

Reconsidering Ricardo on Taxation*

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I Introduction

Ricardo's *On the Principles of Political Economy, and Taxation* (1817) had a great influence on the development of economics. His book has two parts dealing broadly with two subjects: political economy and taxation. In addition, it contains a section criticising certain economic ideas. Political economy, which includes value, distribution, foreign trade, and other topics, has often been the focus in his studies on economics; taxation has not been sufficiently studied, except for a notable book written by Shoup (1960), who comprehensively discusses Ricardo's views about taxation.¹

This paper re-examines some views presented in previous studies as well as Ricardo's own statements on taxation and argues that his theory of taxation should be reviewed from a dynamic perspective. Future studies should attempt to reveal what change in distribution, in the Ricardian system, would result from taxation in the process of capital accumulation. This paper only provides an outlook report on a subject that requires further study. Section II introduces previous works on Ricardo's theory of taxation from four points of view: the principles of taxation; the arrangement of chapters on taxation; the effects of taxes on capital accumulation; and the actual system of taxation in Britain. Section III shows that Ricardo, in his *Principles*, did not try to apply economic theory to the practical operation of taxation but instead treated the matter as a

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1 St. Clair (1957) and Nakamura (1959), Sato (1962), Hollander (1979), Dome (2004) and Sato (2005) approach the topic less comprehensively than Shoup (1960). Churchman (2001) studies Ricardo's views on public finance without focusing on his theory of taxation.

consistent theory, composed of a series of taxation principles. Section IV presents concluding remarks.

II Previous Works on Ricardo's Theory of Taxation

Researchers have discussed whether theoretical principles of taxation were present in Ricardo's text. Morishima (1989, 4) notes that for all editions of this work (in 1817, 1819, and 1821), published while Ricardo was still alive, a comma was inserted between 'Political Economy' and 'and Taxation' in the title, and argues that 'the taxation chapters are not the chapters where the theory of taxes is expounded but where economic theory is applied to the problem of taxation.' Morishima, as reiterates in his later book (1994, 25), believes that principles of taxation are missing from Ricardo's text.

On the other hand, Hatori (1987, 295–98) argues about the existence of 'principles' in Ricardo's text, based on his own usage of the word 'principles of taxation' in *Notes on Malthus* (Ricardo 1951–73, II, 167). Ricardo, in fact, referred to some 'principles' concerning taxation throughout his text (for example, I, 226). The existence of the 'principles of taxation' in his text should thus be admitted.

Ricardo's arrangement of the chapters on taxation in his text as well as the issue with the title as cited above has also been discussed. Sraffa points out that Ricardo's 'order of the chapters [Chapters 8–18 on taxation] coincides closely with the order in which the topics are treated in [Book 5, Chapter 2, Part 2 of Adam Smith's] the *Wealth of Nations*' (I, xxiii–xxv). Although the interpretation by Sraffa has been supported by some scholars of Ricardo, such as Sato (1968) and Hatori (1994), Sato (2005) doubts such a simple comparison.

According to Sato (2005, 7–10), Smith shed light exclusively on taxes paid from 'revenue,' while Ricardo (1951–73, I, 150) emphasised that taxes 'are always ultimately paid' not only from 'the revenue of the country,' but also from 'the capital.' The chapters on taxation in Ricardo's book are ordered such that analyses of taxes reducing the power of capital accumulation receive more attention. This also implies that it is essential for Ricardo to consider the effects of taxes on capital accumulation.

Dome (2004, 118) examines 'why Ricardo concluded that every tax was an evil' and demonstrates 'that his proposal of a capital levy did not contradict his generally negative opinion of taxation.' Ricardo's criticisms of taxation were based on his views on the negative effects of taxes on capital accumulation.

Dome (1992) also reconsiders Ricardo's theory of taxation, using a model that incorporates taxes into the Ricardo–Sraffa system of natural price. Rent is excluded from the model, because natural price, following the theory of differ-

ential rent, is not associated with rent. On the one hand, Ricardo linked the theory of differential rent with an analysis of dynamic change of distribution in the process of capital accumulation, but no such analysis exists in the model reconstructed by Dome.

Finally, we shall refer to two conflicting opinions about Ricardo and the British system of taxation. Ricardo discussed taxes on raw produce and gold in Chapters 9 and 13, respectively. However, there is no such system of taxation in Britain. Shoup (1960, 80–81, 93, 102, 207) criticised Ricardo's discussion of unrealistic taxation and his insufficient treatment of existing taxes (also see Wada 1963). On the other hand, Sato (1962, 33) argues that the raw-produce tax was a tax on profits and that Ricardo certainly had interest in the actual matter of taxation. Therefore, Sato has a positive opinion about Ricardo's theory of taxation.

These opposing evaluations of Ricardo on taxation depend on whether his treatment was based on an actual system of taxation. However, is it really essential *for him* to deal with existing taxation?

III Ricardo and the Subject of Taxation

It is well known that Ricardo's political economy was developed using abstract reasoning (Political Economy Club, 1921, 224; Ricardo 1951–73, X, 10). He similarly intended to discuss the principles of taxation theoretically, from an abstract point of view. Ricardo was 'not convinced' by Malthus's arguments on taxation in the *Principles of Political Economy*, and believed that the difference between them might 'be ascribed to [Malthus's] considering [Ricardo's] book as more practical than [the author himself] intended it to be' (VIII, 184), thereby implying that Ricardo had no intention of treating taxation as a real matter.

Having read Ricardo's *Principles*, Hutches Trower (1777–1833) hoped that Ricardo would publish 'a Text Book, to which Statesman may refer, at once, to regulate their financial operations' (1951–73, IX, 68–69). To Trower, however, Ricardo answered that he was not 'capable of producing so important a work' (ibid., 87–88). This exhibits that his *Principles* was not a text that included 'the practical operation of taxation' (ibid., 87–88). He intended to treat 'the subject of taxation' as a 'consistent theory,' which is composed of a series of principles of taxation (VII, 84). It was not essential for him to deal with the existing system of taxation in his text. Therefore, it seems unnecessary to appraise his theory of taxation by examining whether his treatment was based on an actual system of taxation.

IV Concluding Remarks

In the preface of his *Principles*, Ricardo (1951–73, I, 5–6) found it necessary ‘to trace satisfactorily the influence of taxation on different classes of the community,’ with ‘a knowledge’ of ‘the true doctrine of rent’—or theory of differential rent. His principle of distribution with the theory of differential rent was treated in the framework of a dynamic economy with capital accumulation. However, he unsuccessfully traces the effects of taxation on dynamic distribution in the process of capital accumulation.² Such effects of taxation should be reconsidered in the Ricardian system.

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2 This is also in relation to Senior pointing out that Ricardo did not examine a long-run price effect for a raw produce tax, as follows: ‘It has been supposed, however, that the price of agricultural produce would rise to the full amount of the tax, and that the whole amount of that tax would consequently fall on the consumer. This is the opinion of Mr. Ricardo and of Mr. Mill. And it is on this ground that they both maintain that the effect of tithes is to produce a rise in the price of raw produce equal to the whole value of the tithe, and affecting equally all classes so far as they are consumers of raw produce. We believe that the immediate effect of a general tax on raw produce is to raise the price, but to an amount not equal to that of the tax; but that its ultimate effect is to diminish the consumption and production of raw produce, but to leave its price unaffected’ (Senior 1836, 122–23).

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