough estimate of productivity of soil and quality of output, which is least accurate and occasionally risky, as value of output may fall short of the tax bill.

Finally, production or sale or both may be subject to government monopoly. Besides the economic objections to monopoly there may be political ones, when employment in the distribution system may be used as spoils in electoral contests.

Salt tax

Consider the various potentially taxable commodities. Salt, though it is frequently subject to tax, has been freed from tax in Great Britain, Germany, Belgium, Portugal and Russia. A salt tax even at a minimal rate is likely to be fairly productive because the commodity is widely in demand and the tax is easy to levy, since production takes place either near the sea or in mines, and is in both cases easily visible and accessible. Fraud is not worth the trouble when rates are moderate. Against these fiscal advantages must be noted its defects. Over most ranges of income the tax will be very nearly a poll tax. It may be argued that very poor people will substitute salted meat and salted fish for the fresh variety, and salt consumption may rise with falling income,making it an inferior good and the tax worse than a poll tax.

In pre-revolutionary France a salt tax *(gabelle)* was levied by a monopoly under very oppressive conditions accompanied by regional and personal inequalities. Like other indirect taxes it was swept away by the Revolution. However in 1806 a salt tax was reintroduced without the objectionable features of the *gabelle*, i.e. no monopoly or compulsions and a lower rate. The rate remained unchanged from 1814 to 1848, when it was reduced by 2/3 and remained unchanged again till 1870. It became clear that reductions in the tax in France (as well as in England) resulted only in small increases in demand for human consumption, a point in favour of the salt tax as not much distorting consumers' budgets. Salt as an industrial input in the production of caustic soda was freed from the tax in 1862. Salt used in agriculture or in the raising of livestock was tax-free provided it was made unsuitable for human consumption.

In England during the Napoleonic Wars the rate of the salt tax was comparable to the *gabelle*. In 1823 the rate was reduced to 2/15 while consumption per head rose only by 2%. In 1825 the tax was abolished.

Should the tax in France be abolished? If it is argued that it is a poll tax, then it may be said that such a tax is not necessarily bad, particularly if by way of compensation there is an income tax with exemptions for small incomes. If it is claimed that the salt tax hits particularly inhabitants of the country, this point may be conceded. But it should be noted that in France the country dwellers are exempt from a number of taxes, particularly the *octroi*. Being mostly landowners they don't pay tax on domestically consumed wine or cider from their vineyard. Using little sugar or coffee they don't too much contribute to the taxes on these commodities. Such considerations don't justify the retention of a salt duty in a lightly taxed country, but they make it excusable in a heavily taxed country.

Taxes on beverages

The great consumption tax in most countries is the tax on beverages, or rather the set of duties levied on beverages. In France the yield of these taxes was about a hundred million francs in 1830. In 1890 it was 447 million frs. In England the yield of the tax on beverages is even higher. In 1888-89 the tax on spirits only was 430m frs, of which 322m frs was raised in excise and 108m frs in customs. All alcoholic drinks raise 732m frs when licence fees are included. When tea and coffee are added the total amounts to 850m frs. More than 40% of the British budget rests on revenue from beverages. In Russia tax on beverages amounts to 259m rubles in the budget for 1891, which at the market exchange rate is the equivalent of 734m frs. Customs duties would have to be added. Even the Australian Colonies insist on finding in beverage taxes their principal fiscal resource.

Taxes on drinks are generally more productive and easier to levy in northern than in southern countries. Particularly in Britain such taxes are less vexatious and less odious than in France. Northerners consume more hard liquor despite higher taxes. Their drinks are either of exotic origin like tea or produced in large factories like breweries and distilleries. They lack an indigenous product like wine which may be consumed almost without preparation of a capital-intensive nature.

It's different in France where the producers of the national drink number several hundred thousand. Each of them is in a position to produce alcohol which the authorities are expected to tax rigorously. Wines are of variable quality, and the finest cost a hundred times as much as the poorest, but for whatever reason the administration imposes almost uniform rates on growers. Inequity necessarily results. If one could abolish taxes on beverages and impose a high duty on alcoholic content and on coffee, one would render a great service to the country.

The history of consumption duties on alcohol in France is noteworthy. In 1850 it was only 37 frs per hectolitre. In 1855 it was 60 frs. In 1860 it rose to 90 frs. During the war of 1870, and after, it was lifted to 156 frs. This continuous increase in the duty has not reduced alcohol consumption. The quantity taxed rose from 620,000 hl in 1850 to 976,000 hl in 1868, to 1,444,000 hl in 1881. Yield of the duty in 1850 was 23m frs; in the last years of the Second Empire it rose to 88m frs and in 1890 it was 294m frs. The increasing quantities of alcohol mainly came from molasses, beetroot, starch and only marginally from wine. Thus the average price of alcohol fell and was more stable despite increasing duties. Duties on alcohol may impede its industrial utilisation, but this is a different argument from the one for exempting wine, cider and beer. As for raising from alcohol duties comparable to those of the British and the Russians, this is mere illusion. Leaving aside arguments from habit and natural environment, the fiscal advantages of industrial over domestic production are decisive. Moreover, it must not be forgotten that local taxes like the *octroi* may at least double public revenue from alcohol.

Sugar tax

Sugar has everywhere been considered an eminently taxable good. It is not an absolutely necessary commodity. Its consumption is spreading fast, and until fairly recently it was not an indigenous product in most of Europe. There was a growing supply, and the collection of the tax was easy since it could be done by customs.

Tobacco tax

We now arrive at the last great consumption duty, that on tobacco. We have no trouble in approving of it although rates are high and production is organised as a State monopoly. Unlike alcohol, tobacco does not enter into the production of any other good. Taking into account the possibility of noxious effects on the consumer's health and intelligence, a sumptuary tax would be justified. However, in debt-ridden countries with expensive military establishments the need to raise revenue through consumption taxes on possibly harmful commodities could suggest to the legislators to make the rate high but not too high. Increasing demand is also helpful and the time does not seem to be near when this trend would be reversed.

If one wishes to raise large sums, say 200m to 300m frs, as is possible and easily done in a large country, one has the choice between two general approaches: either (a) a complete ban on the domestic cultivation of tobacco together with the imposition of high customs duties on tobacco and tobacco products, as is done in Great Britain; or (b) a monopoly of manufacture with the management provided by the State, as in France, Austria-Hungary and Italy, or farmed out to a private company, as in Spain and Turkey. A State-run monopoly is preferable if the country has an efficient administrative organisation.

Conclusion

We have studied the principal indirect taxes. The consumption taxes cannot all be abolished in our great States laden with armies and debts. Their total abolition would have the regrettable effect of lifting almost the whole tax burden from the working class population, who having the right to vote should share in providing for public expenditure.

The principle whose justness has been proved by experience is that only a very small number of commodities should be taxed. Moreover, one should avoid taxing manufactured goods, or raw materials for such goods, lest industrial progress be impeded.

If we had to rank these taxes by merit or innocuousness, we would place first the tax on tobacco, then on spirits, then on coffee, then on sugar; in the fifth place on salt, in sixth place taxes on beer, wine and cider. The last mentioned are difficult to collect equitably.

As for taxes on cloth, paper, soap, candles, and matches, a well-advised country will leave them alone.