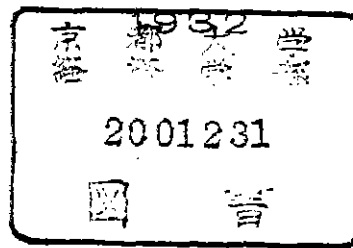


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NUMBER I

STATE MONOPOLY AS A METHOD OF
TAXING CONSUMPTION

FOREWORD

Generally speaking, consumption taxes are undesirable because they are not conducive to justice in taxation. It is highly difficult to impose the burden of taxation on the shoulders of people according to the faculty principle under the system of consumption taxes. When considered from the standpoint of the faculty principle, direct taxes are vastly superior to indirect taxes, especially when the latter take the form of indirect consumption taxes. These taxes do not fall on taxpayers in proportion to their ability to pay, and easily breed injustice. In actual practice, however, it has been found that indirect consumption taxes are a necessity, at least from the standpoint of state revenue of which they constitute an important source. Thus, it becomes imperative to study the methods of eliminating or mitigating the various defects bound up with the system of indirect con-

sumption taxes, in order to make it more harmonious with the desired justice in taxation. Investigation must be made into the means whereby the great object of securing financial revenue may be attained, and, at the same time, justice in the distribution of the tax burden may be realized.

State monopoly, perfect monopoly in particular, has been recommended as one of such means. It is contended that the goods on which a consumption tax may be levied appropriately may also be made state monopolies and that those which are not suited for consumption taxation are also unsuitable for state monopolies. It is, in consequence, further assumed more or less generally that state monopoly is an ideal method of consumption taxation, because it will enable the State to derive revenue in a sufficient amount and, at the same time, assure justice in the distribution of the tax burden. However, it is highly desirable from the viewpoint of both theory and practice that these assumption should be placed under a close scrutiny. I shall, therefore, examine in detail the merits and demerits of state monopoly as a method of taxing consumption.

I. THE MERITS OF STATE MONOPOLY

State monopoly as a method of taxing goods consumed has various and important merits on which I shall dwell in the following pages.

(1) From justice in taxation.

(A) The first important merit of state monopoly in this capacity is that the burden of taxation falls as a direct incidence on consumers and that its results do not betray the intentions of the legislators in respect of the shifting of the tax burden. In other words, the burden of the tax is placed where it is intended to be placed. It is the essence of consumption taxes that they account one's capacity to pay as manifested in their actual power of consumption; but this is not realized under the usual system of indirect consumption taxes under which the burden imposed on

producers is usually shifted to consumers. The burden thus shifted to the consumers may cause a rise in wages and may be passed back to the producers. Or, the shifting of the tax burden from the producers to the consumers does not necessarily or regularly take place as is generally assumed. The nature of the shifting depends on that of the circumstances attending it. The burden may rather remain with the producers or be shifted to those who are in business relations with them, namely, merchants, financiers, landlords, house-owners, as well as workers in the employment of producers. Thus, it is possible that the burden is not shifted to consumers. Sometimes only part of the burden is actually passed on to them. All this may be taken as implying the uncertainty of the shifting.

Under a system of state monopoly, the shifting of the tax burden is clear and unmistakable. Take a monopoly of tobacco by way of illustration. Tobacco passes through such agencies as the whole-sale distributors and the retailers, before it reaches the consumers. But both the whole-sale distributor and the retailer get a definite percentage of profit for handling the tobacco, and the consumers will have to pay the latent tax to the amount designated by the Government. Thus, the burden of the tax falls on the consumers as intended by the lawmakers. The fact must be noted that if state monopoly is adopted as a method of taxing consumption, instead of the usual method, the tax is transformed from an indirect tax into a direct tax, and thus is freed from the difficulty of shifting which is seen in all indirect taxes.

(B) The second merit is found in the fact that state monopoly enables the tax to be in conformity with the principles of heavy imposts on luxurious expenditure and of differential taxation. One of the greatest objects of the consumption tax is to tax luxurious expenditure heavily as well as progressively. True, the consumption tax is also intended to be levied according to the differences in the ability to pay; and a heavier rate is imposed on the

consumption of goods of better qualities and a lower rate is imposed on that of goods of inferior qualities. However, this purpose is difficult of realization in the case of the consumption tax, which is not realized on some objects and is only inadequately realized on others.

Take the tax on alcoholic beverages in our country, for instance. A uniform rate of 40 yen per *koku* is levied on all beverages whose alcohol content is less than 23 per cent, without regard to differences in their qualities. An *ad valorem* tax of 10 per cent is levied on textile fabrics. A differential taxation is carried out to some extent under this tax insasmuch as fabrics of better qualities are taxed at a higher rate than those of inferior qualities; but such a tax is a simple proportionate tax which absolutely imposes the heavier burden on the goods of better qualities and the lighter burden on those of inferior qualities, but which does not relatively impose such burden. In other words, our tax on textile fabrics does not account the taxable objects progressively. In the case of the sugar tax, taxable objects are classified into various grades and a tax of higher rates is imposed on the sugar of higher quality; but the difference is not sufficient to assure justice. A much better result may be attained under a system of state monopoly inasmuch as a greater differentiation is effected between goods of different qualities. The goods of higher qualities which are consumed by wealthy people are taxed through their very high prices, while the goods of inferior qualities consumed by poor people are taxed low as their prices are fixed low. In this respect, state monopoly may be said to be superior to all other methods of consumption taxation.

(2) From the standpoint of social, educational and hygienic policies,

(A) In relation to producers.

(a) State monopoly limits the profit-making of big capitalists and producers. It must be noted that internal indirect consumption taxes naturally place producers with big capital in an advantageous position, and small producers

in a disadvantageous position; these taxes also artificially allow a largescale production above a certain limit, and thus introduce a tendency to concentration in the industrial world. State monopoly, on the contrary, prevents a small number of big producers from securing monopolistic profits which would go into their coffers under indirect taxation. The Government secures these profits which then are re-distributed as a state service among many people. In this respect, state monopoly may be said to be beneficial to the whole nation.

(b) State monopoly protects small producers. State monopoly may allow production to be carried out by private enterprisers and be content to control only the sale of the products. In such a case, the small producers will be placed in a position more advantageous than they would otherwise be in dealing with big producers, in fixing conditions for transactions in the products. Thus, small producers are protected.

(B) In relation to consumers.

(a) Restriction of consumption. In many countries, the principal subjects of the consumption taxes are tobacco and intoxicating liquors the control of the consumption of which is highly desirable from the standpoints of hygienic, social and educational consideration. National welfare demands the restriction of the amount, place and time of their sale. Such a policy may not be possible of realization when the State must depend upon revenue from consumption; but it is highly desirable where the State's revenue permits it. This policy can be more satisfactorily carried out under a system of state monopoly than under internal indirect consumption taxes. Restriction of consumption can be comparatively easily carried out under a government monopoly, if proper attention is paid to the fiscal needs of the State.

(b) Insistence on better quality of goods. The standard of the quality of goods can be better maintained under a system of state monopoly than under other circumstances;

because a more strict supervision may be made of their qualities; injurious commodities are excluded from the markets; all forms of adulteration are more successfully prevented; and all fraudulent acts both in respect of quality and of price are dealt with more severely. In short, the protection of consumers relative to their hygienic and economic matters can be made more satisfactorily under a system of state monopoly.

(c) Elimination of wasteful expenditure. There is much wasteful expenditure under the ordinary internal indirect consumption taxes which presuppose the existence of private enterprises. But this wasteful expenditure can be eliminated under a state monopoly and to that extent can benefit consumers. This point will derive fresh significance in promoting industries, a point on which I shall dwell later.

(d) Stability of prices. Under the ordinary consumption taxes, it is inevitable that various causes economic and social should lead to the instability of prices of taxable objects. Their prices may also rise exorbitantly through the conscious movement of those having monopolistic power. Moreover, the rates of price fluctuations will be different in different localities. Under a system of state monopoly as a method of taxing consumption, stability will be maintained in commodity prices which will be identical in all places. Nor can a small number of producers artificially raise prices, thereby causing an economic distress to the consuming public. At any rate, state monopoly will prove highly beneficial to the consumers.

(e) Other reasons. A system of monopoly will have special benefits for this country in connection with the taxing of *sake* which is the national alcoholic beverage for the Japanese, because *sake* is manufactured from rice which is the chief staple product of Japan. For instance, in case of a bad rice crop, the Government may limit the amount of rice used for the brewing of *sake*, so as to enable the people to possess a sufficient amount of rice for food purposes. The Government may also use imported rice of

inferior quality for brewing *sake* in order that the native rice may be reserved for the people's food.

(C) In relation to the labourer.

(a) From the conditions and treatment of labour. The working force of the Government's monopolies are better off than under private enterprises. They are better treated and the conditions of their labour are better.

(b) Rise of commodity prices. Although the rise of commodity prices will affect both the system of state monopoly and of ordinary indirect consumption taxes, the effects are quite different in their nature. Whereas, the effects on the state monopoly will be limited to the fiscal demand of the State, those on the consumption taxes will tend to encourage private monopolies. In other words, the labourer as consumer will be much better off under the system of state monopoly than under the ordinary indirect consumption taxes, as the former can prevent the undue rise of commodity prices.

(D) In relation to society as a whole.

Under private enterprises, it is only a small number of persons who are actually benefitted, but under a government monopoly, the profit or rather benefit will extend over the mass of the people. The latter system also will prevent the political and social corruptions which are inevitable under the system of private enterprises.

(3) Production policy.

(A) Reduction of productive cost.

(a) From the standpoint of the utilisation of the elements of production. The Government can make use of its great credit power more advantageously than can private enterprisers in conducting enterprises. It can secure capital at a lower rate of interest than private owners. Moreover, the Government can secure the services of efficient employees at a cheaper rate of wages than private enterprisers. All of these factors are beneficial to the production policy of a nation as well as to its social policy, inasmuch as they will benefit the general consuming public.

(b) From the standpoint of large-scale management. The possibility of large-scale production is greater in the case of a government monopoly than in a private enterprise. This means that the production cost will be smaller and that the production policy will be placed in a more advantageous position. Moreover, the consumers will be benefited and the social policy of the nation will be placed on a firmer basis.

(c) Retrenchment in publicity and wrapping expenses. An enormous amount of money is expended under ordinary indirect consumption taxes for publicity and the wrapping of goods, and this money is included in the prices which must be borne ultimately by the consumers. This wasteful expenditure can be dispensed with under a government monopoly.

(d) Retrenchment in the interest on money paid as taxes. Under ordinary indirect consumption taxes, taxpayers must pay the interest on the money turned into the revenue office as taxes; and their production cost is increased by that amount. This extra expenditure falls ultimately on the consuming public from whom the money is recovered by the producers. There will be no such extra and needless expenditure under a government monopoly.

(B) Superiority of service. A better service to the public may be expected from government monopoly. The Government conducts enterprises under the principle of public interest, and tries to sell goods at as cheap rates as possible. Moreover, the government can supply its goods throughout the country at the same rates and under the same general conditions.

(C) Protection of native industries against foreign competitions.

(a) Some industries, if placed in natural conditions, are certain to die out under the pressure of foreign competition, but they will be able to survive if turned into government monopolies. The Government can protect such industries by granting compensations, within reason, to the native

producers, and thereby enable them not only to exist but also to avoid the difficulties arising from the fluctuation of prices. In other words, the Government will reserve the domestic markets for domestic goods. Monopoly will allow the Government to protect domestic industries more effectively than protective customs duties which have the inherent weakness of instability and frequent disturbances in amount.

(b) Native industries existing under the principle of *laissez faire* may happen to be placed under the control of foreign capital, and eventually be absorbed by it. The Government may carry on monopolies in order to prevent such economic disasters.

(4) From the standpoint of adjustment between production and consumption. The harmony of production and consumption relations is an important standpoint for studying both production policy and consumption policy, as it occupies the middle ground between these two policies. Under the contemporary principle of economic liberalism, the maintenance of these relations is difficult of realization. The pendulum may easily swing one way to over-production as well as the other way to under-production, either way causing instability to the economic life of the nation. Government monopoly will enable this desired harmony between production and consumption to be established to a considerable degree, and thus contribute towards the general stability of the economic world. This is certainly one of the vital merits of state monopoly.

(5) From the standpoint of revenue policy.

(A) Usually, the profits from government monopolies are considerable, and this is highly esteemed from the standpoint of revenue policy.

(B) With prosperous developments in economic circles, natural increases may be made in the profits of monopolies.

(C) An increase in the amount of revenue may be more easily made when some fiscal demands require it, than under the ordinary indirect consumption taxes.

II. THE DEFECTS OF STATE MONOPOLY

State monopoly, however, has some defects which I shall point out in the following pages.

(1) Defects common to all state monopolies.

(A) From the standpoint of production policy.

(a) When an industry is made a government monopoly, it is snatched away from the hands of private citizens who have been engaged in it and who are thus oppressed by the Government. State monopoly thus impairs people's spirit of initiative and independence and jeopardizes the general progress of society. That this defect, however, is not very serious may be seen from the following reasons:

When an industry is taken out of private hands and made a state monopoly, its owner loses it, but the great majority of its operatives will work for the Government. True, they may lose much of their former independence in running the industry because they have to obey the policy prescribed by the Government. It must be noted, however, that private industries have already lost much of their former independence with the progress of centralization. In largescale industries, workers engage in their enterprise in the same spirit in which officials carry out their government functions. Thus, people's pride is not very much hurt by the establishment of state monopolies.

(b) Defects in the management of monopolies.

(i) Lack of economy. There is a tendency to over-expenditure in the case of state monopolies as compared with private enterprises. This is due to the needless complex procedures of various sorts and to the lack of positive self-initiative on the part of those engaged therein. They usually lack alertness and fail to seize opportunity. In short, the so-called red-tapism is a source of much trouble and delay in state monopolies.

(ii) Inferior qualities of commodities. Because of officialism in administering state monopolies, no real efforts are made to improve the quality of the commodities pro-

duced, the result being that the commodities are of inferior quality compared with those produced under private management.

(iii) Impotency in export and import trade. Government monopolies may manage to hold their own in the domestic markets, but are more powerless in foreign transactions than private enterprises.

Suppose an industry whose products are exported is made a government monopoly. It would be almost impossible for the Government to stimulate the export business of that industry. This will not be true if the Government is in a position to enjoy the monopolistic supply of the products throughout the world.

When a monopoly is an importing business, the prices of the commodities will tend to be higher than under private management. This will be especially injurious to the national economy when the product imported is to be used as raw material for one of the basic domestic industries. However, in this last case, there may be some way of supplying the products to that basic industry at a cheap rate by the Government.

(B) From the political standpoint.

(a) Abuse of influence by political parties.

There is persistent danger of government monopolies causing political corruption, due to the abuse of influence by some political parties. Nor will this be unnatural in view of the fact that in the majority of civilized countries, the governments are controlled by political parties. Progress in political morality and strict supervision by public opinion are highly desirable in order to check the above-mentioned tendency.

(b) Disregard of Parliament's right of supervision. The Government may disregard the Parliament's right to supervise industrial activities, inasmuch as the Government does not need to secure the sanction of the Parliament for raising the prices of monopolies, as it would have to do when changing the rates of taxes.

(C) From the financial standpoint.

(a) Trouble faced at the time of the establishment of a state monopoly. There is much trouble faced by the Government at the time establishment of a monopoly. The purchase of a private enterprise is accompanied by much trouble and expense. This initial difficulty, however, is not so great as to prevent the establishment of monopolies. What should be noted is that the best time for establishing state monopolies is in a slump rather than in a boom.

(b) Disadvantage faced in managing monopolies. It may be contended that the fixed capital of monopolistic enterprises may add to the credit of the Government to that extent. But, inasmuch as this fixed capital is derived from government bonds which are floated at the time of the establishment of a monopoly the financial standing of the Government is not thereby improved to any extent. On the contrary, inasmuch as government bonds must be floated also in order to secure the operating funds for the monopoly, the bond credit of the nation is thereby placed in a disadvantageous position. Moreover, the Government's loan policy will suffer somewhat because of the flotation of the bonds in order to run such monopolies.

(2) Defects in various monopolies. Industries that are to be made monopolies as a method of taxing consumption must be suitable for taxable goods. This is the first essential. Not all of the objects on which the consumption taxes are levied are of the same suitability; and those containing unsuitable elements to a greater degree are likewise not suitable for state monopolies. Secondly, supposing some industries are suitable for state monopolies from the above-mentioned standpoint, their very nature as public enterprises may disqualify them as state monopolies. This second condition also must be fulfilled. Let us consider if our main consumption taxes may be converted into state monopolies. Let us suppose, for argument's sake, that all of our consumption taxes fulfil the first condition. Still, they do not fulfil the second condition to the same degree. There is no

question that tobacco admirably fulfils the second condition. In the case of *sake*, the difficulty of its storage stands in the way of its conversion into a state monopoly. The textile industry has the following difficulties: reduction of value due to a prolonged storage; difficulties attendant on the changing of fashions and the multiplicity of tastes; apprehension for effects on so many persons; the large number of customers (consumers); the wide distribution of producers. Beer and sugar are among the easiest industries to be converted into state monopolies.

CONCLUSION

Government monopoly has many defects some of which are quite grave. Hence, no judgment should be rendered about the system in haste. On the other hand, it has not a small number of merits of its own, which, I believe will more than off-set the defects. I am, therefore, in favor of expanding state monopolies in our economic field. Through this system, the fundamental demand for justice in the distribution of the tax burden can be fulfilled, financial revenue, satisfied, and social, educational and hygienic demands, met. One may say with some slight exaggeration that the government monopoly is one of the ideal methods of taxing consumption.

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