

JEAN-BAPTISTE SAY, THE FATHER OF AUSTRIAN PUBLIC FINANCE: VIEWS ON TAXATION

MARK BRANDLY

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 sixteenth 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 particularly his work in the areas of methodology, entrepreneurship, monetary theory, and the theory of value.³ Say is particularly famous for his Law of Markets, arguing that the problem that limits wealth is not underconsumption (commonly

MARK BRANDLY is associate professor of economics in the college of business, Ferris State University.

¹Erich Roll (1939, p. 200) calls Say "a continental popularizer of Adam Smith." Although this is a commonly held view, Murray Rothbard (1995b, pp. 3-4) argues that Say's analysis stands squarely in the Turgot-Cantillon, and therefore Austrian, tradition. Rothbard (1976a) traces the development of economic thought from the Scholastics to the French Liberal School. Also, Joseph Salerno (1988) examines the French School and explains why this tradition has been neglected.

²Rothbard (1995b, p. 3) recognizes Say's "pre-Austrian' logical clarity." According to Larry Sechrest (1999, p. 45), Say "deserves to be remembered, especially by Austrian economists, as a pivotal figure in the history of economic thought."

³For Say's views on entrepreneurship, see, Rothbard (1995b, pp. 25-27), and Sechrest (1999, pp. 52-54), monetary theory Rothbard (1995b, pp. 37-40), and Sechrest (1999, pp. 48-50), and the theory of value Rothbard (1995b, pp. 20-25), and Sechrest (1999, pp. 54-55). On methodology, Rothbard (1995b, pp. 12-18), Sechrest (1999, pp. 47-48), and Hans-Hermann Hoppe (1995, pp. 10-11) approvingly cite Say's views. Rothbard believes Say is "perhaps the first praxeologist" (1976b, p. 25). Say explains his position on this important issue in the introduction to his *Treatise on Political Economy* (2001, pp. 15-60).

termed, in modern macroeconomics, a lack of aggregate demand), but a deficiency of production.⁴ Say demonstrates that taxation, not underconsumption is a factor limiting production. His analysis of taxation, in particular, was exceptional.⁵

Economists of the nineteenth and early twentieth centuries generally had less to say about taxes than do their current counterparts. In a period of relatively limited government, tax analysis generally was a secondary consideration. 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 analysis of taxation and show that his work foreshadowed Austrian thought in this area.

The second section of the paper provides biographical information on Say. Say's political-economic views, his principles of taxation, and his analysis of tax incidence are considered in sections three through five. Section six provides concluding remarks.

BIOGRAPHICAL NOTE⁶

Born in Lyons in 1767, 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*, which was launched in 1794, at the height of the Terror.

Say held a top government position, as a member of the French tribunate, from 1799 to 1802. He left Paris in 1803 due to Napoleon's crackdown on the *philosophes* after the publication of Say's *Traité d'économie Politique* in 1803. This work, in its various editions, was the source of much of Say's fame and

⁴Say explains his law of markets in chapter 15 of his *Treatise on Political Economy* (pp. 132-40). For Austrian comments on Say's Law, see Ludwig von Mises (1960), Sechrest (1999, p. 50-52), and Rothbard (1995b, pp. 27-37). Sechrest (1993, pp. 45-58) also discusses Say's Law in the context of its application to free banking and Henry Hazlitt (1960) includes Say's explanation of his Law of Markets in *The Critics of Keynesian Economics*.

⁵Say's tax analysis has been described by Rothbard (1995b, p. 40) as "brilliant and unique." Rothbard (1997, pp. 92-96), in his critique of the quest for a neutral tax, also examines Say's views on taxation. Hoppe (1993, p. 27) asserts that "almost everything that should be understood today about the economics of taxation had been correctly and convincingly stated" by Say.

⁶Although there is no comprehensive English biography of Say, R.R. Palmer (1997) provides an excellent overview of Say's life and work. Other valuable sources include Sechrest (1999), Rothbard (1995b, pp. 1-45, 479-81 and 1997, pp. 92-96), Schumpeter (1954), Spiegel (1983, pp. 257-64), Roll (1939, pp. 199-201, 317-22), and the reader will find Quddus and Rashid's introduction to the 2001 reprint of Say's *Treatise on Political Economy* particularly interesting.

influence⁷ and contains Say's systematic treatment of tax issues. The French authorities prevented the publication of a second edition of *Traité* during Napoleon's rule. Say returned to Paris in 1813, after Napoleon's downfall, to continue his lecturing. He became the first French academic teacher of economics, first at the Conservatory of Arts and Trades, beginning in 1821, and later at the College of France in 1831.

His *Traité* 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., and it was the most popular textbook on economics in the U.S. during the mid-1800s and was still in use as late as 1880. Due to its popularity, it was reprinted at least 26 times in the U.S. during this period.⁸ Presidents Thomas Jefferson and James Madison both admired Say's work. Jefferson considered his book superior to Adam Smith's *Wealth of Nations*, supported the translation of his *Traité* into English, and considered Say for a position as professor of political economy at the University of Virginia.⁹

Say divided the *Traité* into three books, and one of the objects of the third book, appropriately titled "On the Consumption of Wealth," was to "expose the absurdities" in the claims that "profuse public expenditure is beneficial" to the public interest (2001, p. 448). It is here that Say explains the damaging effects of taxes and constructs his case against taxation.

NATURE OF TAXATION

Say's "hardhitting politicoeconomic conclusions" (Rothbard 1982, p. 187) about the nature of the state and taxation form the basis of his tax analysis. First of all, he argues that the fundamental class struggle is between taxpayers and tax consumers. Those who benefit from the tax system, the tax consumers, are exploiting the taxpaying class.¹⁰ Say understands the coercive

⁷Say's work was influential, outside of France, in the United States, Italy, Germany, and Russia (Rothbard 1995b, pp. 9-11) and various writings were translated into 14 languages during his lifetime.

⁸Michael O'Connor (1974, pp. 120-25) describes the influence of Say's *Treatise* in the U.S. The fourth edition, published in 1819 was translated into English by Charles Robert Prinsep in 1821. The American version, edited by Clement Cornell Biddle, was the textbook version of Say's *Treatise*. Biddle (O'Connor 1974, pp. 124-26) and Say (Palmer 1997, pp. 125-26) both had some objections to the Prinsep translation.

⁹See Palmer (1997, pp. 83-89) for a discussion of Say's relationship with Jefferson. Jefferson and Madison both communicated to Say that Say would be welcome in the U.S. Say declined the offer, however, Say's *Treatise* was used as a textbook at the University of Virginia. Also, Quddus and Rashid (Say 2001, pp. ix-xii) discuss Say's relationships with Jefferson and Benjamin Franklin.

¹⁰Hoppe (1993, pp. 93-110) discusses this view in his comparison of Austrian and Marxist class analysis. Rothbard (1970, pp. 84-85, and 1997, pp. 97-100) also uses this distinction between taxpayers and tax consumers in his analysis of taxation.

nature of taxation, seeing taxation as being involuntary and confiscatory. Say asks

Where is the benefit of social institutions to an individual, whom they rob of an object of positive enjoyment or necessity in actual possession, and offer nothing in return, but the participation in a remote and contingent good, which any man in his senses would reject with disdain? (2001, p. 454)¹¹

Nor does he believe that political representation lessens the involuntary nature of taxation. Representation does not imply consent. The people, in a representative system, only consent in the sense that they lack viable alternatives to paying a tax.

Say concludes that agents for the state will resort to unjust measures in order to generate tax revenue, “the act of levying [taxes] is always attended with mischief” (2001, p. 448). In order to justify heavier tax rates, the state will lie, 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” (2001, p. 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” (2001, p. 450–51). 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” (2001, p. 451n).

Consider an alternate view. Adam Smith, when responding to the argument that tax payments represent badges of slavery, asserts that “every tax, however, is to the person who pays it a badge, not of slavery, but of liberty” (1937, p. 503). Instead of equating taxation and liberty, Say prefers to compare taxation to theft, gunpowder, extortion, and even suicide.¹²

PRINCIPLES OF TAXATION

Say’s goal for examining tax issues is to dispel fallacies about the alleged benefits of taxing and government spending, and to demonstrate that the public budget has negative effects on the economy in general. He begins his discussion with his principles for “the best taxes, or, rather those that are least bad”

¹¹Although Say makes the case against taxing and government expenditures in general, he did, however, make some exceptions, including favoring aid for textbook writers (O’Connor 1974, p. 134). For Say’s views on the legitimate functions of government see his *Treatise* (2001, pp. 421–43).

¹²The nature of taxation is one of the many distinctions between Smith and Say. Rothbard (1995a, pp. 435–74, and 1995b, pp. 3–45) discusses and compares the economics of Smith and Say from an Austrian perspective.

(2001, p. 449), starting with the demand that taxes should be “most moderate.” Here, Say recognized the fundamental insight of what is currently termed the Laffer curve, namely that tax rates and tax revenues are not necessarily positively related.¹³ According to Say, burdened by high taxes, the taxpayer is “abridged of his enjoyments, the producer of his profits, and the public exchequer of its receipts” (2001, p. 449). 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 did not imply, as some modern proponents of the Laffer curve have,¹⁴ that tax revenues should be maximized. Say is not arguing that tax rates should be adjusted to increase tax revenues. Tax rates should, instead, be minimized for a given revenue goal.

Say provides historical evidence of this thesis: a 50 percent decrease of the duties on fresh sea fish sold in Paris had no discernible effect on tax revenues, the 1778 Spanish tax reduction on Mexico increased tax receipts by millions of dollars, and a 20 percent increase in the tax on sugar in England decreased tax revenues nearly 9 percent. 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 virtually eliminated the import of French wine, depriving the British of enjoying a “cheap and wholesome object of consumption” (2001, p. 450-51).

There may be exceptions to the principle that tax rates should be minimized, however, in cases where it is appropriate to impose taxes not to collect revenue, but to curb vices. If a vice is generating harmful effects then, Say asserts, reducing that activity generates positive benefits to the community (2001, p. 459). His position is similar to the standard textbook argument (Gruber 2005, pp. 128-29, Hyman 1999, pp. 102-26, Marlow 1995, pp. 92-94, and Rosen 2002, pp. 90-92) that taxes may be used to alleviate negative externalities. Say’s argument presages A.C. Pigou’s prescription for using taxation to reduce the effects of externalities.¹⁵ Austrians generally do not accept this case, instead arguing that negative externalities are created by the failure to clearly delineate and protect property rights (Mises 1998, pp. 650-59 and Rothbard 1993, p. 156).

¹³The Laffer curve illustrates the point that tax rates and tax revenues are positively related up to some tax rate X and negatively related at tax rates greater than X . A prominent supply side economist, Jude Wanniski (1978) provides an explanation and discussion of the Laffer curve.

¹⁴For instance, Wanniski (1978, pp. 5-7), uses the Laffer curve to make the case for the maximization of tax revenues. Wanninski argues that it’s appropriate for the state to choose tax rates that correlate with the peak of the Laffer curve.

¹⁵See, for example, Baumol and Oates (1988, pp. 21-23, 31-35) for an explanation of the argument that a Pigouvian tax equal to the marginal external cost of an activity will generate an efficient amount of that activity.

Say also recognized that tax burdens involve “vexatious circumstances” that “harass the tax-payer, without bringing any thing into the public exchequer” (2001, p. 452). Minimizing these circumstances, which include the administration and compliance costs of taxation, is another of Say’s tenets. Imposing costs on taxpayers above the actual tax burdens demonstrates the “misconduct of the government” (2001, p. 471). Say’s explanation parallels that of Smith (1937, pp. 477–78), and is commonly cited as a principle of taxation in modern public finance textbooks (Hyman 1999, p. 383; Marlow 1995; pp. 456–57; and Rosen 2002, pp. 324–25). 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 possibly even increase tax receipts. Interestingly, Murray Rothbard, in his analysis of Adam Smith’s principles of taxation, argues that the minimization of administration and compliance costs is not a self-evident principle. 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 rebel against the tax. Therefore, in Rothbard’s view, there are potential benefits to such additional costs of taxation (Rothbard 1970, pp. 137–38).

Say’s third principle of just taxation is “impartiality,” or uniformity. An equitable tax will be distributed uniformly across individuals and industries. Here, Say makes the case for the modern concept of horizontal equity. Partial taxes that favor one party over another, according to Say, are both unjust and may harm tax revenues, since 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 is not making the case for a progressive system in order to redistribute income from the wealthy to the poorer classes. His reasoning is that taxes impoverish the poor to a relatively greater degree than they impoverish the upper classes, therefore the lower classes should pay little or no taxes at all. Tax rates should be low, and they should be even lower on society’s poor (2001, pp. 454–55). Such a system is necessarily progressive. In fact, Say concludes that “taxation can not be equitable, unless its ratio is progressive” (2001, p. 455).

Consider the relationship between Say’s defense of impartiality in taxation and one of his other positions. When discussing government expenditures, Say makes the case for the modern benefit principle of taxation: taxes “should be charged to those who derive gratification from” government provided goods. In addition, “those countries must be pronounced to be the best governed, in respect of taxation, where each class of inhabitants contributes in taxation proportionately to the benefit derived by it from the expenditure” (2001, p. 444). So, for Say, an equitable tax system would have horizontal equity within classes of individuals and the tax burdens of a particular class should be correlated with the benefits that class derives from government expenditures. Here again, Say is making the case against high tax levels. Since

the benefits of government expenditures are generally very low, the associated tax burdens should be minimal.

While Say concludes that taxes should have horizontal equity and the benefits of government spending should bear the burdens of taxation, his emphasis is not on finding the most equitable tax. His main point is that high levels of taxation are less equitable than lower levels of taxation. However, Say's discussions regarding equitable tax systems are at odds with Rothbard's views. Rothbard makes the case against constructing an equitable tax, including his specific arguments against the benefit principle (1970, pp. 153-58) and the principle of uniformity (1970, pp. 139-44).

Say's fourth principle is that taxes should be "least injurious to reproduction" (2001, p. 455), generally meaning that taxes should harm capital formation as little as possible. Say's analysis of the tax effects on capital formation is critical to his argument against taxation. First of all, 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" (2001, p. 447). However, this income effect is not as strong as the effect of taxation on the destruction of capital. Say recognizes that at least a portion of tax burdens fall on the owners of capital, reducing capital formation and therefore available production. A tax on a particular industry will decrease the profits in that industry, reducing the demand for capital in that industry, thereby negatively affecting capital formation. All taxation, including taxes directly imposed on capital and taxes that only have an indirect effect on capital formation, "prevents the accumulation of productive capital" (2001, p. 455) reducing productive capacity.

In addition, 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," one that has led to "shameless waste and dilapidation" (2001, p. 413). Taxation destroys capital and "mere exertion can not 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 economic prosperity. Therefore, "[i]t 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" (2001, p. 447).

On this issue, Say criticizes David Ricardo's argument that taxes cannot harm the capital stock since the long-run rate of return is unaffected by taxation.¹⁶ Taxation necessarily decreases the capital available in an economy,

¹⁶Here, Say also reveals his reluctance to rely on graphical arguments. He attacks Ricardo for his use of "geometrical demonstration; in the science of political economy, there is no method less worthy of reliance" (2001, p. 452n).

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” (2001, p. 471). Say blames taxation for reducing productive capital, crippling production, decreasing workers’ wages, and decreasing the general standard of living. This important point is emphasized by Austrians,¹⁷ but is less recognized by public finance economists in general. In spite of the fact that Say revealed these fallacies nearly 200 years ago, the argument that a tax may increase savings, implying an increase in capital formation and therefore output, is still present in the modern public finance literature.¹⁸

Taxes not only decrease prosperity by harming capital formation, they also slow the adjustments to changing market conditions. Say’s clear understanding of the entrepreneur’s critical role in allocating resources toward consumers’ wants allows him to see how taxes reduce the entrepreneur’s effectiveness in performing this role.¹⁹ Taxation lowers profits, and prevents capital from being in “the hands of those who can make the most of it.” Say understands that the greater the level of taxation, the lower the incentive for entrepreneurs to effectively perform their function in the economy. Therefore, capital tends to be “less productively invested” when its transfer is taxed, preventing the “probable increase of the national income” (2001, p. 456).

Taxation inhibits the functioning of a market economy, in the sense that taxes prevent resources, particularly capital, from being allocated by entrepreneurs to their most desired ends. Say’s analysis of this tax effect parallels Ludwig von Mises’s explanation of the effect of taxes on profits. Profits, according to Mises, are an indication of maladjustments in the economy, the maladjustment being the divergence between the actual allocation of resources and the allocation that would maximize the public’s satisfaction. High profits are due to such maladjustments and provide entrepreneurs with the incentive to produce more of the good in question thereby decreasing and finally eliminating the maladjustments. High profits are therefore an important price signal and taxing profits interferes with this price signal and reduces the incentive to respond to such maladjustments (Mises 1980, p. 121). Mises’s explanation of the harm created by profit taxes is overlooked, for the most part, in neoclassical public finance textbooks. Say, however, expounded a similar argument over a century before Mises’s work.

¹⁷See Rothbard (1970, pp. 111–18) and Hoppe (1993, pp. 31–35) for explanations of the necessarily negative effect of taxes on capital formation.

¹⁸For instance, Gruber (2005, pp. 608–13) and Marlow (1995, pp. 530–31) both argue that a tax on savings generates a substitution effect, which decreases savings, and an income effect, which increases savings. If the income effect is greater than the substitution effect, then taxing savings increases the level of savings. According to this position, the effect of any particular tax on savings and therefore capital formation is an empirical question.

¹⁹Say’s success as an entrepreneur (Palmer 1997, p. 81) may have provided him with insights about the crucial role of the entrepreneur.

While Austrians have generally recognized the negative impact of taxation on entrepreneurial decisions, since the importance of the entrepreneur is omitted or marginalized in public finance textbooks, they overlook this important effect of taxation.

Say also refutes the empirical argument linking high taxes and economic prosperity. The fact that Britain endures a high level of taxation and yet the British are relatively wealthy does not imply that the prosperity is due to taxation. Say demonstrates that the country is prosperous in spite of its relatively large tax burdens. To argue otherwise is a “manifest inversion of cause and effect” (2001, p. 448). Here Say asserts that a “man is not rich because he pays largely; but he is able to pay largely, because he is rich” (2001, p. 448).

Say, in discussing his principles of taxation, is not making the case that there is a preferred tax type. Much of the modern public finance literature focuses not on the level of taxation, but on the appropriate tax type. Austrians, on the other hand, tend to be more concerned with the amount of taxation rather than the preferred tax type. For the most part, Say, like the Austrians, is not searching for the appropriate tax. Instead, his principles support that case that low taxes are preferred to high taxes.

Importantly, in explaining the importance of limiting tax burdens, Say makes the point that societies that fail to heed his warnings will be impoverished. He warns that

[S]hould the abuses and complexity of the political system lead to the prevalence, extension, increase, and consolidation of oppressive and disproportionate taxation, it is much to be feared, that it may plunge again into barbarism those nations, whose productive powers are now the most astonishing; and the condition of the labouring classes, who are always the bulk of the community, may in such nations present a picture of drudgery so incessant and toilsome, as to make them cast a wistful eye upon the liberty of savage existence; which, though it offer no prospect of domestic comfort, at least promises emancipation from perpetual exertion to supply the prodigality of a public expenditure. (2001, p. 473)

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.²⁰ He argued that taxes generally increase the prices paid by consumers and decrease the net prices received by the producers thereby lowering producers' profits. 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. Say demonstrated a sophisticated grasp of tax

²⁰For a textbook view of tax incidence, see Gruber (2005, pp. 517-46), Hyman (1999, pp. 413-28), Marlow (1995, pp. 436-49), and Rosen (2001, pp. 254-74).

incidence. The “taxation of the producers of a specific commodity operates to raise its price, part of the tax is paid by the consumers of the commodity. If its price be nowise raised, it falls wholly upon the producers” (2001, p. 465). Since the tax generally does not raise the price of the good by the full amount of the tax,

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. (2001, p. 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 generally affect producers and taxes on producers 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 indemnified 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. (2001, p. 469)

According to Say, who bears the burden of the tax? Those “who can find no means of evasion” (2001, p. 468). By the term “evasion,” Say is describing the voluntary actions of consumers and producers moving out of the taxed market to avoid the tax. Say’s explanation of “evasion” is somewhat 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 quantities of the product at different prices).²¹ 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. Say’s case is superior to modern treatments of this issue where the explanation is presented in a mathematical format, reducing the emphasis on individual decision-making. In Say’s demonstration, buyers and sellers are purposefully choosing to adjust their behavior in the face of the price effects of taxation. Here, Say also

²¹See Gruber (2005, pp. 524-27), Hyman (1999, pp. 417-22), Marlow (1995, pp. 439-43), and Rosen (2002, pp. 260-63) for the generally accepted explanation of the relationships between tax incidence and demand and supply price elasticities. In short, the price elasticity of demand and the buyers’ share of the tax burden are negatively related and the price elasticity of supply and the sellers’ share of the tax burden are also negatively related.

explains the modern concept of tax shifting and the distinction between the legal incidence of a tax and the actual burdens of a tax.²²

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 in a situation with either totally inelastic supply or totally elastic demand and the latter as the case of taxation with totally inelastic demand, but he conceptually recognizes these extreme cases (2001, pp. 467-69).

In addition, Say also considered some general equilibrium effects of taxation. For instance, 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, negatively impacting other markets.

Finally, on a minor note, Say recognizes taxes may be exported (2001, p. 466-67). It may be possible for the state to export its taxes by imposing taxes whose burdens fall on individuals outside of the state's jurisdiction. For instance, Say considers a French tax on the sale of cotton products. Such a tax will be shifted, to some degree, on cotton growers in America. Say, however, only notes the possibility of tax exportation and does not derive any implications of exporting tax burdens in this manner. Some tax analyses, particularly the argument that taxes harm the taxed economy, implicitly 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 nonexported taxes is an important point that Austrians have generally overlooked.²³

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, saw that taxation tends to corrupt government officials, and, most importantly, argued that taxation

²²The standard textbook approach to tax incidence concludes that taxes can be shifted forward, from producers to consumers, and backward, from consumers to producers (Hyman 1999, p. 413; Marlow 1995, pp. 425, 438-39; and Rosen 2002, pp. 254-62). Austrian theorists have argued that tax burdens can only be shifted backward onto the original factors of production (Hoppe 1993, p. 38, and Rothbard 1970, pp. 88-93).

²³For a brief discussion of tax exporting, see Hyman (1999, pp. 641-43).

destroys capital, interferes with the functioning of a market economy, and lowers the standard of living.

Say also went beyond the modern neoclassical treatments of tax analysis. First of all, he understood the exploitive nature of taxation. Rather than the mechanical, mathematical, and graphical explanations in the modern literature which tend to downplay the negative impact of taxation, Say's analysis emphasizes the tax effects on the decision making of the market participants. This allows him to demonstrate how taxes adversely impact the formation of capital and how taxes reduce the effectiveness of the entrepreneur. These negative impacts are at best underemphasized in neoclassical public finance textbooks.

Say's demonstration that taxation, and the concomitant spending, produces more harm than good is complementary to his law of markets. After making the case with his law of markets that a lack of consumption is not harmful to economic prosperity, Say argues that government intervention, in particular taxation, consumes wealth and is detrimental to economic well being. In short, his point is that the blame for economic declines should not be placed on the market for failing to generate enough consumption, but on the state's interference with market interactions.

In many areas, Say is a forerunner of Austrian analysis. While Austrians would tend to have issues with Say's position on negative externalities and his arguments regarding the benefits of minimizing the compliance and administrative costs of taxation, the overwhelming majority of Say's analyses places him firmly in the proto-Austrian School of thought. He advocated the use of the deductive method of analysis, what Austrians call praxeology, and he criticized the use of mathematical and graphical techniques. He explained the involuntary nature of taxation and saw that taxes are violations of private property. His class analysis makes the distinction between taxpayers and tax consumers. He clearly explained the link between taxation to the destruction of capital and his analysis emphasizes the role of the entrepreneur and the negative impact of taxes on entrepreneurial decisions. In all of these areas, Say shows that he is a precursor of Austrian theory and an opponent of neoclassical thought.

Say concluded that the appropriate tax is the lowest possible tax. His principles of taxation: moderation, impartiality, minimization of administration and compliance costs, and minimization of the damage to capital formation all lead to his conclusion that the "best scheme of public finance is, to spend as little as possible; and the best tax is always the lightest" (2001, p. 449). 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.

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