Gregorio Sancianco
and presumptive taxation

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«Sancianco, author of *Progreso de Filipinas*, is going there and plans to return soon. If you wish to send me something through him, you can do so; such as jewelry, sweets, jellies, *bagoong*, pickled mangoes, tamarind; all these, it is understood, must be well-packed in a single box so that they will not be too bothersome; and give him freight-money, for it would be odd to make him spend his own money besides making him carry things of no concern to him.»

-- Letter from J. Rizal to his parents and siblings
Sancianco: a brief biography

• 1852: born 7 March in Tonsuya, Malabon (Tambobong), to Chinese mestizo parents

• studied law at the Universidad de Santo Tomas; was member of La Juventud Escolar Liberal (with Paciano Mercado and Felipe Buencamino), advocating assimilation of Filipinas into Spain; joined the student strike of November 1870 for university reforms

• after 1872: left for Spain sometime after Gomburza execution and Reign of Terror; studied at the Universidad Central de Madrid

• 1877: obtained a doctoral degree (civil and canon law); dissertation (“Restitucion in integrum: porque causas tiene lugar...”) submitted 29 September, accepted 25 October.

• 1881: published *El progreso de Filipinas* (Madrid), first treatise on economics by a native of the Philippines
Sancianco: a brief biography

• 1882 came home for a short visit (see Rizal’s balikbayan box letter); returned to Spain in January 1883 (letter from Paciano Rizal)

• 1884: returned for good (January); visited San Isidro, Nueva Ecija (May) but was falsely implicated in the Tayug rebellion; arrested and imprisoned in Cabanatuan with F. Buencamino; subsequently released.

• 1887: appointed juez de paz in Cabanatuan, Nueva Ecija; resigned after dispute with local parish priest

• joined Manila law firm of A. Rianzares Bautista; retired later to Nueva Ecija

• 1897: died 17 November, Sto. Domingo, Nueva Ecija

• [Historical marker in home in Tonsuya, Malabon].
Sancianco’s economics

• roots in the 18.C Enlightenment; *Ilustracion* in Spain from 1750; political legitimacy for liberal ideas in post-Napoleonic liberalism (e.g., constitutions of 1812 and 1869).

• spread of classical liberal economics tradition from *Adam Smith* [1723-1790], J.-B. *Say* [1767-1832], and the Spanish liberal tradition via *Gaspar Melchor de Jovellanos* [1744-1811].

• belief in the *mobility and adaptability of capital* in search of higher returns (“invisible hand” as equalisation of rates of return); main proposition is to remove barriers to that mobility.

• assertion of Adam Smith’s minimal state (“three duties of the sovereign”): defence, administration of justice, public works.
Sancianco’s economics

• Philippine underdevelopment is due to the absence of the Smithian minimum (defence, justice, public works and education)

• result: insecure property rights, high transactions costs, and a large disincentive to production, e.g., through tobacco monopoly (refutation of the charge of “indolence”)

• aggravation through racial discrimination in exactions and recruitment of talent.

• proposed solution: mobilise bigger public revenues to support public-goods provision

• hence need to modernise the system of public finances (sistema rentistico).
Tax reforms

• critique of existing tax system

• inefficient (cause of disincentives); ineffective (raises little revenue)

• part of the larger critique of the colonial system and the demand for assimilation (Filipinos to be treated as regular Spanish citizens)

• (a) shift from colonial tribute and forced cultivation to modern taxation; (b) shift from indirect to direct taxes; (c) removal of taxation based on race; (d) move towards freer trade.
Government’s 1870 Commission: an early liberal effort at tax reforms

- abolition of the tobacco monopoly
- a personal income tax to replace the tribute and forced labour
- taxes on corporate profits
- higher taxes on imports and exports
- tax on opium
Sancianco’s proposals in 1881

- abolition of the tobacco monopoly
- *cedula personal* to replace the tribute and compulsory labour.
- abolition of tariffs and the customs house
- a presumptive tax on urban and rural property
- a presumptive tax on professionals
Sancianco’s opposition to a proportional tax

• agree a direct tax is referable but a cédula (poll tax) is preferred to a proportional tax;

• paradoxical objection to a more modern idea (proportional, if not progressive taxation)

• Sancianco’s argument: lack of information and possible corruption among tax collectors makes proposal “utopian”

• adhered to A. Smith’s assessment of “equality” versus “arbitrariness” as principles in taxation

• experience of the failure of the income tax (impuesto personal) instituted in Spain (Figuerola) in 1869
Presumptive taxation
• **taxation of rural property** based on size and average yield, regardless of current use, but based on locational classes.

• similarly taxation of **urban real property**, regardless of use or disuse, and regardless of type of built-up structures.

• taxation of professionals based on categories
Incentive effects of a presumptive tax

- insist that the tax be applied based on potential, not current use

- presumptive tax based on potential productivity rewards (resp. penalises) those with above-average (resp, below-average) productivity

- inferior post-tax returns will stimulate effort to attain average efficiency at a minimum

- failure will result in forfeiture and ownership change to more efficient agents
Sancianco’s place
Sancianco’s place

• contribution: taxation based on observable characteristics as a deliberate second-best resort— recognition of information asymmetry and corruption as problems in design of tax policy (earlier and distinct from Einaudi and Allais)

• identifies roots of the Propaganda and early reform movement in the classical liberal economic tradition of the Enlightenment (*ilustrados* as true scions of the *Ilustracion*).

• highlights uncanny similarity and persistence of past problems of development, especially adequate revenue mobilisation for public-goods provision.

• thoughts on the causes of underdevelopment further developed by Rizal: beyond incentives to institutions.
END
Jovellanos’ influence

Sancianco

«Develop the sources of wealth, strengthen their component parts and remove all obstacles and fetters that obstruct their development—these are the things that should be done, for as long as they are productive, the government will not lack for funds it needs» [Progreso].

Jovellanos

«Anyone who reflects on the matter will recognize that agriculture naturally seeks its own perfection; that laws can only assist or encourage this tendency; that such assistance consists not so much in providing direct incentives as in clearing away the hindrances to its progress. In short, the sole purpose of laws pertaining to agriculture must be to protect the interests of those engaged in it by removing all obstacles that stand in its way or that hamper its forward action and movement.» [Informe].
Earlier… A. Smith

“All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men” [Wealth of nations, Bk IV. Ch. 9. Paras. 50-51].
Smith on the “duties of a sovereign”

«According to the system of natural liberty, the sovereign has only three duties to attend to... first, the duty of protecting the society from violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual, or small number of individuals, to erect and maintain...» [WoN, Bk IV, Ch. 9, par. 51].
Infrastructure and institutions

«You lack public services that are most indispensable to your material, moral, and intellectual advancement. This is especially true in the branches of the interior and *fomento*. You have neither regular provincial governments that can attend fully and strictly to their duties and to your needs at the same time, nor communications facilities that commercial transactions require, nor public works that facilitate the transport and free circulation of your products, nor schools necessary for your moral and intellectual development, nor officers of justice to defend your property against greed and bad faith. … nor has the navy enough personnel to suppress Muslim piracy along the nearby coasts of your provinces. … Among all the public services you need, public works and education are absolutely indispensable to your moral and material well-being» [Progreso :xi].
Disincentives and transactions costs

«[B]ut, what can be expected of farmers without zeal for lack of stimulus and the total absence of roads? What benefits would these farmers derive from their labor if they cannot sell their produce or if they have to carry them to the markets, spending five or six days on the roads they themselves have to cut through forests and rivers, through regions still inhabited by fierce infidels, in order to sell at prices insufficient either to compensate them for their labor or for the risks they run?

«The distant towns of the provinces of Nueva Ecija, Nueva Vizcaya, Isabela and other located in Central Luzon encounter these sad realities. Why would not their inhabitants be lazy? How could these towns become rich or their population increase?» [Progreso:30]
Public finances as the key

«The system of public finances is the foundation upon which rest the institutions of every nation and to which they adjust themselves, so that they are as defective as the system is deficient. Now, then, in what aspects of Philippine social life is this deficiency not manifest? The total lack of services, be it public works, be it police and internal and internal security, the irregularity of administration, in a word, what is the cause of all this except the lack of funds» [Progreso: 1].
Smith on equality versus arbitrariness

«The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. Where it is otherwise, every person subject to the tax is put more or less in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort, by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages the insolence and favours the corruption of an order of men who are naturally unpopular, even where they are neither insolent nor corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not near so great an evil as a very small degree of uncertainty» [WoN Bk V, Ch. 2, par. 26].
Information asymmetry and arbitrariness

«What gauge will be used in determining the amount of assets of an individual? If the tax is based on his income, will this not be a direct tax on real property, farming livestock and the practice of all professions, arts, trades, industry and commerce? If physical [capacity] exclusively is to be appraised, what will be the basis of the equality that the proposed tax seeks to establish?» [Progreso 11].
Capitation taxes, if it is attempted to proportion them to the fortune or revenue of each contributor, become altogether arbitrary. The state of a man's fortune varies from day to day, and without an inquisition more intolerable than any tax, and renewed at least once every year, can only be guessed at. His assessment, therefore, must in most cases depend upon the good or bad humour of his assessors, and must, therefore, be altogether arbitrary and uncertain...

Let the tax be light or heavy, uncertainty is always a great grievance. In a light tax a considerable degree of inequality may be supported; in a heavy one it is altogether intolerable” [WoN, V.2.140-142].
‘Indolence’

• a long-standing recrimination by Spaniards and other foreigners to explain underdevelopment of the country; also used against Malaysians and Javanese [Alatas 1977]

• taken up more famously by Rizal in 1892 (“The indolence of the Filipinos”), acknowledging Sancianco as a precursor.

• only a side-issue in Progreso: an “irritating” subject discussed in a lengthy appendix as part of the counter-argument to support taxation of rural land.

• Sancianco’s answer: not indolence but an surfeit of disincentives, e.g., lack of security and transport infrastructure (see de Dios [2011] for details).
Presumptive taxation

«...[T]his form of investigation [i.e., of net incomes], as it happens everywhere, is always at the mercy of the taxpayers. If they are asked about the annual yield of their property, no one of them surely will be so candid or of such good faith as to reveal even the approximate figure; what more would tell is a third less» [Progreso 52].

«Well then, in order to prevent these frauds that are not corrected either with threats or pressures, could not another method of adjusting the tax to the declared income be devised? Could not the income be determined by the size of the land and upon this base the tax? It might be our illusion, but we are convinced of the possibility of establishing a regulation based on the size of the land which, though it might not give a perfect result from the point of equal taxation, the tax will be entirely free from all kinds of fraud that property owners are guilty of and will reconcile small differences» [Progreso 53].
Presumptive taxation

[T]he frauds which are committed by the taxpayers will disappear because the size of the land of each owner being known and registered in the Register of Deeds, the assessed tax cannot be altered at all. In case there shall be concealments, they would depend exclusively on the agents of the government [Progreso 53-54].
‘A stimulus and a remedy’

«[T]he tax would then become a stimulus and a remedy – a stimulus because it would oblige the owner to cultivate the land intensively because of the tax he has to pay; and a remedy because if a landowner neglects to cultivate his land and fails to pay the tax for one or two years, the government will sell it at a public auction and its ownership will pass on to one who can cultivate it» [Progreso 36].
Including idle urban lands

However taxation should not be limited to lots occupied by buildings. Why should not vacant lots within the towns and intended for buildings, factories and houses also pay tax? Do they not also represent property and wealth like occupied lots? Are they not also productive under a different concept? If a lot is a yard, garden, orchard, or woodland adjoining the building, does it not beautify the building, provide comforts to the occupants, and consequently enhance the value of the property? If it is neither one nor the other, if it is not used for any kind of industry but is completely vacant, being a lot located in the town, its value inevitably increases as the town progresses. This already constitutes an increase proportional to its value.

Otherwise, what is the purpose of the owner in keeping it? If he lacks capital to erect a building in it, he can sell it, and he can use the money in some profitable business [Progreso 64-65].
Taxation based on potential, not current use

«The rate of the tax should be the same for the lands devoted to annual crops, like tobacco, sugar, rice, etc. as for those with permanent crops, such as coffee, abaca, cacao, and others.

«The annual crop of the first kind of lands is greater than that of the second class, but of course, the cultivation and sowing are annual, entailing bigger expenses. And if, on account of the tax one excels the other in profits, this advantage, far from hurting production, would be a powerful stimulus for agriculture. If, for example, the annual planting of tobacco, sugar and rice would yield greater profits than permanent plants like coffee, cacao and abaca or vice versa, naturally one or the other will attract the producers. What does it matter since both are profitable?» [Progreso 54]
Support from the “immortal Jovellanos”

«A new branch of commerce promotes a new branch of agriculture, for once the profits it brings are recognised, it immediately draws farm operators to itself. When the price of meat rises, everyone wants to raise cattle and – since it is impossible to do so without grazing land – every conscientious farmer converts a portion of his land to pasture. When domestic consumption or exports push up the price of wine or oil, everyone devotes himself to cultivating grapes and olives. And everyone will grub these out when they see their prices falling and the price of grain rising. Rather than hindering it, legislation should stimulate this ebb and flow of private interest, without which agriculture can neither grow nor exist» [Informe § 110].
Support from the “immortal Jovellanos”

“Such would have been the effect of liberty in every branch of agriculture, had all been equally protected; but by protecting them unequally, the law has contributed to the backwardness of some while little benefiting others. Instead of establishing and steadily pursuing a single general aim – that is, the development of agriculture as a whole ... – the law has chosen to confer preferential protection to those branches that seemed at the moment to be most profitable” (Informe § 107).
Universidad de Santo Tomas (Intramuros)
Sancianco’s dissertation
Sancianco’s connections

Comite de Reformadores

Jose Burgos
A. Rianzares Bautista

El Juventud Escolar Liberal

Propaganda

Paciano Rizal
Felipe Buencamino

M.H. del Pilar
Jose Rizal
Á LOS FILIPINOS PROPIETARIOS.

Queridos paisanos: Siento al dirigirme á vosotros el defecto que nos detiene en el camino del progreso y de no poder corresponder al esfuerzo de los Gobiernos que procuran solo nuestro bien: es el desconocimiento del idioma en que os hablo; defecto que yo considero capitalísimo, en vuestras relaciones con el Gobierno, porque no hay nada más difícil, si no imposible, que regir y administrar pueblos que no se conocen, ni se entienden á sus habitantes, ni se les puede hacer entender lo que de ellos se quiere; un mal para mí en este momento, porque necesario que me comprendais antes de juzgar mis pensamientos, si por indiscreción, por inocencia ó mala fe, se os deslice una interpretación vaga y errónea de mis propósitos en esta obra.

Los Gobiernos de la Metrópoli han deseado siempre el adelanto material, moral e intelectual de esas islas; mas sus deseos se estrellan ante la carencia absoluta de recursos. Si se los busca para atender un servicio indispensable, por temor de lastimar vuestros intereses, tienen que emplear medios indirectos que complican el sistema rentístico y perjudican el desenvolvimiento de la riqueza estableciendo trabas y ga-
GREGORIO SANCIANCO
Historical marker
Tonsuya, Malabon
Classical liberal economics

A. Smith [1776]

J.-B. Say [1803]

G. Jovellanos [1795]
“El inmortal Jovellanos”

G M Jovellanos
by F Goya 1798; Museo del Prado