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Kyoto University  
**Economic Review**

MEMOIRS OF  
THE DEPARTMENT OF ECONOMICS  
IN  
THE IMPERIAL UNIVERSITY OF KYOTO

VOLUME II 1927

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PUBLISHED BY THE DEPARTMENT  
OF ECONOMICS IN  
THE IMPERIAL UNIVERSITY OF KYOTO

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# THE PURPOSES AND SUBSTANCE OF TAXATION

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## FOREWORD

The purposes of taxation at first appear to be only too obvious. A deep study of the subject, however, will reveal that they are by no means simple nor obvious, especially when their practical side is taken into consideration. Scholars differ as to this question, and this diversity of view, together with practical necessities, has tended to stimulate the evolution of taxation. This evolution is often overlooked because it is not abrupt. The change, however, is certainly taking place gradually and persistently. If we should take an evolutionary view of taxation, its purposes become more comprehensible. The same thing can be said of the substance of taxation. Its study is often neglected; its nature is vaguely shown; and views regarding it are highly divergent. But its true nature will become clear only when it is viewed from an evolutionary standpoint; it will become clearer when it is studied together with purposes of taxation.

I first formed my own ideas on these subjects exclusively through my own study and observation; then corrected them in the light of the ideas of others; and again modified them in the face of new facts. Thus, my own views have undergone many changes, and what I now propose to set forth is the result of all these studies and considerations.

### 1. THE PURPOSES OF TAXATION.

#### (1.) Prevailing views.

A. Financial revenue. (This is the same as public expenditure or collective want).

a. Explanation—This is the most widely accepted view and I myself used to adopt it in my definition of taxation. This view maintains that one of the primary purposes of taxation is to secure financial revenue; it does not deny the existence of secondary purposes or even that of other primary purposes together with the purpose in question, namely, revenue. A supplementary or secondary purpose is that which is intended to be realised by the taxation and which is not in contradiction to the primary purpose. That such purposes exist in no small number has been generally recognised. Even those scholars who have doubts about the nature of secondary purposes admit that taxation accompanies such purposes. Although some regard such purposes as the effects of taxes or as their attendant phenomena merely, there is no doubt that they are not effects merely because they exist in the minds of lawmakers as their conscious purposes; and for this reason should be regarded as secondary purposes. Those who say a tax has no purpose other than revenue must admit that there are occasions in which such secondary purposes truly exist. It is possible to deny the existence of such occasions, and in fact such a view would simplify the whole question. But it is not proper to deny the existence of that which really exists and which has the possibility of development. There are some who would exclude such secondary purposes or primary purposes other than revenue on the ground that their realisation is difficult. The injustice of such exclusion is obvious since they really exist either as primary or secondary purposes and they can be realised at least partly. Some also say that those secondary purposes, taken as a whole, are rather exceptional. However, it happens in actual cases that what are regarded as secondary purposes in some taxes prove dominant in others. The definition of taxation which includes all taxes should not ignore the existence of secondary purposes. When I

adopted in my definition of taxation revenue as the purpose of taxation, I qualified it by inserting the explanation that the view should not be taken as denying the existence of secondary purposes.

b. Criticisms.

1. Positive criticism—The view under discussion seems to be valid in the light of its explanation, and its validity is comprehensible when considered either from the financial position of taxation in civilised countries, or from that of the historical circumstance of its origin. The inclusion of this view in the definition of taxation results in discriminating taxes proper from fines the purpose of which is regulation instead of revenue, and of which revenue is only incidental. There is another point challenging our attention. The fact that some taxes are special taxes (*Zwecksteuer*) or taxes which are intended to cover some special expenditures, can be interpreted in several ways. This fact can be taken as indicating that taxes have express purposes which are to be realised by special expenditures (for example, the repairing of highways, charity, or social welfare work). On the other hand, it can also be said that those special taxes are simply a method of meeting expenditures, their whole purpose being to secure revenue to meet the special expenditure; and those special purposes should not be regarded as opposed to the purpose of revenue.

2. Negative criticism—The view that the chief characteristic of taxation is revenue can be easily explained, and its inclusion in the definition of taxation is not without reason. On the other hand, it is obvious that revenue cannot be regarded as the sole purpose of taxation, because there are other purposes, primary and secondary, which are as real as the purpose of obtaining revenue. Such taxes as the protective tariff and taxes having socio-political purposes, all of them having the objects of their own special purposes, can be treated in

the same category as the taxes having revenue as their sole aim. Especially, such taxes as the prohibitive tariff, the undeveloped land duty, the tax on the bachelor, the tax on the childless married couple, not only have purposes other than revenue, but their purposes are the more fully realised if the revenue therefrom is as scant as possible. Undoubtedly, we cannot say that the purpose characterising those taxes is revenue. Let us take, for example, taxes having socio-political purposes. It is evident that their purposes are to prevent too great incomes and profits falling into private hands; and for this reason some of these taxes do not need to derive revenue at all. Nor should they be regarded as being foolish because they are necessary for the wholesome development of a society or a nation, especially when such development has become impossible because of the concentration of income or property in a few private persons. If those taxes are to be recognised as they certainly should be, revenue cannot be regarded as the sole purpose of taxation.

B. Co-existence of revenue and socio-political purposes.

a. Explanation—Wagner thought that the purpose and meaning of taxation were twofold. A tax, in his opinion, had financial and socio-political purposes.

b. Criticism.

1. Positive criticism.—This view is not without a good reason. The view that the socio-political purpose should not enter the definition of taxation cannot be upheld in the face of the actual change in facts. The existing tendency in taxation is towards an increase in the socio-political purposes of taxes. Such a tendency may not prove permanent, but at present at least it is on a steady increase. Some of those who admit the existence of socio-political purposes insist that those purposes are essentially secondary, the natural conclusion being that they need not be

included in the definition of taxation, as revenue is sufficient as its purpose. But in actual practice those purposes sometimes are primary instead of secondary. Their significance should not be overlooked. There are some who, while admitting the possibility of socio-political purposes, believe that they should not be included in the definition of taxation on the ground that those purposes are the natural outcome of the fact that taxation is a state institution. While the premises of the argument are true enough, the purposes in question must be given due consideration because they truly are important in taxation. Any one who should doubt Wagner's conception of taxation cannot be said to be supported by the present tendency in taxation.

2. Negative criticism—In the first place, it is highly doubtful whether there exist, as Wagner seems to believe, two sets of taxes—financial taxes and socio-political taxes. On the contrary, the primary purpose is held as primary in many cases and secondary purposes are considered to some extent; while in some taxes, it is the other way. For this reason we cannot separate taxes into two classes according to their purposes. In the second place, even admitting for argument's sake those two sets of taxes as being models, the two declared purposes are not all, there being many other purposes, those of public interest, in particular. There are economic or industrial purposes, moral or educational purposes, hygienic purposes, etc. Those taxes should also be mentioned, if we should accept Wagner's financial and socio-political taxes.

C. Purposes of the public interest.

a. Explanation—This includes many others in addition to financial and socio-political purposes. Some scholars adopt this view.

b. Criticism—

1. Positive criticism—The public interest, or the state interest, or public organisation, has the advantage of including in one word various purposes of taxation. It is convenient, simple, and clear.

2. Negative criticism—Obviously, the purpose of revenue, which was developed with the evolution of taxation and which continued to be recognised as the premier purpose, should not be treated on the same footing with other minor purposes.

D. Purposes excluded from the definition of taxation.

Since taxation is a state institution, its purpose of the public interest need not be included in the definition of taxation. This view is not without truth. However, it is not desirable to exclude purposes from the definition of taxation, especially when such a purpose is characteristic of taxation.

(2.) My own views.

I wish to include in my definition of taxation the fact that a tax has two purposes, revenue and the public interest. My idea of a tax thus stands in contradistinction to others having the public interest as their sole purpose. Taxes are different, for example, from a fine, the revenue from which is derived only as an incident. When I say that the purposes of taxation are twofold, namely, revenue and the public interest, I include under the category of the public interest all public interests other than revenue. All taxes have these two purposes although in varying degrees. In some taxes, revenue is regarded as dominant, while in other cases it is regarded as secondary. In yet other cases the two are equal in importance. In some cases the secondary purpose is comparatively important; in others it is negligible. All taxes, however, have these two purposes. This is the case with all existing taxes, and it is likely to be true with future ones, especially those which are in process of development.

Even those taxes which seem to have revenue as their sole aim, have in reality been created for the realisation of

various purposes—economic, social, educational, political, etc. This is most clearly seen in the exemption made in taxes from the standpoint of the public interest. Even in the case of the prohibitive tariff which is generally thought to have economic policy as its objective (one of the public interests), it has the purpose of revenue to some extent. If economic protection were the sole purpose of the so-called prohibitive tariff, the state would place a ban on the importation of the goods upon which such a tariff is imposed. In the case of taxes such as the undeveloped land duty, the tax on bachelors, or the tax on childless married couples, revenue is not regarded as their purpose; and yet even those taxes derive some revenue, which, as a matter of fact, is intended to be one of the purposes of those taxes. If those taxes are not levied partly to derive revenue, the state would prohibit the possession of undeveloped lands and make the singleness of the bachelor's life punishable (by ways other than fines). Although there is a very close relationship between the taxes having public interest as their dominant purpose and the fines having public interest as their *raison d'être*, the former are not given the name of a fine but are called taxes, because the lawmakers do not wish to appear to punish those coming under their operation. The legislators want to direct the actions of the taxpayers towards the desired direction, and at the same time to derive some revenue through those taxes. Such taxes as the progressive income tax, the progressive land tax, the progressive property tax, and the inheritance tax, are recent examples of taxes having the purposes of both revenue and public interest. The higher the progression of these taxes, the more important is regarded the purpose of the public interest and the less important that of revenue. And this seems to be the tendency of the evolution of taxation in general.



## 2. THE SUBSTANCE OF TAXATION.

### (1.) Prevailing views.

A. The substance of taxation is excluded from its definition. While this view has some ground, it is apparent that this deliberate ignoring is utterly insufficient in elucidating the essential nature of taxation. Some of those who hold this view treat a tax as a contribution, while others regard it as "Abgaben." Neither of them try to point out the substance of taxation.

B. The substance of taxation is pointed out.

a. Indescribing the substance of taxation, the word "wealth" is widely used. This word is said to include both labor and goods. Obviously, this is too wide. The ordinary German theory excludes labor from the conception of a tax. Although there is no absolute reason for excluding labor, modern taxes actually exclude it; and for this reason it may well be excluded from the definition of taxation.

b. A more limited definition would include the following: material goods, material contributions, or real supplies, excluding labor. This view admirably fits the facts in the case, although there is much room for alteration in the wording; and it well covers the field of taxation.

c. A still more limited view describes a tax as movable goods. True, all taxes are paid in the form of some movables, money in particular, and not in that of immovables. And, since taxes are usually paid every year, the continuity or recurrence of their payment would be impossible, if immovables are to be used as taxes. Thus, this view has some measure of truth. But its reconsideration from the standpoint of the evolution of taxation is highly desirable. I shall refer to this point later.

d. A still more restricted view would identify a

tax with money, payments or representative goods. This view is harmonious with the facts in civilised countries. The real goods which are taken for taxes are accepted as substitutes for money; they are turned into the state treasury after being converted into money. Moreover, the state makes its payments in money. This view, however, is not quite enough, as will be later shown.

e. Another view defines a tax as being derived from individual economy. This view is the same as the view given in (c). Its indirect expression is not fitting for a definition, it is also too narrow to indicate the real nature of taxes.

(2.) My own views.

A. The substance of taxation is indicated by monetary means and actual goods. Here monetary means include not only money, but credit means too. Actual goods include such as products, land, houses, factories, and documentary securities. The monetary means occupy the dominant place, actual goods being secondary. No one kind—either actual goods or monetary means—constitutes the substance of taxes. Money is given pre-eminence, and actual goods are regarded as supplementary. It may be said that the substance of taxes is constituted by monetary means alone, but such a view would make the blunder of disregarding goods other than money. True, monetary means may justly be regarded as the most important means of payment in the existing financial system. The monetary means are the most convenient medium of payment in the financial world as in the general economic world, in government disbursements as well as in the payment of taxes. Actual goods cannot be used conveniently. Money can be most conveniently computed, transported, stored, invested, and most easily estimated in the balance of accounts. This is why monetary means have been more and more used in actual practice. On the other hand, the fact remains that with

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the evolution of the purposes of taxation, the purposes of social policy become more important and goods other than money (annual products, land, houses, factories, documentary securities) become the more convenient as means of payment. This fact is challenging the attention of the public with an ever-increasing force. I, too, took this fact into consideration when I stated that the substance of taxation is identified with monetary means and actual goods, giving more importance to the former over the latter because of its faculty of facilitating the functioning of finance.

B. Some other considerations.

1. Relative importance of monetary means and actual goods—Although actual goods are also accepted as taxes, the monetary means are at present and will be in the future, the most convenient medium of payment. Actual goods can take the place of monetary means in a very limited field under existing circumstances.

2. Class of taxes paid in goods other than money—As has been said, the field in which actual goods are paid as taxes is extremely limited. The class of taxes payable in actual goods should be carefully selected. It would seem that property and inheritance taxes are most fitting for this kind of payment. Even in those taxes, payment may take the form of either the income arising from the property or capital, payable in instalments, making the tax rate as low as possible; or it may be allowed to be to some extent in the property or capital itself. At any rate, it is necessary not to require the taxpayer to pay in one kind of goods only, whether it be in the income from the property, or by monetary means, but allow him to turn in a part of the property or capital itself assessed in accordance with some fixed method. Thus, if the payment of goods other than money be limited to a few taxes and made selective by taxpayers, the method would not disturb the ordinary money economy.

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3. The administration of goods other than the monetary means.—It is obvious that the administration of goods is much more difficult than that of the monetary means. Those goods other than money should be administered separately by a special organ and be made into a special account. Immovables, stocks, and debentures should be administered and utilised as property and for business enterprises, viewed not only from the standpoint of finance alone but also from those other considerations such as social policy, economic policy and national defense. If this be done, the state would benefit greatly. I would hesitate to carry out the plan in our own country at present, however, because it will certainly be abused by our reckless politicians. In my opinion, the scheme should be practised in a limited way, and its administration should be entrusted to a body composed of the representatives of various classes and professions, and not to the government alone.

#### CONCLUSION

Although various views have been advanced as regards the purposes of taxation, the purpose of revenue has been regarded with undue importance. The public interest is also an important purpose, so that these two purposes must be considered together. In consequence, it seems proper that a more important significance should be attached to goods other than money in considering the substance of taxation. What should be noted is that the payment of taxes by means of goods other than money should be made in a limited way and their administration should be carried out with strictness and special attention.

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