J.B SAY ON TAXATION

By Mark Brandly
mlbrandly@phc.edu
Assistant Professor of Economics
Department of Government
Patrick Henry College

INTRODUCTION

Carl Menger, the founder of the Austrian school of economics, was instrumental in developing the Austrian analytical framework. However, the foundation of Austrian theory predates Menger by centuries. Beginning with the Scholastics of the 16th century, there developed a tradition of economic thought on the European continent that includes the French school of the Turgot-Cantillon era. An important link in that chain of thought is the work of Jean Baptiste Say.[1]

Austrians have recognized Say's contributions to economics in general and his link to the Austrian school of thought in particular, [2] and have lauded his views on

[1] Roll, Erich (1939, 200) calls Say "a continental popularizar of Adam Smith." Although this is a commonly held view, Rothbard (1995, 3-4) argues that Say's analysis stands squarely in the Turgot-Cantillon, and therefore Austrian tradition. Rothbard (1976) traces the development of economic thought from the Scholastics to the French liberal school. Liggio (1977) calls Say the "most important economist in France during the Restoration." Salerno (1988 and 1978) examines the French school and explains why this tradition has been neglected.

[2] Rothbard (1995) calls Say "One of the fathers of our discipline. " Sechcrest (1999,45) believes that Say "deserves to be remembered, especially by Austrian economists, as a pivotal figure in the history of economic thought."

methodology, entrepreneurship, monetary theory, and his theory of value.[3] Say is particularly famous for his argument, commonly called Say's Law, that the problem that limits wealth is not underconsumption, but a deficiency of production.[4] For Say, taxation, not underconsumption, is the enemy of economic prosperity. Say's analysis of taxation, in particular, was exceptional.[5]

For good reason, economists of the 19th and early 20th centuries generally had less to say about taxes than do their current counterparts. In a period of relatively limited government, tax analysis was a secondary consideration for many economists.[6] Say, however, developed an early approach to taxation that was far ahead of the classical economists of his time. The purpose of this paper is to examine Say's analyses of taxation and show that his work presaged much of the Austrian thought in this area.

The second section of the paper provides some biographical information on Say. Say's political-economic views are examined in the third section. Say's views on the tax effects on capital, his principles of taxation, and his analysis of tax incidence are considered in sections four through six, and section seven provides concluding remarks.

---

[3]Rothbard discusses Say's views on entrepreneurs (1995, 26), mo ney (1995,37), and the theory of value (1995,20-5). On methodology, Rothbards believes Say is "perhaps the first praxeologist," (1976,25). Rothbard (1995,17) and Hoppe (1995,10-11) also approvingly cite Say's views on methodology.

[4]For Austrian comments, see, for instance, Mises' (1960) and Rothbard (1995,27-37). Hazlitt (1960) includes Say's case as a critique of Keynesian economics.

[5]Rothbard (1995,40) describes Say's tax analysis as "brilliant and unique."

[6]As Mises explains "For classical nineteenth-century Liberalism, which assigns to the State the sole task of safeguarding the citizen's property and person, the problem of raising the means needed for public services is a matter of small importance. The expenditure caused by the apparatus of a liberal community is so small, compared with the total national income, that there is little appreciable difference between meeting it one way or another." "Though questions of taxation would be of minor importance in the purely liberal state, they call for increased attention in the authoritarian state" (1981, 444-445)

BIOGRAPHICAL NOTE[7]

Born in Lyons in 1767, into a Protestant family of textile merchants, Say spent most of his early life in Geneva and London. Having read Adam Smith's *Wealth of Nations* at the age of 21, he began a career in lecturing and writing on political economy, became a leader of the laissez faire group in France, the *philosophes*, and was the first editor of the major journal of this group, *La Decade Philosophique*.

Say held a top government position from 1799 to 1803, when he was forced out of office by Napoleon's crackdown on the *philosophes* after the publication of Say's great treatise *Traite d'Economie Politique* in 1803. This work, in its various editions, was the source of much of Say's fame and influence and contains Say's systematic treatment of tax issues.[8]

Say left Paris in 1803, and the authorities prevented the publication of a second edition of his *Traite* during Napoleon's rule. Say returned to Paris in 1813, after Napoleon's downfall, to continue his lecturing. He was the first French academic teacher of economics, first at the Conservatoire National des Arts et Metiers and later at the College de France.

His *Traite* went through six editions in his lifetime, the last in 1829. Issued in English as the *Treatise on Political Economy*, it was the first European text to be edited and annotated for educational use in the U.S., was the most popular economics textbook in the U.S. during the mid-1800s, and was still in use as late as 1880. Due to its

[7]Although there is no comprehensive English biography of Say, Palmer (1997) provides an excellent overview of Say's life and work. Other valuable sources include Sechrest (1999), Rothbard (1995,1-45,479-81 and 1997,92-6), Schumpeter (1954,), Spiegel (1983,257-64), Ekelund and Hebert (1996), and Roll (1939,199-201,317-22).

[8]In the current paper, references to *Traite* will be denoted with page numbers in parentheses. Book Three (387-488) is of particular importance.

popularity, it was reprinted at least 26 times in the U.S. during this period.[9] Thomas Jefferson and James Madison both admired Say. Jefferson considered his book clearer and sounder than Adam Smith's *Wealth of Nations*, supported the translation of *Traite* into English, and wanted Say to teach political economy at the University of Virginia.[10]

Say divided the *Traite* into three books, and his object in the third book, "On the Consumption of Wealth" was to "expose the absurdities" in the claims that "profuse public expenditures are beneficial to the state (the public interest)."(448) It is here that Say demonstrates his understanding of the damaging effects of taxation on market participants and on the economy in general.

POLITICAL-ECONOMIC ARGUMENTS

Say's "hardhitting politicoeconomic conclusions"[11] about the nature of the state provide the foundation for his tax analysis, and Austrians would tend to be sympathetic to his perspective. Say's view parallels what has been called Austrian class analysis,[12] where the fundamental class struggle is between the taxpayers and the tax consumers. Taxation benefits the one class at the expense of the other. Say understands the coercive nature of taxation, seeing taxation as being involuntary and confiscatory. (446) Say asks

[9] O'Connor, (1974,p) describes the influence of Say's *Traite* in the U.S. and explains that the 4th edition, published in 1819 and translated into English by Charles Robert Prinsep in 1821, was mainly used. The American version, edited by Clement Cornell Biddle, was the textbook version of Say's *Treatise*. According to O'Connor, Biddle objected to Prinsep's Ricardian slant in the translation and altered some of Prinsep's notes.

[10] Say's work was also influential in Italy, Germany, and Russia. (Rothbard, 1995,9-11) Schumpeter (1954,491) attests to Say's influence in the U.S., and while Schumpeter does not admire Say to the degree that Rothbard does, Schumpeter agrees that Say "sometimes did see important and deep seated truths." (491)

[11] Rothbard (1982)

[12] Hoppe (1993,93-110)

> "Where is the benefit of social institutions to an individual, whom they rob of an object of positive enjoyment or necessity in actual possessions, and offer nothing in return, but the participation in a remote and contingent good, which any man in his senses would reject with disdain?" (454)

In addition to equating taxes to robbery, Say also compares taxation to gunpowder, extortion, and even suicide.

Contrast this view with modern analyses that treat tax payments as essentially being voluntary contributions. Say will have none of this. Nor does he believe that democracy lessens the involuntary nature of taxation. The fact that taxes are agreed upon by a majority of the voters is no defense for taxation.

Say points out that state agents will resort to unjust measures in order to generate tax revenue. In order to justify heavier tax rates, the state will lie, by telling the citizenry that higher taxes are in the public's interest. The authorities will declare "that the people are scarcely burdened at all, and are equal to a much higher scale of taxation." (448) Government agents who collect taxes will "construe all doubtful points of fiscal law in their own favour, and sometimes to create obscurity for the purpose of profiting by it." (450-1) And state agents will act against the public interest in order to advance their careers. "A clerk or officer has no chance of promotion, unless he shows a disposition on all occasions to postpone the interests of the public to those of the exchequer" (451)

Consider an alternate view. Adam Smith is much less hostile to taxation, to the point that when responding to the complaint that tax payments represent badges of slavery, Smith asserts that "every tax, however, is to the person who pays it a badge, not of slavery, but of liberty."[13] Say's view of the nature of taxation is one of the several distinctions between Say and Smith.

TAX EFFECTS ON CAPITAL

Say's goal for examining the effects of taxation is to dispel fallacies about the alleged benefits of taxing and government spending, and to demonstrate that the public budget damages the economy in general. First of all, the notion that the value of the tax burden can be returned to the taxpayer in the form of services is absurd. According to Say, "this is a gross fallacy" that has led to "shameless waste and dilapidation." (447)

In responding to his critics who argue that taxation may increase prosperity by inducing those who bear the burden of the tax to work harder, Say agrees that "the pressure of taxation impels the productive classes to redouble their exertions, and thus tends to enlarge the national production." However, this income effect is not as strong as the effect of taxation on the destruction of capital. Taxation destroys capital and "mere exertion cannot alone produce, there must be capital for it to work upon." Even if the deprivation caused by taxation provided an incentive for workers to increase their exertions, the reduction in capital would necessarily harm prosperity. Therefore, "it is a glaring absurdity to pretend that taxation contributes to the national wealth," and "it would be trifling with my reader's time to notice such a fallacy, did not most governments act upon this principle, and had not well-intentioned and scientific writers endeavoured to support and establish it." (447, all quotes)

In spite of the fact that Say revealed these fallacies nearly 200 years ago, the argument that a tax may increase output is still in use in some modern public finance

[13] Smith (1937,503)

textbooks, where the "income effect" of a tax may increase the output of the good in question.[14] In effect, such explanations imply that the law of supply is not a universal proposition.

Taxation decreases the capital available in an economy, explains Say, by diverting private investment to consumption by the state. Taxes "encroach upon" capital and therefore, the "wealth of the community must gradually decline."(471) This important point is emphasized by Austrians, but is less recognized by economists in general. On this point, Say criticizes David Ricardo, who argued that taxes cannot harm capital since the long run rate of return is unaffected by taxation, on this issue.[15] Say blames taxation for reducing productive capital, crippling production, decreasing workers' wages, and decreasing the general standard of living.

Taxes not only decrease prosperity by harming capital formation, they also prevent a market adjustments from occurring as smoothly as they otherwise would. Say's clear understanding of the entrepreneur's critical role in the economy allows him to see how taxation reduce the entrepreneur's effectiveness in performing this role. Taxation lowers profits, and prevents property from being in "the hands of those who can make the most of it." (page number) Say understands that the greater the level of taxation, the lower the incentive for entrepreneurs to perform this function in the economy. Capital tends to be "less productively invested" when its transfer is taxed which prevents the "probable increase of the national income." (456, both quotes)

[14] Marlow (1995) on savings

[15] On this issue, Say also attacks Ricardo for his use of "geometrical demonstration; in the science of political economy, there is no method less worthy of reliance." (452)

PRINCIPLES OF TAXATION

Say describes his principles for "the best taxes, or, rather those that are least bad," (449) starting with the demand that taxes should be "moderate." Here, Say recognized the fundamental insight of the Laffer curve, namely that tax rates and tax revenues are not necessarily positively related. According to Say, higher taxes may "impoverish the state." Burdened by high taxes, the taxpayer is "abridged of his enjoyments, the producer of his profits, and the public exchequer of its receipts." (449, both quotes) Tax rates should be moderate in the sense that the only rates that should be considered are those in the lower portion of the Laffer curve. In cases where more than one tax rate will generate the desired revenue, the lowest possible tax rate should always be chosen.

Say provides historical evidence of this thesis. For instance, a 50 percent decrease of the duties on fresh sea fish sold in Paris had no discernible effect on tax revenues, (450) the 1778 Spanish tax reduction on Mexico increased tax receipts by millions of dollars, (451) and a 20 percent increase in the tax on sugar in England decreased tax revenues nearly 9 percent. (450) If a tax is severe enough, it can completely eliminate trade in the taxed market. For example, Say laments that the English tax on French wine, a "wholesome and exhilarating beverage" virtually eliminated the import of French wine, depriving the British of a "cheap...object of consumption." (450)

There may be cases, however, when it is appropriate to impose taxes not to collect revenue, but to curb vices. If an activity is a vice, Say asserts that the activity is generating harm and that reducing that activity generates positive benefits to the community. (459) His position is somewhat analogous to the standard textbook argument that taxes may be used to alleviate negative externalities in the sense that the harm that is generated is external to those who are making the relevant decision. Say's prescription presages A.C. Pigou's tax argument. Austrians, of course, generally do not accept this case, instead arguing that externalities are created by the failure to assign and protect property rights.

Say also recognized that tax burdens involve "vexatious circumstances" that "harass the tax-payer, without bringing any thing into the public exchequer"(449) Reducing these circumstances is another of Say's tenets of taxation. The circumstances that should be minimized include all administration and compliance costs of taxation. Such costs demonstrate the "misconduct of the government." (471) Say's explanation parallels, but is superior to, that of Adam Smith and is commonly seen in public finance textbooks.

Say's argument is similar to the modern explanation of a "deadweight loss" comprised of the portion of the tax burden which is greater than the actual tax revenue.[16] Say justifies this principle on the premise that reducing these losses is equivalent to a reduction in tax rates and will therefore tend to increase the amount of the taxed activity and increase tax receipts.

Interestingly, Rothbard, in his analysis of Adam Smith, argues that this principle is not self-evident. In cases where the tax itself is unjust, high administration costs may make it difficult to collect the tax and high compliance costs may induce taxpayers to

[16]Say even terms this a "dead loss." Say's view is superior to the modern view in the sense that the excess burden is not a geometric area on a graph but an explanation of this how taxes may generate harm above the amount of the tax payment.

rebel against the tax. Therefore, in Rothbard's view, there are potential benefits to such high costs.[17]

Say's third principle of just taxation is "impartiality," or uniformity. Taxes should burden various industries equitably. Partial taxes are both unjust and may harm tax revenues, because the perception that taxes are unjust provides an incentive for greater tax evasion.

For Say, in order to be impartial, a tax system should be progressive. However, he argues that a progressive system should not be used to redistribute income from the wealthy to the poorer classes. His reasoning is that the lower classes should pay little or no taxes at all. Taxes should be low, and they should be even lower on society's poor. (454-5) Such a system is necessarily progressive.

Say's fourth principle is that taxes should be "least injurious to production" (capital). All taxation, including taxes directly imposed on capital and the taxes that only have an indirect effect on capital formation, prevents the accumulation of capital. Say recognizes that tax burdens are shifted backwards in the production process and a portion of the burdens fall on the owners of capital, reducing capital formation and therefore available production.

Taxation inhibits the functioning of a market economy, in the sense that taxes prevent resources, particularly capital, from being allocated to their most desired ends. His discussion is similar to Mises' explanation of the effect of taxes on profits. Profits, according to Mises, are an indication of a maladjustment in the economy and taxing

[17] Rothbard (1970,137-8)

profits, in addition to distorting profit signals, reduces the incentive to respond to such maladjustments.[18]

In a similar vein, according to Say, another tax effect on capital is the disincentive to sell capital because of the tax on the gains. The tax will reduce the likelihood of the capital being transferred into the hands of an owner who will use the capital in a more profitable manner. Rothbard explains that such an effect does not increase capital formation, as sometimes argued, but merely tends to freeze investments in the hands of the current owners.

INCIDENCE OF TAXATION

Say developed what would now be called a partial equilibrium analysis of specific taxes, and his conclusions presage now commonly accepted doctrine. He argued that taxes increase the prices paid by consumers and/or decreases the net price received by the producers thereby lowering producers' profits.(455-6,471) Taxation will also reduce the amount of production and consumption of the good being taxed. In this sense, taxation harms both the buyers and the sellers of the taxed product. In addition, a tax on inputs, such as cotton, reduces the output not only of cotton, but also of all goods that require cotton as an input. Taxation increases the price of the input, thereby reducing the supply of that input.

> Say also developed a sophisticated concept of tax incidence. A tax on a good will "never raise its total price by the full amount of the tax; because to do so, the total demand must remain the same; which it never can do. Wherefore, in such cases,

[18] Mises (1980,121)

> the tax falls, partly upon those, who still continue to consume, notwithstanding the increase of price, and partly upon the producers, who raise a less product, and find that , in consequence of the reduced demand, they really obtain less on the sale, when the tax comes to be deducted." (466)

Say has a modern view of tax burdens in the sense that he recognized that price changes due to taxation harm both consumers and producers and that the economic burdens of taxation do not depend on the legal incidence of the tax. Taxes on consumers may affect producers and taxes on producers may affect consumers.

And, according to Say, the tax burden depends on how consumers and producers respond to the price changes due to the tax. Consider a tax paid by the producer of a commodity:

> "When a commodity is in great request, the holder will not part with the possession, unless indemnifiable for all his advances, of which the tax he has paid is a part; he will take nothing of a full and complete indemnity. But, if any unlooked for occurrence should happen to lower the demand for his product, he will be glad enough to take the tax upon himself, for the sake of quickening the sale." (page number)

According to Say, who bears the burden of the tax? Those "who can find no means of evasion." (468) Say's description of tax evasion (consumers and producers moving out of the market to avoid the tax) is analogous to the standard argument that tax burdens depend on the price elasticities of supply and demand (buyers and sellers are willing and able to buy and sell different amounts at different prices). Say correctly argues that buyers and sellers will bear the proportion of the tax burden according to their willingness to stay in the market that is being taxed. (note that this case is superior to modern math treatments of this issue)

Say even explains that there are cases where the tax burden is born solely by producers or solely by consumers. He does not have the economic tools available to describe the former as the case of taxation with totally inelastic supply or totally elastic demand and the latter as the case of taxation with totally elastic supply or totally inelastic demand, but he conceptually recognizes these extreme cases.

Finally, on a minor note, Say recognizes taxes may be exported. (466-7) It may be possible for the state to impose taxes whose burden falls on individuals outside of the state's jurisdiction. Say only notes the possibility of tax exportation and does not derive any of the implications of this possibility. Some tax analyses, particularly the argument that taxes harm the taxed economy, rely on the premise that the tax burden is not exported. If taxes can be exported, many questions arise. Are taxes that are exported harmful to the economy? Are they as harmful as taxes that are not exported? Could such taxes, in fact, benefit an economy? The distinction between exported and non-exported taxes is an important point that Austrians have generally overlooked.

CONCLUSION

Without the benefit of the tools of marginal analysis and without the modern concept of price elasticity, Say accurately demonstrates the truths of much of modern tax analysis. He recognized the tax effects on prices and output, had a sophisticated explanation of tax incidence, classified the costs of taxation over and above the actual tax burdens, understood the basic insight of what is now termed the Laffer curve, and, most importantly, argued that taxation destroys capital, interferes with the functioning of a market economy, and lowers the standard of living.

Given his conclusions, Say argued that the appropriate tax is the lowest possible tax. He demonstrates that taxation, and the concomitant spending, produces more harm than good. His principles of taxation, moderation, impartiality, minimization of administration and compliance costs, and minimization of the damage to capital formation all lead to the conclusion that the "best scheme of public finance is to spend as little as possible; and the best tax is always the lightest." (449)

His analysis was farsighted, surpassing some of the modern work in this area. As in other areas of his work, Say's analysis of taxation is clear, instructive, and compelling, and demonstrates that he is a forerunner of the Austrian school of economics.

REFERENCES

Ekelund, Robert B., and Robert F. Hebert, A History of Economic Theory and Method, Irwin/McGraw Hill, 1996.

Hazlitt, Henry, *The Critics of Keynesian Economics*, New York: University Press of America, 1960.

Hoppe, Hans-Hermann, *The Economics and Ethics of Private Property*, Boston: Kluwer Academic Publishers, 1993.

__________________, *Economic Science and the Austrian Method*, Auburn, AL: Ludwig von Mises Institute, 1995.

Liggio, Leonard P., "Charles Dunoyer and French Classical Liberalism," *Journal of Libertarian Studies*, 1 (3), 1977, 179-84.

Marlow, Michael, *Public Finance: Theory and Practice*, Fort Worth: Harcourt Brace, 1995.

Menard, Claude, "Three Forms of Resistance to Statistics: Say, Cournot, and Walras," *History of Political Economy*, 12 (4), date, 525-41.

Mises, Ludwig von "Lord Keynes and Say's Law," in Hazlitt, Henry, *The Critics of Keynesian Ecoonomics*, New York: University Press of America, 1960.

________________, *Socialism: An Economic and Sociological Analysis*, Indianapolis: Liberty Classics, 1981.

________________, *Planning for Freedom*, Spring Mills, PA: Libertarian Press, 1980.

________________, *Human Action: A Treatise on Economics*, Auburn, AL: Ludwig von Mises Institute, 1998.

O'Connor, Michael J.L., *Origins of Academic Economics in the United States*, New York: Garland Publishing, 1974.

Palmer, R.R., *J.B. Say: An Economist in Troubled Times*, Princeton: Princeton University Press, 1997.

Roll, Erich, *A History of Economic Thought*, New York: Prentice-Hall, 1939.

Rosen, *Public Finance*, Boston: Irwin/McGraw Hill, 1999.

Rothbard, Murray N., *Classical Economics: An Austrian Perspective on the History of Economic Thought*, Volume 2, Brookfield, VT: Edward Elgar, 1995.

_________________, “New Light on the Prehistory of the Austrian School,” in Edwin G. Dolan, *The Foundations of Modern Austrtian Economics*, Kansas City: Sheed & Ward, 1976, 52-74.

_________________, “The Myth of Neutral Taxation,” *Cato Journal*, 1 (2), Fall 1981, 519-64, reprinted in *Logic of Action II: Applications and Criticisms from the Austrian School*, Lyme, US: Edward Elgar, 1997, 56-108.

__________________, *Power and Market*, Kansas City: Sheed, Andrews, and McMeel, 1970.

_________________, “Praxeology: The Methodology of Austrian Economics,” in Edwin G. Dolan, *The Foundations of Modern Austrtian Economics*, Kansas City: Sheed & Ward, 1976, 19-39.

_________________, “Interventionism: Comment on Lavoie,” in Israel M. Kirzner, ed., *Method, Process, and Austrian Economics: Essays in Honor of Ludwig von Mises*, Lexington, MA: LexingtonBooks, 1982.

Salerno, Joseph T., “The Neglect of the French Liberal School in Anglo-American Economics: A Critique of Received Explanations,” *Review of Austrian Economics*, 2, 1988, 113-156.

_______________, “Comment on the French Liberal School,” *Journal of Libertarian Studies*, 2 (1), 1978, 65-8.

Sanders, Kenneth K., “A Note on Jean-Baptiste Say and Carl Menger Regarding Value,” *Review of Austrian Economics*, 7 (1), 1994, 141-3.

Say, Jean Baptiste, *Letters to Thomas Robert Malthus on Political Economy and Stagnation of Commerce*, London: George Harding’s Bookshop, 1936.

_______________, “Say’s Law,” in Henry Hazlitt, *The Critics of Keynesian Economics*, New York: University Press of America, 1960, 11-22.

________________, *A Treatise on Political Economy or the Production, Distribution, and Consumption of Wealth*, Philadelphia: J.B. Lippincott, 1857.

Schumpeter, Joseph A., *History of Economic Analysis,* New York: Oxford University Press, 1954.

Sechrest, Larry, “Jean-Baptiste Say: Neglected Champion of Laissez-Faire,” in Holcombe, Randall G., *15 Great Austrian Economists*, Auburn, AL: Ludwig von Mises Institute, 1999, 45-58.

Smith, Adam, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, New York: Collier and Son, 1937.

Sowell, Thomas, *Say's Law: An Historical Analysis*, Princeton: Princeton University Press, 1972.

Spiegel, Henry William, *The Growth of Economic Thought*, Durham, NC: Duke University Press, 1983.

Weinburg, Mark, "The Social Analysis of Three Early 19th Century French Liberals: Say, Comte, and Dunoyer," *Journal of Libertarian Studies*, 1978, 2 (1), 45-64.