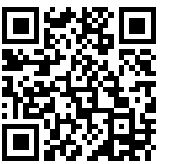

The Social Problems Series

LAND VALUES AND TAXATION

BY

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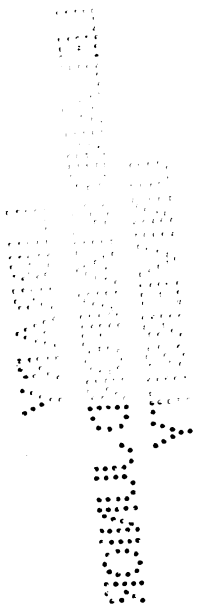

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LAND VALUES AND TAXATION

CHAPTER I

INTRODUCTORY

TAXATION is the means by which the governing body of a State or Community secures the means to provide for its own continued existence and activity. Revenue is to the body politic what food is to the human body—the means of sustaining an organised life. Without a revenue, government is impossible, and without a government of some sort, civilisation cannot exist and social progress would disappear. In studying taxation as a branch of Social Science, the inquiry before us must be whether there is a natural and just mode of levying taxation, of raising a public revenue; or whether taxation is in itself an evil to be borne; and all that the best system of public finance can do is to balance off the evils, one against another, and arrive, somehow, at the

least disagreeable mode of performing a necessary, but injurious, function.

Most of the ordinary text writers on the subject of public finance treat it as an art in which the real problem is to provide a steady, increasing, "redundant" revenue for Government; an art whose rules must vary with the history and social attainment of each State; an art which it would be mere pedantry to attempt to define by natural laws, or to bend to the known laws of economic science as laid down in the schools. As for any question of justice, beyond the maintenance of the *status quo* and jealous preservation of existing privilege, how can justice have any say in an art whose practice has given rise to such words as Confiscation, Tariff, and Finance? The bare mention of the public fisk or treasury suggests robbery; and that most respectable name "finance" is derived from the fines which it exacted. If we accepted the teaching of most of the authorities on taxation, this view of the subject would seem amply justified. These are quite satisfied that although grave injustice and consequent evils may be shown to accompany each separate branch of the present method of taxation, imperial and local, yet when all these injustices are taken together they must be held to cancel one another, and if the evils do not disappear in that most logical process, they must be put down to the inherent unfitness of things in general, and not to the patent injustice of a part of the existing, and therefore most perfect of systems! Such a line of

thought, however comforting to those who deem it necessary blindly to maintain things as they are, necessarily negatives the possibility of a science of taxation. If it were true to the facts of the case, it would equally negative the possibility of any science of society, any natural law to which societies and States must bow. The higher a State rises in the scale of civilisation, the more highly organised it becomes, the greater become its financial requirements. Governmental development is merely a phase of the law of division of labour, and the concurrent requirement is a fund for the maintenance of the Government in performing its part in the general work. If natural law can afford no light as to the provision of that fund, we should be driven to the conclusion that social progress, civilisation as we know it, had no place in Nature's scheme for the development of mankind; that civilisation was, in fact, an excrescence, a disease, contrary to the scheme of creation. Such a view of taxation finds a logical place in a theory of sociology which ends in anarchism. Society and civilisation cannot exist without some form of government, and revenue is essential to government. If government is within Nature's plan, Nature must also have provided a law of revenue within that plan, consonant to her other laws—just and equal to every member of the State, with beneficent and not evil consequences to each and all.

Merely to say that such a law does not exist because no such law is followed among the civilised

nations of the world; merely to point to all the contrariety of methods by which nations, the most advanced, raise their necessary revenue,—is no proof that such a law does not in fact exist; that it is not, now and always, exacting its dire penalty for disobedience and non-observance, as all Nature's laws do. The law of gravitation existed before Newton, seeing an apple drop, expressed the law in words. Nature's laws are not taught by her in words that perish. Her method rather is to hedge man in by the grievous evils which follow disobedience to her laws; to close one bypath after another which lead contrary to her way: till at last, in sheer desperation it may be, man is coerced into accepting Nature's law, which probably all the time lay quite close to his hand, but his own way seemed easier, seemed more pleasant to the powers that be, and hence the trouble.

Especially does this appear when we study the history of our own national budget. In the earlier stages, when little or no revenue was needed, there was but little deviation from the path of what was just and fair. But as the country advanced the deviations from anything resembling justice became greater and greater; one class after another, one interest after another, stepped forward, and under one pretext and another made use of taxation, not for the proper end of taxation, the maintenance of a pure and disinterested government, but for the aggrandisement of its own wealth, prestige, and power. Each such attempt, as we shall see,

by Crown, by landholder, or by merchant, has resulted in a more or less conscious revolt of the governed from the error, and a renewed attempt to reach the truth. Each deviation has in turn brought its attendant evils, and the body politic, staggered by these, has attempted to free itself by abandoning that particular system in its extreme form. Unfortunately relics of each wrong system have been allowed to continue, and the straight path has never been frankly and fully adopted.

In each case the change has been very tentative. Much that was acknowledged to be wrong continues to be followed. This or that vested interest must be considered at the expense of the nation as a whole, although the vested interest sprang from this or that gross spoliation of the nation's rights. Thus at each attempt to formulate a new and better system, much of the old has survived, and now our system of raising our public revenue is such an illogical patchwork that the best that even its most ardent supporters can say in its defence is, that although when you take it as a whole our system is self-contradictory, and each portion of it is wrong in principle and injurious in its effects, yet civilisation being what it is, this incongruous no-system is the only system possible. It is, they admit, a conglomeration of bad systems, each of which in turn presses most hardly on persons and classes least able to bear that pressure; yet we must endure it and make the best of it, as the necessary outcome of the high state of civilisation at which we have arrived. Such reason-

ing is worse than mockery, and our endeavour must be to find a better way: some rule by which we may follow the ordinary law of nature, the rules of common sense, and condemn as wrong, and necessarily therefore as inexpedient, any system of taxation which denies the equal right of all to justice and equality before the law. There must be a natural law the departure from which causes the evils which are patent to all in the present state of civilisation. We assume that civilisation, in itself, is according to natural law, and the evils we see must flow from our departure from natural law; a departure not inherent in, but contrary to, social progress.

Our business then, in this branch of the Social Problems Series, is to attempt to discover what just and efficient method lies within natural law for the provision of a sufficient revenue for the needs of government.

The present moment is in many respects peculiarly suited to the study of the problem thus set before us. The nation has just emerged from a keen discussion of the relative merits of Protection and Free Trade. It has with greater or less insight into the true significance of that question, given at the poll a decided answer against Protection under whatever guise it may attempt to ingratiate itself. One most useful result of the controversy remains. All parties are at one in acknowledging the grave and dangerous evils that are clamant in our midst; overpopulation in our cities; depopulation in country districts; overcrowding, and thousands of houses

unlet; over-production, and want of the necessaries of life; over-work, and want of work everywhere. Tariff Reformers held that these ills could only be cured by welding our Colonies closer to us, and shutting out the foreigner and his goods by a tariff more or less protective. The amount of protectiveness in the suggested tariff was apt to vary with the diametrically opposed interests of employer and employed, producer and consumer. The Free Trader, on the other hand, urged with present success, that Free Trade had served us well these fifty odd years, and was too good a friend to be hastily turned out of doors. Further, the more stalwart of the Free Trade party claimed that the ills, thus acknowledged by all, were not due to the Free Trade we had, but to the many and persistent relics of the old anti-Free-Trade policy; that the cure lay, not in the abandonment of Free Trade, but in a further firm and courageous advance along the lines laid down by Free Trade. Cobden had slain protective tariffs, Peel and Gladstone had reduced the duties on imported goods to a revenue-producing basis. Much still remains to be done in order that industry may not be restricted and discouraged by taxation. Our foreign trade may not be harassed by protective tariffs in Britain, but still the importation of what are tantamount to necessaries of life, tea and sugar, are subjected to Customs duties. Cobden and Bright persuaded the nation that it was wrong to tax the people's bread. Can it be right to tax sugar, so essential to the children's nourish-

ment? Or, to come still nearer home, can it be right to tax the people's houses? We want more houses, better houses, cheaper houses, yet the burden of our local rates lies heavily on houses. These are all examples of industry restricted by taxation. Surely if we find a dearth of the necessaries of life, or of houses, or of employment, we must look carefully to see whether any of our taxes are burdening industry and hampering the production of these good things. Is it the case that our system of taxation, especially in our local rating, encourages a man to be idle? Rewards him if he is idle, and only taxes him if, and as, he is, industrious. We need land on which to build houses, on which to work. Do our rates leave the landholder severely alone so long as he refuses to allow "his" land to be used, and only tax him when, and just in proportion as, he allows the land to be used? Evidently such a policy cannot be in accord with natural law.

A bad system of taxation, or a combination of bad systems, although it may not immediately ruin a State, must bit by bit, like a canker, undermine its stability and result in its ultimate overthrow. Some newer and purer system must arise to take its place, if our civilisation is not to pass away and give place to another.

CHAPTER II

HISTORY OF TAXATION

THE history of taxation in any country practically involves the study of its whole history, political and social as well as economic. All that we propose in these pages is to set forth a short summary of the outstanding points in the history of Britain, bearing more immediately on the rise and development of the revenue system at present in vogue in this country.

Broadly speaking, the history of taxation in this country follows the line of the evolution of the system of land tenure, and both are intimately connected with the growth of representative government, parliamentary and local. In early times, here as elsewhere, pecuniary revenue was unknown, and government was maintained by the performance of the various functions by individuals, who in turn were maintained in their several stations by services personally rendered by those immediately below them on the scale of the social hierarchy. The land was held by various families, tribes, or townships in common property, and parcelled out to the individual on condition of the performance by him of these

special public services. The chief held a larger share by virtue of the greater burden upon him, and the greater expense involved in maintaining the dignity of his position.

When the Romans appeared on the scene, they confined their settlements within their camps and strongholds along the roads and walls by which they held the surrounding country in subjection, and warded off the invasion of the unconquered tribes of the farther north. The tribute they levied on the natives of the country within their walls would seem to have been raised in accordance with the number of cattle owned by each inhabitant, and to have been exacted partly in money and partly in kind. Sometimes, too, resort was had to the more oppressive method of a poll tax, but all the revenue was exacted as by a conqueror from the conquered; as a tribute rather than as a revenue. The money was not required to govern Britain, but to enable the Imperial Government to sustain its own pomp and splendour in Italy.

When the Roman Legions withdrew from Britain to concentrate for defence of the Empire against the steadily increasing pressure of barbaric hosts which were to overrun the Roman World, they took their institutions and most of their civilisation with them. The native Briton, Celtic in his origin, was left, by his own prowess to defend his shores against the constantly reinforced hordes of Angles, of Saxons, of Frisians, and latterly of Danes, who swarmed across the seas, first harried and then settled on the southern

and eastern shores of Britain. After centuries of bloodshed and varying fortune, this conflict emerged in the Celtic-Briton being driven to the mountain fastnesses of Wales in the west and Cumbria to the north, while the invaders settled in countless tribal kingdoms on the Lowlands of the east. These newcomers were of Germanic stock, and brought their distinctive Germanic organisations, under which, upon conquest of a new country, the land appears to have been divided out under a system of allotment depending on the military division of the invading host into companies, each consisting nominally of a hundred warriors united by the tie of kinship. This allotment to each "hundred" then fell to be sub-divided according to the families in the hundred. Certain portions of this latter sub-division of the "hundred" lands were held in property by the heads of families, while the remainder would be held and cultivated in common as the common property of the community. The nobles and chiefs of tribes held further portions as private estate towards the upkeep of their offices.

As the numerous petty kingdoms gradually coalesced, and through the stage known as the Heptarchy became absorbed in the kingdom of England, the common land of the "hundred" and shire became the folkland of the kingdom. This folkland formed the main source of revenue to the State, and it could not be alienated by the king without the advice of the National Council. It might be held by individuals, but only on pay-

ment of such rents and services as the State in its capacity of landowner should think fit to determine. The individual had only a temporary right of possession dependent on the will of the State. Even those portions of the land allotted to individuals as private estate always retained certain marks of its public character. It was not liable like folkland in rent as such, but it did remain liable for the *trinoda necessitas*, the triple burden of military service, fortress repair, and bridge repair, (*fyrd*, *burh-bôt*, and *brycge-bôt*). Thus, under the Saxon kings, when special necessity called for special revenue, the National Council of Wise Men, the Witenagemot, levied taxes on the shires according to the number of "hundreds" in each. "Shipgelt," to provide ships, was levied under Ethelred to fight the Danes, and later "Danegelt," to buy off these "slayers of the north." These taxes were levied on all cultivated lands at the rate of two shillings on every hide of cultivated land; and in this form they were continued long after the pretext under which they were originally levied had disappeared. Edward the Confessor is said to have abolished the tax, but William the Conqueror revived it, and laid it on at three times the old rate. Yet still after the Norman Conquest the old folkland, now known as the demesne lands of the Crown, continued the main source of the royal revenue.

According to the Domesday Book, these Crown lands comprised over 1400 lordships, besides smaller

holdings. They fell into three divisions: (1) Urban lands, comprising the cities, burghs, and towns, all these having been built on the old folkland; (2) Rural lands, whose duty it was more especially to purvey in kind for the royal table, until Henry I. commuted these contributions for a money rent, as more suited to the times, more convenient for the tenant, and more useful to him in his foreign wars; (3) and lastly we have the Forest lands, the king's hunting-grounds, preserved for his use by the draconic code known as the Forest Laws, which produced no small revenue in fines.

Domesday Book itself was a Land Valuation Roll, compiled by commissioners sent to each shire for the purpose, and it summarises the results of the verdicts of juries summoned in each "hundred" to assess the value of the lands held by the tenants of the Crown. By the record in Domesday Book the holders of the Crown lands were assessed to the royal revenue. The king had also the royal prerogatives of Purveyance—the right of impressing carriages and horses for the conveyance of the royal court on a journey; Pre-emption — the right of taking at a valuation any provisions needed for the court; and lastly Prisage—the germ of the Customs, a right of demanding from merchants importing goods into the country one or more casks of wine for the use of the royal court, and this in name of protection afforded to such merchants by the king from enemies on sea and extortioners

on land. This last prerogative came to be looked on, quite apart from its origin, as a fair and reasonable source of revenue, which had the seeming advantage of drawing into the public purse the apparently easily earned and exorbitant profits of foreign merchantmen—men of no fixed abode in this country, who came for their own gain, and were not subject to the duties and burdens appropriate to the native landholder.

The more highly developed system of land tenure which the Conqueror brought with him across the Channel was merely the Saxon tenure more elaborately defined under the influence of Roman Jurisprudence. Under the Feudal System the land belonged to the sovereign for the people. By forfeiture for actual or alleged opposition to his rule, William soon made this true of the land of England in fact as well as in theory. The land was granted out by the king, as feudal lord, to the barons and lesser freeholders, the knights of the shire and burgesses of the towns, on condition of their performing in return for the lands held by them certain definite services to the Crown. The lands remained the property of the Crown, and the Crown was bound to afford protection to the vassal. The vassals held the lands as tenants of the Crown, and each was liable in forfeiture of possession of the lands held by him should he fail to perform the services due by him. This is what is meant when it is said in *Coke upon Littleton*, that the theory of English Law is that "all the lands and tenements

of England in the hands of subjects are held mediately or immediately of the king." In law the only owner of land, with some special but negligible exceptions, is the king. Under the Feudal System the landholders had to render services and payments which comprised in one form or the other the maintenance of all the functions of government, the King's Civil List, the judicatory and police, the military and naval power requisite not only for defence but also for aggression. These services rendered by the landholders personally became through time more burdensome to the vassal than beneficial to the Crown. Magna Charta, in King John's time, was the protest of the vassals against the undue exercise of the prerogatives of the Crown. It has been described as the first great public act of the nation after it has realised its own identity. It was a treaty of peace between the king and his armed subjects, the lesser freemen, as well as the great barons and knights. While it protects these in their rights, it in the same breath acknowledges that the rights of the subject landholders flow from the king's grant. The feudal rights of the Crown were carefully defined as they existed by custom, and the fundamental doctrine was enunciated that no "scutage" or extraordinary aid was to be imposed on the vassals unless granted by the common council of the kingdom. It was then declared that the archbishops, bishops, earls, and greater barons should receive personal summons to attend such

common council of the kingdom, while all other tenants in chief of the Crown should be summoned by a general writ addressed to the sheriff of their county,—and this gives us the germ of the two-housed Parliament which has come down to our day. The greater vassals attended personally on the king in Parliament. The lesser vassals, knights of the shire, and freemen of burghs sent their representatives to the House of Commons.

Parliament, thus constituted, raised the revenue necessary either to commute purveyances and pre-emptions, or to assist the sovereign in war by rating the shires and burghs according to valuations made by sworn assessors in each shire or burgh, and the levy was usually at so many fifteenths of the valuation in shires, and so many tenths in burghs, according to the sum required for the occasion. In the case of money raised to carry on a war, any vassal willing and able personally to serve in the war was exempt from the tax, and so frequently were the counties adjacent to the Scottish border, where their personal services were only too often in request. All landless men were outwith the scope of the ordinary taxing power exercised by Parliament. Taxation and representation went together in those days. A poll tax, though graduated from £6, 13s. 4d. for dukes and archbishops, down to 4d. for each man and woman over sixteen years of age, and exempting beggars altogether, gave rise to Wat Tyler's insurrection. That commenced ostensibly out of an attempt to

levy the tax on a girl of fifteen, and resulted in the granting of charters of freedom to the serfs or "villeins," who had hitherto been outside the borders of constitutional freedom. But the main result was a return to the acknowledged constitutional methods of taxation upon the land according to use and wont.

The exaction of customs-duties by the king under the names of prisage and tunnage and poundage, which were the extensions of that tax to other articles of commerce, were restrained by Magna Charta, but in the following period Parliament constantly required to insist that the king should only exact the "old" duties, or such as should from time to time be voted to him by Parliament. It was found that merchants importing goods, finding it easy to pass the burden on to their customers, very readily agreed to let the king have increased duties without the sanction of Parliament, and thus he was enabled to evade the control of a Parliament not inclined to be either subservient or generous.

In Scotland the history of taxation, though not synchronous with that of England, follows much the same lines. The Tribal System was gradually absorbed and superseded by the Feudal System. In the case of the Highlands of Scotland this did not occur until the Feudal System had itself become but a name, and the results were all the more disastrous. In Scotland, whether under the Tribal System or under the Feudal System, the burden of

maintaining the government and protection of the country lay on the landholders by virtue of their tenure of the soil of the country.

Thus, when the crowns of England and Scotland were united in the person of James I. and VI., there were vested in the Crown, outwith the control of Parliament, the rents of the Crown lands proper, and the feudal returns payable by vassals under their charters, on sale, inheritance, minority, marriage, and other outgrowths of the feudal tenure. James and his son Charles attempted to rule the country without the intervention of Parliament, and pressed these feudal dues till they would yield no more. Charles I. then had his famous bout with John Hampden over the imposition of the ship-money on an inland county. The courts found in favour of the king, but the Long Parliament stepped in, called together of the king's necessity, and with a high hand put an end to all such royal exactions. Partly in order to render the Crown more amenable to Parliament, and partly because the feudal dues of the military or ward holdings were no longer consonant with the spirit of the times, and had become very irksome in their incidence, Parliament at one stroke abolished these, and closed the court of wards and liveries in which they were collected. To provide the Crown with the revenue necessary in lieu of these, the Commons increased the Customs and instituted the Excise. This meant the removal of the burden of maintaining the Government of

the country from the shoulders of the landholders, and the placing of that burden on the shoulders of the whole people, whether they were holders of land or not. The old land tax, which had formerly been periodically granted by Parliament as supply in lieu of personal military service, and had been levied from landholders in fifteenths or tenths of their means and estate, was continued during the Commonwealth, but was dropped by the Restoration Parliament, which thereby added another step in the development of private as against public rights in land.

In Scotland this stage was not reached till 1746, when, after the rising of the '45 had been suppressed, the Crown was deprived of anything more than a nominal right in the land of the country by the Statutes of 1746, which abolished military tenures in Scotland, and purchased from the landholders the heritable jurisdictions. These, though they had been turned to a means of extortion and source of revenue by the holders, were functions to be performed and maintained as part of the return for the land held of the Crown. The nature of these transactions in the rights of the State over the land of the country, becomes very palpable when the provisions of the Statutes are even glanced at. "The Tenures Abolition Act, 1746," by its first clause, abolishes once and for all the tenure of ward or military holding, and that both for vassals holding directly of the Crown and for vassals holding lands of subject superiors,

who in turn held of the Crown. In the subsequent provisions a vital difference is made between vassals of the Crown and vassals of a vassal of the Crown. The vassal of the Crown has his tenure changed into a holding blench; that is, he is to continue to hold the lands of the Crown, but the only return he is in future to pay to the Crown is "a penny Scots at the feast or term of Whitsunday *si petatur tantum*," if asked only. Quite different is the new position of the vassal holding of this vassal of the Crown. He is to continue to hold the lands of his superior but by feu-holding, and is to pay such a "certain rent or feu-duty in money, victual, cattle, or otherwise, yearly"; "and in order to ascertain the *quantum* of feu-duty to be payable yearly by the tenants of vassals of the said lands and heritages heretofore held ward to the superiors thereof, it shall and may be lawful for the Court of Session in Scotland, and they are hereby empowered and required, to take into their consideration the difference in value to the vassals of the change of their holdings or tenures from ward to feu hereby enacted, and what constant annual rent or feu-duty, payable to the superior, will be a reasonable satisfaction or recompense for that value or difference." If the Court of Session could thus put a yearly value on the difference made by the abolition of the military services in the case of a vassal holding of a subject superior, why not have allowed it to extend its labours and fix the yearly value of the abolition to the tenants-in-chief of the Crown? Why should

they be allowed off with payment of that mythical "penny Scots," while they were to continue to exact from their sub-vassals the full value of the abolition, by means of a "certain rent or feu-duty in money, victual, cattle, or otherwise, yearly"? Formerly the vassals of subject superiors had rendered military service to these subject superiors in order that these in turn might render their military services to the Crown. Now the subject vassals would pay a yearly rent or feu-duty to their subject superiors, not to enable them in turn to pay over a similar rent or feu-duty yearly to the Crown, but to enable that subject superior to maintain, in ease, the style and condition of a nobleman, while the Crown had to rest satisfied with the "penny Scots" from him, and look elsewhere for the revenue required to upkeep the dignity of the Crown and functions of the State.

The Statute of 1746 abolishing the heritable jurisdictions in Scotland is an even more flagrant example of the methods pursued in a Parliament of landholders, elected by landholders. The preamble of the Act acknowledges that these jurisdictions originally belonged to the Crown. By the first clause of the Act all such heritable jurisdictions, the office of High Constable alone excepted, are to cease. The next clause, however, provides that although these offices are no longer to be performed, the lands annexed to such jurisdictions and the rents and duties in money, victual, cattle, and other goods payable to their possessors in virtue of their holding

these offices, are to remain to them, their heirs and successors, "notwithstanding the extinction of the said offices." This would seem to be very generous terms to the holders of abolished offices. They are relieved of the office, but may retain the lands which were annexed to the office, while the new Sheriff-Depute and his substitutes who are to fill the office are to be paid for by the Crown. But that was not enough. The Act goes on to provide that these old possessors of the offices of judges are to be compensated for the loss of these duties on a scale to be fixed by the Court of Session, and paid for also out of the Exchequer. It is interesting to note the high value put upon their offices by these hereditary judges. The claims lodged for compensation for the loss of the duty of acting as judges amounted in all to £1,587,090, which, however, the court cut down to £152,037. The then Duke of Argyll put in his claim as follows:

Sheriff of the Shire of Argyll .	£5,000
Justice-General of the Shire of Argyll and of the whole islands of Scotland, excepting Orkney, Zetland, and Arran .	15,000
Lord of Regality of Campbell, Baillie of the Bailliery of Tiree, Baillie and Steward of the Earldom and Lordship of Argyll, and Constable and Keeper of the Castles of Dunoon, etc. . . .	5,000
	£25,000

The Court of Session allowed him £21,000. His claim must therefore have been more reasonably stated than those of the other noble claimants. The Duke's Chamberlain, Duncan Forbes of Culloden, was President of the Court of Session. He may have advised him.

By the lavish generosity of the Tudors and the Stewarts, the Crown lands well-nigh disappeared. Their court favourites entered the ranks of the landed nobility, and Parliament no longer exercised its right of resumption, which earlier had been a strong bulwark against the extravagance of the monarch. The lands of the monasteries, which had been secularised and resumed by the Crown at the Reformation in both countries, were straightway parcelled out to Protestant lords to strengthen their Protestantism, and thus lands which had been devoted to education, ecclesiastical and secular, and to the maintenance of the poor, passed into private hands. The monastery lands extended in area to one-fifth of the whole country. Their then annual value was £350,000, equivalent to £7,000,000 of to-day's money. It is rather curious that it is claimed for the House of Lords to-day that they own one-fifth of the land of the country. The breaking up of the monasteries turned adrift 50,000 persons, most of whom were incapable of earning their own living. Soon, consequently, we have our first Poor Laws, the Statutes of 1579 in Scotland, and 1601 in England. Formerly the Legislature had been exercised in making it a crime

for an able-bodied man to refuse work or to demand a higher wage that a paternal Parliament thought good for him. All that now changes. Land is becoming private property. It is held without correspondent duty towards the State.

One stage more was required to produce the economic phenomena of over-population and over-production. The great tracts of common lands which had formed the heritage of the people, and had eased the pressure of the military despotism of the feudal system, were to be gradually absorbed by enclosure into the estates of the adjacent land-holders. This process extended over several centuries; and even yet, here and there, are to be found small scraps of common land, to indicate the existence of the old heritage of the farm labourer. In England the Statutes of Merton in 1235, and of Westminster in 1285, had restrained the tendency of the lords of manors to enclose their waste lands; and down to 1800, commons could only be enclosed by private Act of Parliament. Between 1700 and 1845 there were 3835 Enclosure Acts, enclosing an area of over seven and a half million acres. In 1801 an Enclosure Act was passed, giving general regulations to be conformed to in future enclosures. In Scotland enclosures were carried out by a process of Sooming and Rooming before the Court of Session under the Scots Enclosure Act of 1693. We grant that enclosure was necessary for the proper cultivation and eventual development of the country. It was not necessary, it was neither just nor expedient, that

the enclosed lands should pass into the possession of private individuals without payment by them to the public exchequer of any rent for the land, the use of which was taken from the people.

During all these dealings with the land of the country there was present the consciousness that the people were being deprived of rights which justly belonged to it. There are instances where a Statute enclosing a common provides that some part of the common should be dedicated to the general good of the neighbourhood. When the monasteries were secularised, several colleges in Oxford were richly endowed out of the spoils, and that portion of the abbey lands thus remains to serve a public end. In Scotland, when James v. instituted the Court of Session, the Papal Bull encouraging that enterprise allowed the salaries of the thirteen judges to be made a tribute from the abbacies of Scotland. Nominally that payment is made till this day, but by the ingenious trickery of the clerical clerk who engrossed the provision in the Statute, the necessary £10,000 became £1000; and now that is paid in pounds Scots, and amounts to a pittance which the judges have agreed shall go to their individual clerks, while the Exchequer has to find the salary requisite for the judge. But the main evidence of the existence of a knowledge of the true position of the land as the true source of public revenue, is the fact that the landholders in Parliament in 1660, when they came to re-enact the abolition of the military tenures, and proceeded

to place the cost of governing the country on the whole people by doubling the Customs and Excise, and by instituting a poll tax which proved abortive, only rejected by a majority of two votes a proposal to raise the revenue by giving the king a land tax of adequate amount. The reasons given for the refusal to substitute a land tax in place of the old feudal dues were sufficient proof of the injustice of the refusal; to place a land tax on the holders of land would be unjust, it was said, to those who had bought land after the Long Parliament abolished the military dues, as the lands had been bought at greatly enhanced prices owing to the abolition. The abolition had simply been a donation by the landlords to themselves. Their estates had been greatly enhanced in value by not being subject to payment of the old and arduous military returns, and that enhanced value might only too justly have been called upon to pay to the Crown the revenue necessary to replace the military services. Even had such a land tax been imposed to replace these old dues fully to the Crown, still their estates would have enjoyed an increased value by the amount by which the new tax would have been more easy of collection and less burdensome in incidence. But no; under the plea that money of some widows and orphans had been invested in the land at its enhanced price, the landholders voted themselves free, and proceeded to levy the necessary revenue by taxing everyone, whether widows, orphans, or mere labourers, by increased Customs and Excise.

The people of the country were under no delusion as to the nature of this transaction, by which at one stroke the landholders of the kingdom had changed their tenure from one of being permanent tenants of the king, due a rent in kind sufficient year by year to maintain the State, into one of ownership of the soil of the country under no correspondent obligation to the State. Hitherto each landholder had required to have men settled upon his lands sufficient in numbers and position to make up the quota required of him in knights and men-at-arms. There thus existed a bond of mutual duty between landlord and tenant, between superior and vassal. Each was needed by the other. Each respected the other in his respective place. The superior required the services of the vassal to enable him to perform his services to the king. Now all is changed. The superior is merely a landlord exacting for his own, not his sovereign's purposes, the maximum rent his tenant can afford to pay. Now he can "do what he likes with his own."

The discontent of the commonalty in this subversion of the public rights culminated in the imposition of a land tax when the Whigs called in William and Mary at the Revolution. That the justice of the popular discontent was generally recognised is evidenced by the fact that a Parliament, still exclusively representative of landholding, imposed the land tax at the rate of 4s. in the £ on the annual value of property. This

produced two millions a year, a munificent revenue in those days. Unfortunately it was only granted in view of the immediate and threatening pressure of popular opinion. Having attained its object, that pressure relaxed. Parliament annually reimposed the tax during the succeeding century, varying the amount from 1s. to 4s. per £ as the exigencies of government required, but always on the valuation of the land laid down in the original roll of 1697. The waste might become a city, as in the case of Liverpool, still the tax was as if for a waste. On entering on the Great War, Pitt, in place of getting a fresh valuation of the land of the country, which at 4s. a £ would have given him more than all the money he required, stereotyped the land tax as a permanent tax at the 4s. at which he found it on the old valuation. He further, in order to provide an amount of ready cash for his exigencies, allowed landholders to purchase relief on easy terms by buying up their quota for a small capital payment. A veritable spendthrift's budget. Then in subsequent years he doubled, trebled, quintupled the old Customs and Excise. He instituted an Income Tax which gave rise to endless evasion. He persuaded Parliament to levy a Death Duty on personal property; but Parliament refused to give him a similar duty on the land, although that was one of its old feudal burdens. Thus the nation got out of its war with Napoleon with an addition of £608,600,000 to a National Debt which had only arisen after the

land had ceased to bear its burden. In the times of Charles II. and James II. the Debt had originated and grown to £664,264. This William III. incorporated as the National Debt, that standing emblem of Britain's respectability, which has never since ceased to grow by hundreds of millions at each great war the nation stumbles into, to be slowly and sadly eaten down during more prosperous times. But the greatest financial legacy the Great War left this country was the Corn Laws, of direful memory. The opening of the ports of the country at the close of the War to the commerce of the world placed the landowners face to face with the loss of the monopoly of the food supply of the country, out of which they had been making hay while the country suffered the agonies of hunger. Naturally, being Parliament, they proceeded to legislate for the preservation of their monopoly, and the House of Lords sat up all night to receive and pass a measure to prevent cheap corn spoiling the home markets for the home landlord. The country suffered much, but it learned more, and although the first and primary stage of the discussion was concluded by the abolition of the Corn Laws in 1846, the lesson seems to have been burned into the flesh and blood of the people of Britain, and enabled them, more than half a century later, to refuse the tempting bait, whether under the guise of Protection, or Fair Trade, or Preference. The country had once been badly bitten.

As this brings our short history of methods of raising the revenue of our country down to the commencement of the new era in which the prosperity of the country seemed secure under the adoption of the maxim, "No tariff except for revenue," it may be useful to give the short and concise summary of the foregoing history so ably and tersely given by Richard Cobden in one of his speeches on the Corn Laws:

". . . Honourable gentlemen claimed the privilege of taxing our bread on account of their peculiar burdens in paying the highway rates and the tithes. Why, the land had borne those burdens before Corn Laws had been thought of. The only peculiar State burden borne by the land was the Land Tax, and I will undertake to show that the mode of levying that tax is fraudulent and evasive, an example of legislative partiality and injustice second only to the Corn Law itself. . . . For a period of 150 years after the Conquest, the whole of the revenue of the country was derived from the land. During the next 150 years it yielded nineteen-twentieths of the revenue—for the next century down to the reign of Richard III. it was nine-tenths. During the next seventy years to the time of Mary it fell to about three-fourths. From this time to the end of the Commonwealth, land appeared to have yielded one-half the revenue. Down to the reign of Anne it was one-fourth. In the reign of George III. it was one-sixth. For the first thirty years of his reign the land yielded one-seventh of the revenue. From 1793 to 1816 (during the period of the Land Tax), land contributed one-ninth. From which

time to the present (1845) one-twenty-fifth only of the revenue had been derived directly from land. Thus the land which anciently paid the whole of taxation, paid now only a fraction or one-twenty-fifth, notwithstanding the immense increase that had taken place in the value of the rentals. The people had fared better under the despotic monarchs than when the powers of the State had fallen into the hands of a landed oligarchy, who had first exempted themselves from taxation, and next claimed compensation for themselves by a Corn Law for their heavy and peculiar burdens."

In this connection it is well to take into consideration the relative well-being of the general mass of the population, as brought out by Thorold Rogers in his monumental work dealing with *Six Centuries of Work and Labour*. We can only give one or two extracts, and refer the reader to the book itself as well deserving careful study by all who are interested in social problems. On page 389 he says that in 1495 "a peasant could provision his family for a twelvemonth with three quarters of wheat, three of malt, and two of oatmeal, by five weeks of ordinary work; an artizan could achieve the same result in ten weeks." Some forty years later, in 1533, it would have taken nearly double as long to secure the same food supply; and in 1593 that amount was not secured by a year's ordinary work. In other words, wages for ordinary labour towards the end of the sixteenth century were down to famine point, and the Poor Law of 1601 became inevitable, though it could

only aggravate the evils unjust land laws had caused.

But no picture of the state of England before the people lost their rights to the land can be more vivid than that described by Sir John Fortescue, Chancellor to Henry VI., in his book entitled *In Praise of the Laws of England.* He describes the fertility of the soil, the wealth of the inhabitants, and proceeds: "After this manner, O mighty Prince, are none other realms of the world disposed and inhabited. Neither doth the King there, either by himself or by his servants and officers, levy upon his subjects tollages, subsidies, or any other burdens, or alter their laws or make new laws without the express consent and agreement of his whole realm in his Parliament. Wherefore every inhabiter of that realm useth and enjoyeth at his pleasure all the profits and commodities which by his own travel, or by the labour of others, he gaineth by land or water. And hereby it cometh to pass that the men of that land are rich, having abundance of gold and silver, and other things necessary for the maintenance of man's life. They drink no water unless it be that some for devotion, and upon a zeal of penance, do abstain from other drink. They eat plentifully of all kinds of flesh and fish. They wear fine woollen cloth in their apparel. They have also abundance of bed coverings in their houses, and of all other woollen stuff. They have great store of all hustlements and implements of household. They are plentifully furnished with all other things

that are requisite to the accomplishment of a quiet and wealthy life." No Chancellor could draw such a picture of Britain in any century since the sixteenth.

For our purposes the history of taxation since the inauguration of the principles of Free Trade by the repeal of the Corn Laws is soon told. To enable him to accomplish the necessary readjustment of taxes involved in a departure from the long-prevailing protective duties, Sir Robert Peel reinstituted the Income Tax. It was intended to be only a temporary expedient, but has remained with us ever since, the mainstay of the Chancellor of the Exchequer. The next noticeable event was the extension by Mr. Gladstone of the Death Duties to Landed Estate in 1853. That was stoutly resisted, on the ground that land was said to bear more than its due share of local burdens. On this ground Mr. Gladstone only asked land to contribute under the Death Duties in proportion to its annual value, while movable estate was paying in proportion to its capital value. The equalisation of the position of movable and heritable estates in this respect formed the feature of Sir William Harcourt's Budget of 1894. Land was no longer to be more privileged in the Death Duties than other forms of private property.

During all this half-century the real controversy between parties in relation to finance has been this question of the relative positions of landed property and of movable property. It finds expression in

another department of finance which will also call for our special consideration, namely, the constantly increasing amounts paid out of Imperial taxation towards the relief of local rates in the form of what are known as Grants in Aid of Local Rates.

Otherwise we may say that Chancellors of the Exchequer, to whatever party in the State they belong, seem content to find their revenue according to use and wont, without any grave attempt to discover whether or not they are acting upon sound principles; content that the British ideal is to "muddle through somehow." Occasionally we find an attempt made to bring in a new tax, on the ground that it will do something to widen the basis of taxation. These attempts, like the Match Tax of Mr. Lowe, the Wheel Tax of Mr. Goschen, and the more recent Coal Export Duty, have usually proved unacceptable and abortive. All this period may be said to have for its maxim, "Tariff for Revenue only." It will be our duty to inquire whether this maxim is a final verdict in the science of finance, or only a halfway halting-house on the way of truth.

CHAPTER III

THE CANONS OF TAXATION

I. THE CANON OF EQUALITY

THE natural Canon of Taxation would seem to be that each citizen should pay to the State in proportion to the benefits he receives from the State. Taxation should be payment by the citizen for services rendered by the State. But the benefits provided by the State are so numerous and so varied, that the difficulty must be to find a rule by which to measure the sum of the benefits conferred on any particular citizen, for the benefits conferred are not conferred on all in equal measure. The dweller in the town enjoys benefits unknown to the dweller in the remote country-side. The dweller in one part of a town enjoys privileges which at another part of the same town he must do without. Nay, even dwellers in the same street enjoy in different degrees the benefits resulting from the presence and work of the community, and a corner lot will be far more in demand than other sites on the same thoroughfare.

The first duty of the State is to protect its citizens in life and property, alike against foreign

invader and illdoer at home. The defence of the country, naval and military, is a primary function of the State, and in the same category stand the maintenance of an efficient police and the administration of justice within the realm. Advancing civilisation has forced the State into many other departments of life besides these primary functions. It makes and keeps our roads and highways; conducts the postal and telegraph systems; it educates us, with greater or less success and more or less friction as to the non-essentials of education; it inspects and regulates our workshops, factories, and mines; provides a water supply in populous places; is eagerly entering into the provision of gas, electricity, tramways, and every modern adjunct to the amenity of life. The State tends us like a father from the cradle to the grave. All this it is doing for its citizens, it may in many cases be mistakenly, but always with the best intentions, and for all this activity money must be provided; money for the national exchequer; money for the local budget. All this money must somehow or other come out of the wealth created by the people year by year. The industry of the labourers, by head and by hand, must produce the wealth necessary for the upkeep of all this communal machinery.

Some services the State renders so directly to the individual, that there is little or no difficulty in securing the needed revenue directly from the individual. The postal service is readily maintained by means of the postage stamp paid for by the

individual whose letter is transmitted to its destination. Acting as letter-carrier on a vast scale, His Majesty's post can on the average carry a letter at so small a cost, that even the small charge of a penny a letter, in the gross produces a large profit. The post has thus become a large source of revenue to the country. It is a monopoly held by the State, and beneficial to the individual citizen. Its demands are kept reasonable by stress of public opinion evidenced in Parliamentary control. The post is thus a good example of how revenue may be derived from a monopoly which is retained in the hands of the State. A similar form of monopoly revenue is legitimately enjoyed by the municipality which owns and works its own tramway system. The halfpenny fare paid by the individual may be more or less than the cost of the particular ride he takes, but it is a bagatelle to the value to him of the ride, and it is on the average sufficient to pay all the cost and leave a profit over. This profit forms a source of revenue to the municipality.

The primary services of the State seem rather to confer a general benefit on all the citizens than separable benefits on each. All appear to benefit by the security provided in the defence of the country from foreign foes. Do they benefit equally, or can a measure be found whereby each may pay as he receives? Similarly, while a large revenue can be raised from litigants towards the upkeep of the courts of law, that takes no account of the benefit enjoyed by all the citizens, in the protection afforded

by the existence of the courts, even if personally they never require to apply for their assistance. The existence of trustworthy courts, the possibility of applying for justice to them, benefits all the citizens, and renders industry safe and profitable. The benefit may be very difficult to individualise, but it is none the less real. All benefit, but in very varying degree. The problem therefore is, the benefit being unequal, can a measure be found by which each citizen shall only pay to the State in proportion to the benefit received by him from the State?

It is in the above sense only that Adam Smith's famous First Canon of Taxation, the Canon of Equality, can be accepted as expressing a principle just in itself. That canon runs: "The subjects of every State ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State." This is the canon so far as it is usually quoted and adopted by economists, whether they are admitting or disputing its validity. But as thus stated it is by no means a self-evident truth. Its terms are ambiguous, if not contradictory. The "respective abilities" of citizens of a State to pay taxes are not necessarily measured by "the revenue they enjoy under the protection of the State." Accordingly some writers try to define the latter phrase as meaning their surplus income after meeting the necessary cost of maintenance; and lay stress on

the word "enjoy," as implying something additional to mere income necessarily expended in maintaining life; as reaching out into the sphere of luxury, or at least of superfluous expenditure. Adam Smith, however, does not leave his canon without interpretation, for he immediately adds an explanation which may clear up any dubiety. He proceeds: "The expense of government is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate." Here we are on familiar ground, and the antecedent ambiguity seems explained. The joint tenants of an estate can only in reason be called on to pay towards the cost of management of the joint estate in proportion to the share of that estate held by each. They will each pay to the common fund in proportion to the benefit they receive from the estate. The key-word of the canon, therefore, seems to be the word "under," which we would translate "by virtue of" or "as the result of." Each citizen should contribute to the support of government in proportion to the revenue which he enjoys by virtue of, or as the result of, the protection and activity of the State. It is patently just and proper that any income enjoyed by the individual by virtue of something done by the State, should contribute to the upkeep of the State, just as it would be right that one of the tenants of an estate should pay an increased rent proportionate to any increase in value of his holding which resulted from some expenditure, on roads or buildings or other

improvement, by the management of the estate. Such an arrangement conforms to our ordinary commonsense view of what is right and proper. The improvement may have benefited all the tenants, but we should expect each to pay in proportion to the increase in value of his own special holding. In this sense, then, Adam Smith's Canon of Equality seems to be a canon of natural justice.

To interpret the canon as giving sanction to the idea that each citizen is to contribute to the State in proportion to his income, would be to deprive it of all title to be considered a rule founded in justice. It would sanction the theory that the more industrious a citizen was the more the State was entitled to demand from him. This would be to fine the industrious for their industry, whilst the idle would go free. This is quite clearly not the meaning of Adam Smith. His joint tenants would never have admitted that each was to pay as he improved his portion of the estate, while his idle co-tenant was to get off without contribution. Each would pay in proportion to the value of the opportunity afforded him by the estate. The result of his personal industry should remain to each. If the joint estate expenditure resulted in raising the value of the portion of the estate allotted to him, then he would justly be called on to pay a proportionately increased quota to the expenses of the joint estate. But if by his own energy and capital he improved the earning capacity of his portion of the estate, in all justice that increased capacity should redound to his

individual benefit, and should not be made a ground for increasing the quota he has to pay to the expenses of the joint management of the estate. That each member of the joint adventure should pay to the expenses of the management in proportion to the value of the joint estate which he enjoyed under the joint adventure; that his contributions to the joint fund should vary from year to year according as his portion of the joint estate rose or fell in value by the expenditure of the joint fund, is a commonsense arrangement. But to suggest that the more he improved his portion by the expenditure of his own labour, skill, and capital, the more, relatively to his co-tenants, he should pay into the common purse, is, to put it mildly, not a business proposition. It would discourage industry. Take it that the joint estate, at the partition among the tenants, is a tract of unimproved land, the natural, business-like course will be to ask each tenant to pay into the joint purse year by year the annual value of the portion allotted to him, apart from any value added by his own industry, resource, and energy. This leaves him the utmost encouragement to be industrious and improve his portion by leaving him the whole benefit of his work, while it will discourage any tenant from idly letting slip the opportunity of improving his lot, as he must still pay in to the common fund the same quota whether he is idle or industrious. Each would pay to the common fund as he had received from the general estate, and the result of his own industry would remain secured to him.

Again, to interpret the canon as if it meant that all income enjoyed by the citizen, from whatsoever source derived, were equally a just subject of taxation, is as if in the illustration of the tenants one of them were to be asked to contribute to the joint expenses of the estate, in respect of an annuity or other allowance which he happened to enjoy from a source quite outside the joint adventure. Or as if the joint tenants of a house were to be asked to pay towards the expenses of the establishment in proportion to their salaries, although these were enjoyed quite independently of residence in that particular house. A demand for a contribution to the joint expenses of the establishment might be submitted to in ignorance of the rule by which the amount was arrived at, or under duress or fear of ejectment to worse quarters, but a sense of justice could never enter into such a transaction. Such an interpretation of the canon would lack the semblance of an appeal to our sense of justice.

The only permissible interpretation of Adam Smith's Canon of Equality, therefore, must be, that each citizen should pay to the revenue of the estate in proportion to the benefits he receives from the State.

CHAPTER IV

THE CANONS OF TAXATION—*Continued*

II. THE MINOR CANONS OF TAXATION

HAVING thus arrived at the conclusion that the natural law of taxation, if such exists, requires that each citizen shall pay to the State in proportion to the value of the benefits he receives from the State, we might proceed at once to inquire how far such a law is conformed to in our present revenue system. There are, however, several minor canons which it is usual to postulate, and which may prove useful to us in our investigation, although, as has been remarked, these are rather rules of collection than canons of taxation. They seem all to be modifications, or different ways of expressing the evident rule that the citizen is only to be called upon to pay what is necessary for the upkeep of the State. That this necessary burden is not to be unduly increased by the method of collecting the quota due by him, either by increasing that quota itself, or by restricting his legitimate exercise of his rights and powers of producing the wealth out of which all taxation must ultimately be paid.

In order of importance these minor canons seem to be as follows :

1. *The tax should bear as lightly as possible on the production of wealth.*

All public revenue must be drawn from the wealth of the country, and any tax which unnecessarily interferes with the increase of that wealth is to that extent a bad tax. All wealth is the product of labour applied directly or indirectly to land, and any tax which decreases the incentive to apply labour to land or to materials already drawn by labour from land, should, if possible, be avoided. It injures the source whence the nation draws its sustenance, the wealth of the country, and discourages the citizen from increasing the production of that wealth. Such a tax works contrary to the purpose for which the State exists ; it diminishes the well-being of the citizen which the State exists to promote. Taxes which raise the same amount of revenue may, by the mode in which they are imposed, affect in very different degrees the production of wealth. Thus taxation levied on labour as it is exerted, or on land as it is used for the production of wealth, or on wealth as it is employed in the production of more wealth, tends to discourage industry much more severely than the same amount of taxation levied upon labourers whether they labour or not, upon land whether used or held up for a rise in price, or upon wealth whether used to facilitate further production or tied up in a stocking.

The natural incentive to the labourer is the hope of

enjoying the additional wealth produced by his labour. Any tax, therefore, which interferes with that hope of enjoyment, by depriving the labourer of wealth in proportion as he produces it, is to be avoided if possible, as decreasing the incentive to be industrious. Similarly, land is, in the language of economic science, the opportunity to labour, and any tax placed upon land as it is allowed to be used, decreases the inducement to the labourer to use it; while the placing no tax upon it while not used, encourages its owner to keep it unused, thereby diminishing the opportunity of using it for the production of wealth.

Thus the mode of imposing taxation may be of much more relative importance to a country than the mere amount of revenue raised. This the Anti-Corn-Law Leaguers meant when they laid down that "the true and peaceful doctrine of Free Trade" required the "removing of existing obstacles to the unrestricted employment of industry and capital." A comparatively insignificant tax on imported corn, producing barely a quarter of a million of revenue, was reducing the nation to starvation. A tax upon date trees imposed by Mehemet Ali in Egypt caused the fellaheen to cut down all date trees which were not required for the immediate sustenance of the tribes frequenting the oases. The window tax in this country caused windows to be built up. In France, where no minimum number of windows was exempted, cottages were built without any windows. All such taxes upon wealth as it is produced tend to restrict the production of wealth, and such taxes

should therefore be avoided if some other mode of taxation can be found which will not have this deleterious, this anti-social, effect.

2. *The Tax should be easily and cheaply collected.*—It should take from the citizen as little as possible in addition to what the State receives. The foundation of this rule is obvious. The State has no right unduly to burden the citizen, by levying its revenue by any method which is unnecessarily burdensome. The ordinary principles of economical management apply in this as in every department of government. The State exists to secure and increase the well-being of the citizens, and in securing the revenue necessary for this purpose it must not unduly cause any diminution in the individual well-being of any of its citizens.

There is a great difference in the cost of collecting various kinds of taxes. This cost is divisible into two categories. There is the first, the more evident cost of the staff and machinery required to levy the tax, and hand it over to the Exchequer. There is the second, less evident, but often the much more burdensome, cost of increased prices caused by the restriction or monopoly of trade resulting from the mode of collecting the tax. The collection of some taxes involves the maintenance of a horde of officials, while other taxes might almost be said to collect themselves, the cost of collecting them is so trifling. Again, all that class of taxes known as Indirect Taxes, have a very marked effect in raising the price of the article taxed, and thus they cause the ultimate payer

of the tax to pay an amount far in excess of the revenue received by the Government. They are not levied from the person who has ultimately to bear the cost of the tax, but are levied on the importer or producer of some article of consumption. In order to pass on the tax to the party purchasing the article from him, he has to keep down the quantity of the article he puts in the market, so as, under the law of supply and demand, to force up the price he can get from the purchaser, and thus meet not only the cost of production but also the tax, which thus enters into the cost of production. The trader, therefore, requires a larger capital to deal with the increased cost of the article, and his profits, if he is to carry on a successful business, must represent not only a profit on the original or proper cost of the goods, but also on the capital invested in paying the tax. All this, we shall find, applies to taxes levied on products of labour, even where the end in view is merely the levying of a revenue, and where there is not even the semblance of protection. Such taxes on products of labour, apart altogether from protective tendencies, restrict labour and trade, by the restriction which the producer must place upon out-put to enable him to pass on the tax to the consumer, who ultimately has to pay the tax in an increased price.

3. *Canon of Certainty.*—The amount of the tax should be certain; the amount payable by each individual citizen should be definite and readily ascertainable. The basis of this maxim is rather political than economic. Certainty in the incidence

of the tax is necessary to minimise the opportunity for tyranny and corruption both on the part of the officials who levy the tax and on the part of the citizen who is to pay it. The ideal tax would be one where the amount payable by each citizen would be readily and definitely ascertainable; if possible without undue prying into his private affairs by officials, nor undue reliance on his bare assertion, however fortified by oaths and declarations. These merely encourage the unscrupulous to evade their due share, while the honest man is forced to pay more, that the dishonest may escape.

Further, it is essential to just and pure government, under democratic forms, that each citizen know what and how he pays for the maintenance of that government. That when he votes in favour of any policy, whether free education, better police, old age pensions, or increased armaments, he shall know both when and what he pays for such a policy. This seems to be the link between democratic government and electoral responsibility. The voter shall so pay that he knows what, and how, he pays for the policy he votes for. This canon is essential to purity of democratic government. No subterfuges, no bribes, no false returns should be able to prevent the citizen being called on to pay what is his due quota to the upkeep of the government which he helps to form and control by his vote. Still less can that system of taxation be consonant to natural law which encourages corruption and tyranny by leaving the amount of the tax to be fixed by the declaration

of the tax-payer. Taxes which lack the element of certainty are most subversive of morality. On this ground the whole custom-house system stands condemned. A custom-house oath is a byword; men and women, who are rightly proud of their probity in ordinary affairs, think no shame if by their silence, or even by a false statement, they can avoid paying a tax which seems a mere tribute demanded without ethical sanction. The giving of a *douceur* to the custom-house officer to induce him to neglect his duty, is considered a justifiable method of avoiding impertinent, though legal, inquisition and tyranny.

CHAPTER V

THE NATIONAL BUDGET

In turning to consider taxation as it exists, the first fact that faces us is the classification into National Taxes and Local Rates. This is not a logical or scientific classification, but is useful as acknowledging the primary fact of the situation. The comparative freedom accorded to the local authority to administer local affairs and raise revenue for local purposes, supervised only on very broad lines by the Imperial authority, has been a root cause of British progress. Although it is impossible to say that any branch of administration is so purely local that its neglect will only affect the locality, yet the innate Anglo-Saxon genius for self-government in all its departments has enabled the race in practice to build up a system which works fairly well, without laying down any hard-and-fast rules as between the local and the central authority or their respective departments. The local authority has been given a very free hand to work out its own salvation in matters which may be administered within its domain; the Imperial authority retains the power of prodding it

on where its slackness seems to conflict with neighbouring interests or the national good. The system is not perfect, and develops by successive Police, Local Government, Education, and other Acts towards some semblance, however imperfect, to uniformity and cohesion. The revenue necessary to the subsistence of these local authorities is collected in the main, as we shall afterwards see, from the local rates, but meantime we must deal with the properly National Budget, the mode in which the National Revenue of the United Kingdom is raised under the direct sanction of the Imperial Parliament.

Although our immediate inquiry concerns the revenue or income side of the annual Budget, it will be useful to reproduce the complete balance-sheet, revenue and expenditure, of the kingdom, as presented by the Chancellor of the Exchequer for the year 1907–8, premising that in order to show the complete sum raised under the direct authority of Parliament, there is appended a note of the sum handed over to the local authorities as Grants in Aid, as well as the sums authorised to be raised by loan in payment of certain payments which have been earmarked as capital.

See statement on pp. 52, 53.

To these 156 millions of revenue raised by the Imperial Parliament, we have a further sum of some 140 millions raised annually by the local authorities, or a total cost of government in these islands approaching 300 millions each year. This enormous

Final Balance Sheet (1907–8), as proposed

Estimated Revenue, 1907–8

Customs			£31,740,000
Excise			30,600,000
Estate, etc., Duties		£13,600,000	
Add—Proposed Increase in Rates of "Estate Duty" as from 18th April 1907		600,000	
			14,200,000
Stamps			8,000,000
Land Tax			700,000
House Duty			1,900,000
Property and Income Tax		£32,500,000	
Deduct—Proposed Reduction on Earned Incomes	1,250,000		
And estimated postponement of Collection of Tax due to change	750,000		
		2,000,000	
			30,500,000
Total Exchequer Receipts from Taxes			£117,640,000
Post Office			£17,600,000
Telegraph Service			4,400,000
Crown Lands			500,000
Receipts from Suez Canal Shares and Sundry Loans			1,100,000
Miscellaneous			1,550,000
Total Exchequer Receipts from Non-Tax Revenue			£25,150,000
Total Estimated Revenue			£142,790,000
Revenue Assigned to Local Taxation			£10,045,000
Borrowings to meet Expenditure chargeable against Capital			£4,000,000
			£156,835,000

BY THE CHANCELLOR OF THE EXCHEQUER

ESTIMATED EXPENDITURE, 1907–8

I. CONSOLIDATED FUND SERVICES		
National Debt Services:		
(*a*) Interest and Management . . .		£18,617,000
(*b*) Repayment of Capital .	£9,383,000	
Add—Proposed Increase of the Sinking Fund . .	1,500,000	
		10,883,000
		£29,500,000
Other Consolidated Fund Services . .		1,685,000
Payments to Local Taxation Accounts . .		1,160,000
Total Consolidated Fund Services .		£32,345,000
II. SUPPLY SERVICES		
Army (including Ordnance Factories) . .		£27,760,000
Navy		31,419,000
Civil Services . . .	£30,107,000	
Add—Proposed Grants in Relief of Education Rates . .	200,000	
		30,307,000
Customs and Inland Revenue Department .		3,258,000
Post Office Services		17,368,000
Total Supply Services . . .		£110,112,000
Total Estimated Expenditure . .		£142,457,000
Balance		333,000
TOTAL .		£142,790,000
Payments out of Revenue assigned to Local Taxation		£10,045,000
Expenditure chargeable against Capital . .		£3,850,000
Balance of Loan		150,000
		£156,835,000

sum has to be provided out of the earnings of a population numbering, men, women, and children, less then 45 million souls, and thus it is no mere pedantry or philosophic pastime to consider down to the veriest detail whether the mode in which this revenue is collected is sound in principle, and interferes as little as may be with the production of the wealth on which these 300 millions is a first charge. The justice and economic soundness of the method by which a demand of over £6 on the average is made upon the means of each individual in the community; or, allowing the usual average of five persons to each household, a demand of over £30 per household; must be of prime importance not only to each individual citizen, but also to the State in its communal capacity itself. Such a demand upon the resources of its citizens invites not only the closest scrutiny of the manner in which the money is to be spent, but demands the most anxious inquiry to secure that the money is so raised that the exaction of it from the citizen may least cramp or discourage him in the production of the wealth necessary to the maintenance of such a burden.

CHAPTER VI

TAXES ON COMMODITIES

FIRST in order as revenue-producing machines in our present system of finance come the Customs and Excise. For the year ending 31st March 1906, these two revenue services between them produced a sum of £70,321,000. This included the now defunct export tax on coal, which brought in a little over 2 million pounds. Its demise removes our one export duty. Nearly 5 millions of the Excise comes under the head of Licences, and we shall deal with these in a separate chapter. Here we are concerned with 63½ millions which are raised by taxes on articles of consumption. This represents in itself a revenue equal to some 30s. per head of the population ; or of £7 10s. per family of five persons.

To the extent of nearly 36 millions this portion of the revenue is derived from Customs and Excise duties on alcoholic liquors. The remainder comes from the Breakfast-Table duties, the yield of which is as follows :

Tea, coffee, cocoa	£7,532,000
Currants, raisins, etc.	475,000
Sugar	6,290,000
Tobacco	13,400,000
	£27,697,000

From the mode in which these taxes are levied they get the name of Indirect Taxes. Admittedly they are not meant to fall ultimately on those from whom the Government receives the money. Government levies the Customs duties upon the man who imports certain articles of commerce into the country. In order to carry on his trade with profit this payer of the tax must pass it on to the party who purchases the article from him. Similarly the Excise duties are levied from the manufacturers in this country of certain articles of consumption, mainly alcoholic, and they must be paid to Government before the specific article passes out of the maker's hand into the hands of the consumer. In Dr. Johnson's phrase the Excise is "a hateful tax levied upon commodities, and adjudged . . . by wretches hired by those to whom excise is paid."

One outstanding defect inherent in all such taxes on articles of consumption is, that they are in restraint of trade. The economic law which enables the payer of the tax to pass it on to a third party in an increased price, requires that the amount of the article placed on the market be so far resticted that, as against the given effective demand, the price of the article shall be raised, and this to such an amount as to cover not only the necessary cost of producing the article, but also the cost of the tax. Indeed, the restriction of the supply must be carried still further, so that the price obtained for the article shall cover also a trade profit on the capital invested in paying the

tax. In this respect Customs and Excise duties bear heavily on the production of wealth, and therefore do not conform to the first of our minor canons of taxation.

Thus, even a revenue tariff, as it is called, a tax which has no tendency to protect the home industry in the article taxed, is still in restraint of trade. The consumer must rest content with an article inferior either in quantity or quality to what he might have bought for the same price had there been no tax levied by Government.

This restriction of trade is nominally the reason put forward for the maintenance of the Customs and Excise on all alcoholic drinks. They are considered to be a temperance safeguard. Unfortunately for this view, the Chancellor of the Exchequer only adds to the amount of the taxes upon alcohol when he is reasonably convinced that the addition will not check his revenue. That is to say, these taxes are not likely ever to be raised so as effectively to diminish the amount of alcohol consumed. Nor is it possible to say that temperance has advanced step by step with the advance of the spirit duty, from the Cromwellian rate of a penny a gallon on "strong waters" to the 10s. 8d. a gallon which helps to meet the deficits caused by the late war. The increased tax must relatively have restricted the trade, and have had other economic results, as we shall see later on, but it is doubtful if the cause of temperance has been promoted thereby. Perhaps John Bright was not far from the mark when he said in reference to

the repeal of the malt tax, "You will never succeed in getting rid of drunkenness, or any other vice, simply by rendering its indulgence dear. But I do think that by repealing the duty, you leave more money in the poor man's pocket for the purchase of other articles of more profit or convenience to him than that into the cost of which this tax enters." In other words, would there not perhaps be more hope for the well-being and well-doing of the nation, if, instead of paying nearly a guinea a gallon for his spirits, the working-man paid a shilling, and his wife got the sovereign to spend on food and clothes for the household? The advance of temperance depends rather upon moral progress, the basis of which must be the self-respect born of true freedom, and any attempt to force a man to become sober by merely economic restrictions upon liberty seems foredoomed to failure. While this is rather a question of morality than of taxation, it is so cognate to our subject that it is interesting to note that Adam Smith discusses the matter at some length in the chapter of the *Wealth of Nations*, in which he treats of the Unreasonableness of Restraints upon Importation. He comes to the conclusion that cheap drink is not a cause of drunkenness, nor dear drink a cause of sobriety. He says:

"Though in every country there are many people who spend upon such liquors more than they can afford, there are always many more who spend less. It deserves to be remarked, too, that if we consult experience, the cheapness of wine seems to be a cause

not of drunkenness, but of sobriety. The inhabitants of the wine countries are in general the soberest people of Europe; witness the Spaniards, the Italians, and the inhabitants of the southern provinces of France. People are seldom guilty of excess in what is their daily fare. Nobody affects the character of liberality and good fellowship by being profuse of a liquor which is as cheap as small beer. On the contrary, in the countries which, either from excessive heat or cold, produce no grapes, and where wine consequently is dear and a rarity, drunkenness is a common vice, as among the northern nations, and all those who live between the Tropics, the negroes for example, on the coast of Guinea. When a French regiment comes from some of the northern provinces of France, where wine is somewhat dear, to be quartered in the southern, where it is very cheap, the soldiers, I have frequently heard it observed, are at first debauched by the cheapness and novelty of good wine; but after a few months' residence the greater part of them become as sober as the rest of the inhabitants. Were the duties upon foreign wines, and the excises upon malt, beer, and ale to be taken away all at once, it might, in the same manner, occasion in Great Britain a pretty general and temporary drunkenness among the middling and inferior ranks of people, which would probably be soon followed by a permanent and almost universal sobriety."

The argument may or may not be conclusive. It certainly gives reason for grave consideration. Meantime the matter may rest there.

Whether taxes upon alcoholic drinks are or are not a temperance safeguard, they enormously increase

the cost of living to those who consume them. This last remark applies with full force to the other great branch of the Customs and Excise, the Breakfast-Table Duties, "male tobacco, female tea." Of late years a further addition, even less capable of defence, has been made to this class of taxes. Sugar has been added to the list. It might be arguable that tea, coffee, cocoa, currants, figs, plums, prunes, raisins, and especially tobacco, fall under the category of luxuries, provided one has a very austere view of the mode of life which the "common people" should conform to; but by no stretch of imagination can we say that, under modern conditions of life, a man, still less a child, can have proper diet apart from a very considerable daily supply of sugar. A recent writer on taxation argues that conceivably salt may not be a necessary article of diet among our Indian fellow-subjects, but even he insists, and that with emphasis, that sugar must be considered as falling within the necessaries of life of all our people, and that therefore sugar is an article which should not be subjected to the restrictions imposed by a tax which unduly raises the cost of the article to the consumer.

How much any tax raises the price of an article to the consumer, it is impossible to say with any approach to exactitude. The increased price must cover the tax and a profit to the trader on the capital he has employed in paying the tax. But that by no means ends the matter. The increased capital so required to carry on trade in the article tends to

the creation of a monopoly in the trade. It limits the number of traders likely to have capital sufficient to carry on the trade, and thus diminishes competition in the trade. This tends to monopolistic profits. The boss of one of the large commercial trusts which oppress the United States, told a State Commission which was inquiring into the matter, that a protective import duty of ten per cent. on an article would enable a trust to get command of the home-market and crush out competition. The tendency is similar, though not so pronounced, in an ordinary revenue tariff on articles of consumption. It limits competition.

This tendency is further assisted by the governmental restrictions necessary, both in Customs and Excise, to secure payment of the tax. All the machinery of the Custom-house; the declarations, investigations, bonding, delivering out of bond, mean undue restriction and delay. The whole process spells restriction of trade and consequent limitation upon competition. It was officially stated that the old sugar tax, which brought in some 5 millions to the Exchequer, cost the consumers of sugar throughout the country nearly 15 millions a year of increased price for their sugar. Apart from the tax of 5d., ordinary tea might be selling retail at about 6d. or 9d. a lb.

Then there are the more indirect effects of such an increased price upon the other trades of the country. Any manufacturing process into which one of the taxed articles enters as a raw material, may be

severely handicapped by the imposition of the tax. The imposition of the new tax on sugar dealt a sad blow at the confectionery trades and manufacturing of aerated waters, which have both assumed large proportions in recent years.

More remote, but none the less real and unfortunate, is the fact that all such taxes upon articles in general use tend to render less efficient the wages earned in every trade throughout the country. Taken merely as a labour-producing machine, a man's capacity for work will vary with the scale of living which his wages provide for him and his family. Good work cannot be done on poor wages. The efficiency of the wage is measured by its purchasing amount. In a question of international trade, that nation hampers itself unduly in the race which increases the cost of living to its citizens by laying taxes on articles of general consumption. This is a barrier more difficult for it to surmount than any hostile foreign tariff. The increased cost of living is undermining the energy and resource of its own citizen at home, and rendering him less able to meet his rival in the markets of the world. It places a weight on him in the race.

Indirect taxes not only restrict the legitimate production of wealth, they are costly and difficult to collect. They necessitate the maintenance of a whole army of Customs officers at the ports and Excisemen throughout the kingdom.

Customs involve an inquisitional and annoying system of inspection of all goods imported into the

kingdom, lest perchance some dutiable article be introduced unawares. This delays the course of trade. Every passenger entering the kingdom must be prepared to exhibit to the gaze of the Customs officer the innermost recesses of his, or still worse, her private luggage. Nay, if called upon, must submit to the degradation of being stripped and searched, lest haply some dutiable article be concealed under his clothing.

A custom-house oath has become a byword for untruthfulness. Even most worthy and respectable citizens think it no evil to have defrauded the Customs. A Customs duty has no moral sanction, and its evasion seems to arouse no moral qualms.

Customs and Excise take from the individual what he rightly calls his own. Any means seems justified to prevent or circumvent this legalised robbery. The existence of a system of Customs and Excise, therefore, directly tends to lower the moral tone of a nation. Customs and Excise involve not only pecuniary but moral loss. They have no sanction in Natural Law, but violate its clearest dictates.

But most flagrantly Customs and Excise Duties violate the canon which requires that the amount paid should be certain. No one can tell how much any particular indirect tax does cost the consumer who ultimately pays the tax.

The main ground averred for maintaining indirect taxation, is that all citizens must contribute to the upkeep of the Government, but that many of

them would refuse to pay a direct tax if that were attempted to be imposed on them. In the same breath it is said that working men must be made to feel the responsibility of their vote. Reasons mutually destructive, but inwardly acknowledging that the whole system of indirect taxation has no justification on political grounds.

When the consumer purchases a pound of tea at 2s., on which a Customs duty of 5d. has been paid by the importer, it is an absolute impossibility for any one to say how much of the 2s. represents the inherent cost of the tea and how much represents the cost of the tax. The ultimate payer of the tax has no certain knowledge of what he pays in tax.

Worse still, in most cases he, or she, has no consciousness that any tax is being paid. Conscious political responsibility is well-nigh impossible under a system of indirect taxation. How could the conscientious Passive Resister make his protest under such a system? Death alone would enable him effectively to protest against a policy supported by the myriad roots of indirect finance. This was the view rightly taken by the fathers of American Independence. They struck at the root of the matter, and refused to allow the tea-chests to be landed on the quays at Boston. The tea was thrown overboard before it could become tainted with British tax. Once the obnoxious Customs duty had been paid, it would have been impossible to have eliminated the poison from the body politic.

Customs and Excise on articles of consumption are taxes suited only to maintain the governments of despotic monarchies. A democracy can only be safely founded on a revenue knowingly and willingly paid by the citizens. Each citizen must know what and how he pays for the upkeep of the body politic. Indirect Taxes are the negation of democracy. Morally and politically they stand condemned.

Customs and Excise do not accord with the Canon of Equality. Seeing our investigations have shown that indirect taxes contravene all the minor canons, it may seem a work of supererogation to ask whether they conform in any degree to our major Canon of Equality, that each citizen should pay to the State in proportion to the benefits he receives from the State. The study may prove interesting.

Indirect taxes, so far as affecting articles of consumption, fall ultimately on the citizens practically per head of the population. This ratio is far removed from our reading of the Canon of Equality. Even the more lax reading of Adam Smith's canon, which requires payment of taxes in proportion to income enjoyed, is in no way respected by taxation on these lines. The working man with a thriving family of five will pay six times the amount of tea duty paid by his bachelor neighbour. The sempstress in her garret pays equally with the wealthiest miser who lives in his club.

Not only so, but the citizen of ample means may minify his burden by buying the article wholesale, and thus eluding the middleman's profits on the tax.

The richer a man is the less he is called on to pay. The poorer the taxpayer, the greater, absolutely and not merely relatively, is the burden. This is a poll tax inversely graduated to the means of the citizen.

The wealth of the wealthy citizen is possibly largely due to advantages derived by him from the monopolies engendered by the vicious system of raising the revenue. The poor man's poverty may result from it. Yet the system relieves the rich and crushes the poor.

It is usually said that if the working man will only avoid alcoholic beverages, he may escape taxation except those involved in the Breakfast-Table Duties. His payment of the latter are supposed to be his only title to enjoy the franchise.

This is a perversion of the principles of democracy. Democracy does not grant votes in return for financial support. Democracy gives a vote to a man or a woman because they are rational creatures, and the nation is entitled to demand of them the exercise of such reason as they are endowed with towards the common government. Taxes come not as the cause of government, but as the result of government. If a man benefits by the existence of governmental activity, he ought to pay taxes. But his right to a vote in the government emerges prior to that. He is a rational member of a community, equally responsible with all his rational neighbours for the proper exercise of the governmental functions. He has not only a right, but a duty incumbent on him to exercise the

franchise. This right and duty are anterior to and quite independent of his obligation to pay towards the maintenance of the Government according as he benefits by its existence and continued activity.

It would require strong and very definite reasons to justify such a mode of raising revenue. How is it possible to justify such an interference with the rights of private property. Surely the primary basis, the bed-rock, of private property is found in the right of a man to what he has made by his own labour. Such a right it is the primary function of the State to protect. Yet by indirect taxation the State steps in and deprives a man of an arbitrary and unknown portion of the wage or savings which have come to him from his own labour. A man receives forty shillings as wages for a week's work. The State steps in and takes from him half a crown or five shillings of that wage, and in the process of collecting its portion of his wage, it enables sundry traders to extract a proportionate amount in increased price by means of law-created monopolies and restrictions on trade, and this all unknown to the workman. As Cobden put it, "Where is the difference between stealing a man and making him labour on the one hand, and robbing voluntary labourers on the other, of the fruits of their labour?" By indirect taxation the State takes half a crown out of a man's pocket without his being aware of it, and that by such a clumsy method that it costs him another half-crown, equally outwith his knowledge, in increased prices to indemnify the traders who

have handled the article since the tax was actually paid to the State.

Here it is right to note that all such taxes on articles in general use amongst the people tend to press most harshly on the poorest parts of the country. The more remote the district, the more hands will the article have passed through in the ordinary course of trade. An article which in the great centres of population can be retailed almost at wholesale rates, and with little more than wholesale traders' profits, in the more sparsely outlying districts is held by the village store in little more than retail quantity; and the poorer the consumer the smaller the quantity he or she will buy at a time. Thus such taxes, as has often been remarked, are especially harsh in their incidence on the poor. The widow in her garret or her cottage, when she buys her ounce of tea pays doubly dear for the tax. But they also bear very unfairly as regards different parts of a country. They are a poll tax, and affect the numbers, not the wealth of a district of a country. In this lies the main cause of the disproportionate taxation of Iréland in comparison with England and Scotland. In Customs and Excise she is being taxed per head of her population equally with the populations of England and Scotland; but owing to circumstances among which inequality of taxation may have played a prime part, she has not the same wealth per head of her population as her wealthier sisters. It is no answer to say that in the same way Cumberland is taxed unequally with

Middlesex, because she has not the same wealth per head as the Metropolitan county. That, so far from being an answer, is merely a re-statement of the proposition. Taxes on articles of consumption sin against the Canon of Equality.

For this reason Customs and Excise are economic levers forcing the agricultural labourer into the towns. In the country their nominal wages are lower, yet they have to bear a relatively greater share of the burden of indirect taxation. Patently this method of taxation is an excessive hardship upon agriculture. The farm must bear the burden of wages to enable the farmer and farm-labourers to bear their share of such taxes, according to no benefit received, but according to the number of mouths to be fed. The hope of the country is in the maintenance of a strong, healthy, and numerous agricultural population. We exact taxes from them in proportion to their numbers, and restrict the chance of their being either well fed or healthy. Yet this system is especially favoured of those who pose as the friends of the farmer.

Indirect taxes, therefore, stand condemned by all the rules of reason and common sense. They are inexpedient from an economic standpoint; they restrict trade and discourage industry. Politically they are unsound; the voter does not know when and what he pays; and is not put on his inquiry to see that the revenue to which he unwittingly contributes is well spent. Such taxes engender corruption in the body politic. Traders who benefit

by the quasi-monopoly created by such a method of raising revenue, are prepared to support in hard cash the political party which will guarantee the continuance of their privilege. Morally such taxes are the taking from a man the result of his own labour, without securing him in any commensurate return. They constitute fines upon labour, and are unjustifiable except from the standpoint of a Chancellor of the Exchequer, who considers his duty limited to finding money, honestly if he can, but in any case find the money.

CHAPTER VII

THE LAND TAX

THIS is now more properly a reserved rent-charge than a tax in the proper sense of the word. In its present form it came into existence in 1692 in response to the popular demand that some of the old burdens which at the Restoration had been replaced by the New Excise, should be placed back on the land.

It took the place of the monthly assessments imposed during the Commonwealth, and as instituted it was both a property and an income tax. It was assessed at 4s. in the £ on the annual value of all lands and houses, personalty of every description, on official salaries, and on goods and chattels.

It was voted annually on this basis, and yielded close on two millions a year. But the Statute imposing the tax contained no effective machinery for the valuation of anything except lands and houses, and thus the portion of the tax on movable property soon became abortive, and was formally abolished in 1833.

In 1697, Parliament determined that the tax

should be divided between the various counties and towns on the basis of the valuation then existing. On this basis the tax was annually renewed during the subsequent century at rates varying from 1s. to 4s. in the £ according to the needs of the Government.

This continued until 1798, when Pitt, under pressure of the financial exigencies of the great war, in place of obtaining a new valuation of the country, which at 4s. in the £ would have given him more money than he required, stereotyped the land tax at the 4s. on the old valuation, and gave easy terms to the landholders to buy it out and thus permanently relieve their lands. A spendthrift policy, which robbed future generations for the sake of a few pounds of ready cash at the time. By this means half a million of the tax was redeemed in a few years, and during the following century the produce of the tax was thus reduced to less than a million.

Recently the Land Tax has been further tampered with. In 1896 the reserved rent-charge, as the tax must now be deemed, realised less than 1s. in the £ of the old valuation. Its incidence, however, by the growth and movement of population, had become most unequal. In populous places it amounted to fractions of a penny in the £, while in some rural districts, especially districts in the home counties which still remain agricultural, it still amounted to nearly the original 4s. in the £. Thus in Liverpool the tax

represented one thirty-sixth part of a penny on the present rental. While the average for Lancashire was 2d., and for Durham County 3½d., it amounted to 2s. 1d. for Bedfordshire, and 4s. for agricultural parts of Essex. There was no method by which this inequality could be remedied. The tax was a rent-charge varying in different districts according to circumstances, but under it the lands had been bought and sold, so that in most cases it was no real burden upon the present proprietors. Yet the Finance Act of 1896 enacted that in no case should more than 1s. in the £ be exacted in future. Any excess over that sum was thus made a free gift to the existing owners. It was also enacted that wherever the tax was less than 1d. in the £ on the present valuation, the charge should be raised to 1d., and the increased rate should be applied in redemption *pro tanto* of the tax.

Again, in 1898, further exemptions were granted in favour of owners whose incomes were less than £400. All these reductions and exemptions reduced the yield of the Land Tax to about £750,000, and left the average tax at about 4d. over the whole valuation of the country.

As a tax on movable and personal property this tax was from the first abortive. It proved impossible of collection. This is the universal experience where an attempt is made to lay a direct tax on movable property. The tax seems to give the movable property wings. The most inquisitorial

methods of assessment are ultimately evaded, and the tax ceases to be productive. In Ohio, U.S.A., with an increasing population, real estate steadily rising in value, the number and value of movable and personal effects returned for assessment showed an alarming tendency to diminish. Money on hand returned at 46 million dollars in 1882, diminished to 35 millions in 1887. Watches and pleasure carriages showed a similar tendency, according to the returns, to go out of the State. And all this in spite of repeated legislative efforts to secure accuracy of returns, and the offer of 20 per cent. rewards to all informers. Commissioners appointed to inquire into this state of affairs report that "the system as it is actually administered results in debauching the moral sense. It is a school of perjury. It sends large amounts of property into hiding. The moral sense of the community is blunted; its citizens are made familiar with all manner of evasion; they are taught to lie." A terse and deadly indictment which applies in all countries where an attempt is made to tax movable property in the hands of the consumer. Fortunately for England that portion of the Budget proposals of 1692 was practically still-born.

The Land Tax in itself very nearly conformed to the Canons of Taxation. When the valuation was made up, the amount of the tax was certain. It was easily and cheaply collected. The time of payment coincided with the date of payment of the rent of the lands, and thus was convenient to the land-

holder who had to pay it. Indeed, it is commonly paid by the tenant, who in turn deducts its amount when he comes to pay his rent.

As Adam Smith notes, in his time the tax was levied by a very much smaller number of officials than any other tax producing anything like the same revenue. The subject taxed is not capable of being concealed or removed. An army of detectives is unnecessary, and false oaths are unavailing.

Unfortunately the original valuation upon which it has ever since been levied was very imperfect. It was very unequal as between the different counties and different boroughs of the country. So far as the Crown was concerned, the amounts payable by each county or town was fixed and determined finally by that first valuation. However much a county advanced relatively to other counties in wealth and population, the quota paid by it remained fixed. Counties in the immediate vicinity of London had even at that time a very high agricultural value. Relatively to more distant counties they were, and continued to be, highly assessed. In so far as they remain agricultural the burden of the tax is now very heavy and disproportionate.

In the case of land which has since become urban, the tax is nugatory. In some places it does not meet the cost of collection, owing to the subdivision of properties.

The tax has thus become very unequal in its incidence. Originally unequal owing to the irregularity with which the Assessment Roll was drawn

up, the inequality has increased owing to the patent absurdity of levying a tax upon a fixed and unalterable valuation over a period of centuries.

As instituted the tax had another feature not in accordance with the requirements of sound taxation. The Valuation Roll included both land and buildings. On that basis the tax penalised improvements. Even to the present day this feature operates oppressively. While the quota which the parish has to contribute remains fixed, when levying that quota from owners within the parish, each has to pay in proportion to the annual assessment of his lands and heritages, land and buildings, or other improvements. Thus even at the present day in agricultural districts, where the tax may range as high as 1s. in the £ of rental, the Land Tax has to be considered by anyone proposing to lay out capital or labour in permanent improvements. In some instances so heavy would be the increase of the tax payable, that the owner is constrained to buy out the tax before making his improvement. This involves additional capital on his part, and an ultimate loss of revenue to the State. The tax still operates as a deterrent to industry, and fails in this respect to satisfy the canon, which requires that a tax shall not hamper or restrict the production of wealth.

The root idea of the Land Tax was that it reinstituted a payment by the landholders of the country for the lands held by them of the Crown. These lands they had received from the State, and the returns due for them the landholders had at

their own hands abolished during the troublous times of the Commonwealth and the Restoration, when the head of the State was more concerned in conciliating the goodwill of the great peers than mindful of the future welfare of the country. At the Revolution the voice of the people was more in evidence, and had the method of valuation secured that each landholder should pay for what he had received from the State, the tax would have conformed to our natural Canon of Equality. In that case any buildings or improvements placed on the lands by the landholder would have been exempt, and thus the tax would have been at one stroke brought into conformity with all the requisites of a just tax. It would no longer have been a restriction upon industry, and each taxpayer would have been called upon to pay to the State only in proportion to the property received by him or his predecessors in title from the State.

CHAPTER VIII

PROPERTY AND INCOME TAX

As at present levied, the Property and Income Tax was revived in 1842 by Sir Robert Peel, to enable him to meet the anticipated losses of revenue incurred by the abolition of the Corn Laws and the institution of a purely revenue tariff.

The modern Income Tax had formerly been instituted by Pitt as a War Tax. It was a development of the mediæval Poll Tax. In his hands it yielded a revenue of some six millions a year, but was gradually increased till at the close of the Great War it stood at 2s. in the £ and yielded a revenue of over 15½ millions. The Ministry of the day wished to retain it at half that rate, but were defeated, and the tax was then repealed.

As now levied it is in Mr. Gladstone's words "rather a code or system of taxation" than a tax. It is levied on different species of property under one or other of five schedules, each imposing a separate tax. The connection between these is found in the uniform rate which is annually fixed in the Budget, and also in the uniform system of exemptions and abatements which apply alike to all the schedules.

In the year ending 31st March 1907, with the tax at 1s., these various schedules produced the following sums:

Sch. A.	Lands, Tenements, etc. . .	£7,948,869
Sch. B.	Occupation of Lands, Tenements, etc.	219,063
Sch. C.	Annuities, Dividends, etc. .	2,065,453
Sch. D.	Trades, Professions, etc. . .	18,526,493
Sch. E.	Public Offices, Pensions, etc. .	2,534,873
	Total . .	£31,294,751

This was equivalent to a produce of £2,600,000 odds for each 1d. of Tax, and compares with £500,000 for each 1d. which was the produce in 1843.

The minimum income subject to the tax has varied from time to time. In 1843 the minimum was £150; from 1853 to 1875 it stood at £100. Now it stands at £160.

Besides that absolute exemption a system of abatements has grown up. All incomes under £700 are allowed an abatement upon £160. And under the Budget of the present year (1907–8) the Chancellor of the Exchequer proposes to introduce a new form of abatement, involving the recognition of an entirely new principle in the levying of the tax. All incomes under £2000, so far as these can be shown to be "earned," are to be allowed a rebate of 3d. from the 1s. which is to be the general rate.

The collection of the tax is economic and simple. The root principle is "collection at the source" of the

individual income. A large body of Income Tax payers never handle the sum received by Government as their quota of the tax. It is deducted from their income before that reaches them, and the hand that pays them the balance of their income under deduction of the tax, pays the tax direct to Government. Thus interest on mortgages pays tax under Schedule A; the debtor pays his interest to his creditor under deduction of the amount of the tax, and then is responsible for the payment of the tax to the Exchequer. So with rents, dividends, annuities, and other stated annual payments. The tax is deducted by the public authority in paying interest on the public funds or the salaries of public officials. This method conduces both to the economy of collection and the certainty of the tax. Were all incomes alike taxable at their source, the tax would undoubtedly conform to the Canons of Economy and Certainty.

There is more doubt as to its conformity with the requirement that a tax shall not interfere with the production of wealth. Under Schedules A and B, landed property is not taxed on its ownership, but only on its occupation. Unoccupied houses pay no Property Tax. Unused land is not taxed. The immediate result of this is that the owner is, to say the least of it, not encouraged to put his land to use. When he does put it to use, he is at once taxed upon the annual value both of the land and the use he puts it to. This forces him to keep the land idle till the profit on the use will cover both a reasonable

return on his capital laid out in the use, and also the tax on that use. Here we touch on the question which is at the root of all theories of taxation, the advisability of taxing a man not on what he receives from the State, but on the value of his own exertion and industry.

As to the general effect on industry of an Income Tax as we know it, the proposition may be generally stated that the higher wage a man receives, *cæteris paribus*, the more efficiently will he work. This applies to the professions as well as to the trades. So far, then, as the result of the Income Tax is to reduce a wage of 20s. to a wage of 19s., it is in detriment of the wealth-producing agencies of the country. There is therefore sound principle at the back of the proposal of the Chancellor of the Exchequer, to lessen this hindrance to wealth-production to a very modest extent by reducing the tax to 9d. on "earned" incomes under £2000.

That proposal also makes some advance towards meeting what has always been acknowledged as the grave want of equality in the incidence of the tax. An income assured to the possessor from capital resources which he has invested in land, in the public funds, or other security, is in a very different position from the same amount of income which depends on the day-to-day work of the recipient. The owner of the capital may die; he leaves the capital and its revenue to his dependent widow and orphans. The tradesman or professional man dies, and his income from his trade or profession

disappears. It has always been admitted to be an anomaly that these two kinds of income should be dealt with as alike in the Income Tax.

Mr. Gladstone, in dealing with the Tax in 1853, acknowledged this inequality. "I do not at all deny that the case of the professional man appeals to my sympathy. In my view that is one of the reasons which indicate that the tax ought to be a temporary tax." Again he said: "It is not adapted to be a permanent part of our fiscal system, unless you can by reconstruction remove these anomalies."

Mr. Asquith, starting from these dicta of Mr. Gladstone, proposes to ameliorate the hardship, not to remove it, by allowing an abatement of 3d. on all the earned portions of incomes under £2000. A great deal depends on the definition of "earned" income. He proposes to class as "earned," first, the incomes of all officers and employees who are paid by salary, including clergymen; secondly, those of professional men of every class; and thirdly, of all traders "whose income is substantially derived from their own personal labours." Admittedly there is difficulty in determining the exact limits of this third class, and how far the proceeds of capital invested in his own business is to be considered as "earned" by the trader.

While the Chancellor of the Exchequer thus takes a great step towards removing grounds of complaint against the tax, it is only a step. It admits that all incomes are not equally liable to pay towards the upkeep of the governmental functions.

The discussion on what is "earned" and what is "unearned" income should go a long way to remove misapprehensions as to the correct theory of taxable capacity, and if wisely ordered, will tend to show that the question of "earned" or "unearned" income depends on the same considerations as the question at present being so hotly debated in reference to local rates, of the liability of improvements to assessment. There the value of the land is "unearned" by the owner; the value of the improvement is "earned" by him. So far as interest represents replacement or insurance of capital, it is "earned," just as the value of improvements is "earned." So far as interest represents rent or monopoly value, it is "unearned" by the individual. But "unearned by the individual" is merely a circumlocution for "earned by the community." The value of land, or any monopoly, created by the State, is due to the presence and work of the community. It is earned by the "sweat," of the community's face. Hence the justice, the equality of taxing such a portion of an individual's income. If it is "unearned" by him it is "earned" by the community. While if it is "earned" by him, the community can only take it by defying the primary law of property. To take from a man what has been earned by his own labour, is so far to make a slave of him. To take from him part of what he has earned, is to make him a slave in part. No tax which does that can be in conformity with natural law. The natural law of taxation must square with the supreme law of liberty.

Until the Income Tax has, in the words of Mr. Gladstone, been so reconstructed as to remove this anomaly not only partially, as the Chancellor of the Exchequer proposes, but wholly and entirely, it cannot be considered a safe and just tax.

In this differentiation between "earned" and "unearned" incomes the greatest stride of modern times towards true and just finance has been taken. We must not grumble that the immediate instalment is comparatively small. *Festina lente.*

CHAPTER IX

STAMP DUTIES

Over eight millions a year is received by the British Exchequer under the head of Stamps. Now this refers, not to a particular tax, but to the mode in which a great variety of taxes are levied. The method of levying a tax by the use of a stamp seems to have orginated in Holland in 1624. There stamps were employed to tax various commercial transactions. The system also lends itself to the taxing of instruments requiring registration in the public archives. It is also adaptable to taxes on instruments of transfer, where it is desired that the amount of the tax shall be *ad valorem* of the transaction, proportioned to the value dealt with in the deed.

The chief groups into which the taxes levied by means of stamps may be stated thus:

1. Law proceedings;
2. Commercial contracts;
3. Sales of property.

The most important of all we deal with separately, namely, Posts and Telegraphs, and also the stamps on transfers of property at death, which come

under the special heading of Estate Duties or, as they were till recently called, the Death Duties.

1. Taxes on law proceedings admit of but little defence. The courts of a country should be open to the poorest, and it seems an anomaly, amounting almost to a denial of justice, to make a litigant pay before he can even state his case in order to obtain redress. The existence of courts of justice is of prime importance to every citizen, and not merely to the unfortunate who requires to call in their aid. The administration of justice is beneficial alike to rich and poor; to the non-litigant as well as to the litigant. Any tax on the party who requires to apply for a legal remedy is a hindrance to the due exercise of the functions of the courts of law. In our criminal courts the exaction of fees has been reduced within small compass, and in our civil courts the amount exacted by the Government in fee stamps is not very burdensome; but it would be much better that all our courts, civil and criminal alike, should be maintained by the State out of its general revenue. If some method of deterring parties from unnecessary litigation is required, it should be sought in some other form than in a tax, which to the wealthy has no terrors, and which may in some necessitous cases amount to a denial of justice.

2. Taxes on commercial transactions are patently in restraint of trade. Except for its simplicity of collection, even the modest penny stamp on ordinary receipts for payment of money, stands

condemned in economics as being in restraint of trade. Such a tax produces a large sum, and may in the individual case seem negligeable, but still it is an irritating and not a commendable tax in its incidence. Similar considerations apply to the penny impost on bank cheques and similar documents. These are inventions to facilitate the transactions of trade, and any tax on their use tends to hamper trade. As such taxes grow heavier they become proportionately more objectionable from the point of view of the freedom of trade; they also more and more encourage the invention of means whereby the impost may be avoided, and thus their certainty becomes impaired. It is said that such a tax as the stamp on contract notes taps a source of unearned income, as it falls on the gains of the stock-exchange speculator. In many instances it may do this, but it also falls on quite legitimate transactions of purchase and sale, in which the titles to mercantile concerns are dealt with, and hampers trade by penalising such legitimate transactions.

Bonds to Bearer produce £452,000 to the Exchequer. It seems hard that the State should claim toll from the citizen when his necessities compel him to borrow money. That does not seem a convenient time for the State to step in and ask him for a contribution. This, too, is in restraint of trade, so far as the borrowing is an act done to tide the trader over some of the ordinary requirements of his business—to enable him to wait till his venture comes to market.

One very burdensome form of stamp duty is the tax exacted on the capital of a limited liability company at its institution, followed by duties on the issue and transfer of shares, all of which tend to restrain capital from freely adopting this mode of investment.

"Companies Capital Duty" produces £425,000, and "Share Warrants" £155,000 to the Revenue. This looks as if Parliament considered limited liability companies suspect, and intended to put them down with a strong hand. It exacts these payments at the inauguration of their venture. The result may be that they are forced into reconstruction or liquidation before they have been able to earn a dividend. The system of limited liability companies may or may not be a system beneficial to the general community, but there can be no question that it is not advisable to demand a donation to the revenue from such a company at the very outstart of its career, and before it has had a chance of justifying it existence. This is over half a million of revenue raised in restraint of trade.

"Bills of Exchange" similarly account for £773,000, and Bankers' Notes and composition for duties on Bank Bills and Notes, for some £120,000. All these documents are essential to the conduct of trade as we know it, and these taxes are directly in restriction of the means of facilitating trade; as directly opposed to the free conduct of trade as if Parliament were to insist that all goods should

be carried on pack-horses instead of by rail or steamboat.

Insurance Policies on Life and Ships produce over a quarter of a million. A tax unequivocally in restraint of two of the most necessary forms of thrifty caution. It is much better for the community that the risks of the individual, in regard to death, fire, and to shipwreck, should be averaged over a great many, than that the individual, or his representatives in either case, should suffer irretrievable disaster. And yet our fiscal system fines those who are thus provident to the tune of over a quarter of a million.

"Cards" produced the modest sum of £23,370 in 1905–6. The gambler, and non-gambler who uses cards, are asked to assist the Imperial Revenue by paying threepence on every pack of cards—a most proper tax. None the less, it is in restraint of the manufacture of these implements of chance. It also requires some very special regulations to enable the due collection by the Revenue. With some regret we must pronounce this not quite an ideal tax. None of our canons seem to favour the use of taxation as a schoolmaster of morality.

All such taxes on communications and stamps on transfers are in restraint of trade, and in varying degree restrict industry. All such taxes are unequal, in that they only affect property as it is passing from hand to hand.

3. Cognate to these Stamp Duties are the stamps on deeds transferring heritable property. This deed

stamp contributes to the Revenue under the head of Deeds "not otherwise Enumerated" a sum of nearly four millions sterling. Like the Death Duties, this tax is a relic, and may be an acknowledgment of the Crown's over-lordship over the land of the country. No holder of land could transfer his estate without his over-lord's sanction. These duties are restrictions upon the transfer of land, and hinder its being readily transferred from one who is willing to sell because he has less use for it, to a buyer who is willing to buy because he can make a better use of it. There is no good reason for exacting a revenue at the passing of landed estate from one hand to another, except the old robber plea. Such taxes are not sound, although comparatively easy of collection. They fall very unequally on various portions of the country. One estate may never have paid such a tax; its neighbour, less fortunate, may have been often through the market in the same generation.

These Stamp and Deed Duties conform to the minor canons which require certainty and economy of collection, but they all fail to conform to the canons requiring no interference with the production of wealth. They all fall on and restrain the transfer of wealth. They place grit and not oil into the machine which produces wealth. Nor do they conform to the Canon of Equality; they only reach wealth as it is being transferred; they do not ask from the citizen in proportion as he has received from the State. They are not measured by the natural law of taxation.

CHAPTER X

ESTATE DUTIES

TAXES on succession to the properties of persons deceased are now called Estate Duties. Before Harcourt's Budget of 1894, such taxes were collected in five separate forms—Probate, Account, Legacy, Succession, and Estate Duties. Sir William Harcourt substituted for the Probate, Account, and Estate Duties, a uniform Estate Duty applicable to real and personal estate alike. For the Legacy and Succession Duties he similarly imposed a uniform Legacy Duty.

Nothing showed the favouritism accorded to the land-owning class in the matter of taxation more clearly than the anomalous incidence of the Death Duties as between realty and personalty, which was swept away by the Finance Act of 1894. It is needless here to recapitulate all these anomalies. Suffice it to say that when Pitt in his search after revenue induced Parliament to impose a death duty on personal property, his proposal for a similar tax on real property was ignominiously thrown out. This state of matters continued until 1853, when Mr. Gladstone, with certain apologies as to local burdens on the land, passed a law instituting a Succession Duty on the annual value of real estate. The Death

Duty on personalty was on the capital value. This inequality was redressed in 1894.

The main controversy over the Finance Act of 1894 raged round the substitution of selling value of real estate, in place of the old annual value. Section 5 provides that "The principal value of any property shall be estimated to be the price which, in the opinion of the Commissioners, such property would fetch if sold in the open market at the time of the death of the deceased." It was hotly maintained that land might be producing no income out of which the tax might be paid, and yet might have a high selling value as prospective building land. Numerous instances were adduced where the land was at present incapable of producing revenue, but had high selling value owing to the advancing proximity of some great town. The Chancellor of the Exchequer was obdurate. That was precisely the sort of case he desired to tax. The value was not due to the exertions of the owner of the land, and might well be called on to contribute to the National Exchequer.

The objection that heirs would be financially straitened by having to pay such large duties on their succession, was met by allowing payment of the duties to be spread over a period of three years. This provision is seldom made use of in practice.

Personalty and Realty were to be taken together, and treated on a footing of equality.

But a further principle of equality was introduced by graduating the tax with the amount of the estate.

1 per cent. on a small estate might be as great a burden as 5 per cent. on a large estate. Accordingly the tax was graduated in accordance with this table:

Value of Estate.		Rate of Duty.	Value of Estate.		Rate of Duty.
£	£	Per Cent.	£	£	Per Cent.
100 to	500	1	75,000 to	100,000	5½
500 ,,	1,000	2	100,000 ,,	150,000	6
1,000 ,,	10,000	3	150,000 ,,	250,000	6½
10,000 ,,	25,000	4	250,000 ,,	500,000	7
25,000 ,,	50,000	4½	500,000 ,,	1,000,000	7½
50,000 ,,	70,000	5	over	1,000,000	8

There was great wailing by the unfortunate millionaires who were to be reduced to poverty by the tax of 8 per cent. on their heirs. There was a threat that they might see fit to leave the kingdom in a body. They have not yet gone.

The ultimate annual yield of these duties was calculated at £14,000,000. They have proved unexpectedly productive, and in 1906 the produce was £17,344,000, and in the Budget for 1907–8 it is proposed still further to extend the graduation of the tax on all estates over £150,000; and that as follows:

Value of Estate.		New Rate.		Former Rate.
£	£	Per Cent.		Per Cent.
150,000 to	250,000	7	in place of	6½
250,000 ,,	500,000	8	,,	7
500,000 ,,	750,000	9	,,	7½
750,000 ,,	1,000,000	10	,,	8
over	1,000,000	10		

and also a surtax of 1 per cent. additional for every million over one and a half million, until estates of over three millions will pay 10 per cent. on the first million, and 15 per cent. on all in excess of the first million.

The result of these changes is expected to increase the produce of the Estate Duties by £1,200,000 a year.

The Estate Duties are comparatively easy of collection. The law requires an heir in making up a title to his predecessor's property to come to the courts for confirmation, or probate, of his title. The Exchequer takes advantage of this and steps in, values the estate, appropriates a larger or smaller share, and leaves the heir to content himself with what is left. There is not much justice in the matter. So far as the estate is actively engaged in trade, the sudden call for payment of the tax may cause inconvenience, and so far the tax would be in restraint of trade.

Death Duties seem to be a survival of one of the old feudal rights of the Crown or over-lord. When a vassal died his estate fell back to the Crown. If the heir was in minority, and therefore unable to give military service, the Crown, as over-lord, stepped in, managed the estate, drew the rents, providing both for the maintenance of the heir and also for a substitute in the military services.

Other writers would trace the origin of the Death Duties back to the right of the king to appropriate all ownerless property. The death of the owner left the property ownerless; the Crown steps in, takes possession, and hands over the estate, under conditions, to the heirs.

As graduated the tax is not a serious burden on any estate. It is easily collected, and is apparently

a prolific source of revenue. It lacks certainty in the time of payment and therefore in amount, as between estate and estate, depending on the comparative longevity of the owner. One estate may incur the duty twice in a year, another not twice in a century. In this respect it is not an equal tax.

Further, so far as it is a tax on savings, it tends to discourage industry. This, however, is rather hypercritical, inasmuch as a man is not likely to be very much influenced in his industry by the thought that his successor will have to pay one per cent. on his savings if under £500, and proportionately if over that sum.

In so far as the Budget of 1894 laid the tax on the selling value of land, whether presently used or not, the tax, economically speaking, tends to press unused land into use. It thus stimulates industry by increasing the supply of land in the market available for use. In this respect the tax conforms especially to the requirements of a Natural Tax. It takes for the community a payment proportionate to the value conferred on the taxpayer's land by the presence and work of the community. In so far as it falls on savings which have resulted from a man's own industry, it falls short of being an ideal tax. But in this respect it may well plead that its sin is only a little one.

CHAPTER XI

TAXES ON COMMUNICATIONS

BESIDES direct and indirect taxes on wealth in its various forms, there are other methods employed for raising public revenue. These affect processes rather than wealth in the concrete.

1. Foremost among this class of taxes may be considered the revenue acquired from the State monopoly of the Posts and Telegraphs. Inasmuch as the State, in undertaking these services for the community, has at the same time forbidden private persons to compete with it in the service, the revenue obtained is of the nature of a tax on persons availing themselves of the services, rather than the result of ordinary trade profit for services rendered.

Taking the net revenue derived by this country from Posts and Telegraphs, we find that when the accounts of these services are kept separate there is a deficit on the Telegraph System, but this is more than wiped out by the surplus on the Postal Service. For 1905–6 the net balance on the two systems amounted to a million and a half, which fell to the Exchequer as part of the revenue for the year. The economic effect of this surplus of revenue over cost

is undoubtedly a burden upon the ordinary and commercial correspondence of the country, and this is in restraint of trade. As a tax it is distributed over the trade of the country, but the postal rates are so small that the restriction on trade may be said to be infinitesimal compared with the enormous benefits conferred by the cheap and reliable system of inter-communication afforded by the well-managed and in most respects popularly controlled monopoly.

The Postal and Telegraph Systems are thus a good example of the proper method of dealing with a service which, for efficiency, cheapness, and reliability, may be said to depend on its being conducted as a monopoly, and not liable to the more or less spasmodic efforts of private competitive enterprise. Such a monopoly can only be safely worked for the good of the public when the monopoly revenue is not a source of private gain, but is held by the State for the general good of the citizens.

2. Among the items of Excise revenue we find two which belong to this class: Railways, £353,000; and Locomotives on Highways, £12,600.

The railway item refers to a tax upon Railway Passengers, and is undoubtedly a tax in restraint, so far as it goes, of locomotion. Curiously enough, this tax is a survival of the old Stage-Coach Duty, and was originally imposed as a tax of 5 per cent. on the gross receipts from railway passenger traffic. At one time it produced a revenue of £810,000, but by a series of abatements and exemptions it has been lowered to its present figure. There is no good

reason for raising any revenue by a tax which by its incidence does act in restraint of passengers making use of the facilities afforded by railway travelling; whether they travel on business or on pleasure, it is all to the advantage of the community at large. Like the Posts and Telegraphs, Railways, in their nature, are monopolies, and it would be well if their monopoly value, such as it is, were available for State purposes; but there is no excuse for hampering them in one branch of their business, the transport of passengers, by a tax such as this.

Another element appears in the item as to Locomotives on Highways. In its origin this was undoubtedly imposed with the intention of helping to repair the damage done to the roads of the country by this new method of locomotion. It is a very indirect and inefficient method of achieving that object. It also directly restricts the progress of the use of motors. It adds to the expense, and in this way restricts the number of people likely to use them. This may not in itself be an ill. In so far as motor-driving is a mode of ostentation, it may help to encourage that aspect of the motor industry. So far as motors are used in the way of business, as by doctors or for transport of goods, the tax is not an advisable mode of raising revenue, even for repair of roads. It is one of those taxes which for the most part are easy of collection. The immediate payers pay it as part of the price of a luxury, but it necessarily falls heavily on those who adopt the motor for business purposes, and it thus acts in restraint of trade.

CHAPTER XII

LICENCE DUTIES

For the carrying on of certain trades the Legislature requires the trader to take out a licence. The object in view is twofold. The primary idea is restriction, in order to the more efficient subjection of the trade to the control of the police or of the Excise. Incidentally it is possible to obtain a more or less lucrative source of revenue from the fee paid on the granting of the licence.

In many instances the intention is one of police, the safety and security of the lieges and their property. Auctioneers, appraisers, hawkers, pedlars, pawnbrokers, and all dealers in gold and silver plate are required to take out a licence. These licences produce a revenue of about a quarter of a million a year. The purpose of the licence plainly is that the parties carrying on these trades may be brought within the knowledge of the authorities, and their trade be thus made amenable to some supervision. The tax levied on the individual is of the nature of a mere fee for registration. No great difficulty is put in the way of any citizen of ordinary respectability or responsibility obtaining the required licence upon tendering that fee with certain moderate

certificates of character. There is thus not much of a monopoly granted to the individual. His profits will not tend to rise above ordinary trade profits. The licence is a matter of police rather than of privilege. Its bearing is political rather than economic.

A much larger question confronts us when we turn to consider the position of licences to make or to sell exciseable liquors. Here the article which is the subject-matter of the manufacture or the trade, has been itself placed upon the footing of a constructive monopoly by the action of the high Customs and Excise Duties levied upon it. We have seen that the relatively high duties upon beer and spirits, along with the revenue restrictions necessary, whether at the port or in the distillery and brewery, have the tendency to make the manufacture and trade a monopoly by virtue of the large amount of capital necessary. This tendency is reinforced by requiring the manufacturer and the retail trader in exciseable liquors to take out a licence. The businesses of brewing and distilling are amongst the most lucrative in the country. They have given the country more wealthy peers than any other calling. And yet the revenue only receives a paltry £22,000 a year from the licences to brew and distil alcoholic beverages. This valuable franchise is practically given away to those who are wealthy enough to build a brewery or a distillery. There is no thought of their paying to the State in proportion to the value of the privilege given them by the State. The State by its revenue system has created a monopoly,

which it hands over to them to enjoy on payment of a mere quit-rent.

The same considerations apply to the privilege granted to retail dealers in exciseable liquors. That of itself would have been a valuable franchise. It is rendered all the more valuable by the fact that such licences are not granted broadcast to any reputable citizen who may apply. The granting of licences to beer-houses to every applicant turned out a disastrous failure so far as the results on the morals of the people were concerned. Our licencing system is therefore carefully fenced for the sake of the public, but to the evident benefit of the fortunate publican who does secure a licence. Every grant of a licence confers a valuable franchise on the licensee. Any reduction of licences around him adds enormously to the value of his licence. This is not only a practical but a statutory monopoly, the obtaining of which is apt to be sought after not only by fair means but by foul. And little wonder, when by the stroke of a pen thousands of pounds are put into the pocket of the successful applicant. Instances will at once present themselves to the reader's mind. Here is a house valued at £3500. The Licensing Bench confers a licence on it. Its value at once rises to £24,500. In like fashion throughout the country the Licensing Justices exercise a patronage of at least twenty millions a year represented by the difference of the rental of the premises with the licences granted, and what that rental would be if the licence were refused. Need we wonder if

"Bung" takes a not too pure interest in politics both local and national?

The value of the gift of a licence depends on the situation of the house, and whether there are other licensed premises in the neighbourhood. The pretence of acknowledging this fact, so far as it is shown in the rental of the premises, is made in the present adjustment of the scale of licence duties. The Licensing Act of 1902 also recognises rental as a ratio for levying the premium which may be exacted from licenced houses towards compensation of any of the licence-holders who may, under the provisions of the Act, be selected for suppression.

The two scales thus existing side by side are interesting and we give them in full, showing at the same time the percentage which the duty or premium bears to rental. They are as follow:

Rental Value.	Duty.	Per Cent.	Compensation Rate.	Per Cent.
Under £10	£4 10s.	45 and over	£1	10 and over
£10 to 15	6	60 to 40	1	10 to 7
15 ,, 20	8	53 ,, 40	2	14 ,, 10
20 ,, 25	11	55 ,, 45	3	15 ,, 12
25 ,, 30	14	56 ,, 46	4	16 ,, 12
30 ,, 40	17	56 ,, 42	6	20 ,, 15
40 ,, 50	20	50 ,, 40	10	25 ,, 20
50 ,, 100	25	50 ,, 25	15	30 ,, 15
100 ,, 200	30	30 ,, 15	20	20 ,, 10
200 ,, 300	35	17½ ,, 12	30	15 ,, 10
300 ,, 400	40	13 ,, 10	40	13 ,, 10
400 ,, 500	45	11 ,, 9	50	12½ ,, 10
500 ,, 600	50	10 ,, 8	60	12 ,, 10
600 ,, 700	55	9 ,, 8	70	11⅔ ,, 10
700 ,, 800	60	8 ,, 7½	80	11½ ,, 10
800 ,, 900	60	7½ ,, 7½	90	11 ,, 10
900 and over	60	7 and under	100	11 and under
2000	60	3	100	5 ,,

Both of these scales patently favour the large houses. The licence duty remains stationary at £60 for all rentals over £800 a year. Similarly the payment towards compensation remains stationary at £100 for all rentals over £900, and yet it is precisely the large public-houses that are most likely to survive to enjoy an increased monopoly by the removal of their poorer and more insignificant brethren.

Under the ratio of the duty the smaller houses have to pay a very much more substantial sum for the franchise granted them. Where the rental of the house with the licence is under £4, 10s., clearly but very little rental value has been added by the licence; yet to get that slight privilege the publican has to pay 45 per cent. or more of his whole rental. It is hardly conceivable that this will leave him even the bare value of the premises without the licence. He evidently pays to the community a full price for what he receives from the community. Quite different is the position of the wealthy publican. Take the example noticed above, where the granting of the licence raised the selling value of the premises from £3500 to £24,500; or, taking rental at 5 per cent., raised the rent from £125 to £1225, the fortunate recipient of this increase to his property is only asked to pay the modest, nay ridiculous, sum of £60 a year, about 5 per cent. on the annual value of this gift from the community. From the poor publican in some lonely village, all the value of the gift is demanded; from

the city syndicate receiving a gift worth tens of thousands of pounds, a bare Income Tax of 5 per cent. or less is asked. Little wonder there is a strong and financially powerful demand for the gift of a licence, and for the continuance of a licence already in force after the good of the community calls for its suppression. We must remember, too, that the scale of Licence Duty has not increased since Mr. Gladstone fixed it in 1880. It remains fixed as above. Though the population has increased and the amount of liquor consumed has increased since that date, the number of licences has decreased from 96,729 in 1881 to 91,802 in 1904. Nearly 5000 fewer houses catering for 8,000,000 more of a population. The remaining public-houses have thus an enormously increased monopoly granted to them year by year, and yet the State gets no more from them in payment for the increased monopoly.

Here undoubtedly there is room for the rule of natural taxation, that the individual should pay to the State in conformity with the value of the benefit conferred on him by the State. A public-house which in England pays £25, would in Pennsylvania, where the high licence is in force, pay £115. If the State thinks good to deal with the drink trade by the method of licence, then the licensee should annually pay to the State the value of the franchise so conferred on him. Mark, this would not necessarily be in proportion to the rental of the licensed premises; it would be the value added to the rental of the premises by the granting of the licence. In the case

dealt with above, the value of the franchise or licence is £1100, the difference between £1225, the licenced rental, and £125, the rental without the licence.

Such a tax levied on licences would not be in restraint of trade. It would be a tax on the value of the monopoly created by the State. That monopoly is, and is meant to be, in restraint of a trade deemed by the Legislature to require restraint. But the tax on the value of that monopoly would not act as further restraint. Like all other taxes falling on monopolies, it would fall on the holder of the licence or monopoly, and be paid for out of the return which the monopoly brought to him. It would in effect be a rent reserved by the community out of the value of the franchise conferred on the holder. It would be a direct tax, certain in amount, easy of collection; and therefore would conform to all our canons of taxation.

CHAPTER XIII

TAXES ON OSTENTATION

TAXES on luxuries, or rather on luxuriousness, were at various periods adopted both as fruitful sources of revenue and as a curb to restrain the excessive display of wealth. Some economists would include our Customs on tea and liquor in this class, on the plea that these are the luxuries of the ordinary citizen, and his expenditure on them should equally be restrained with the extravagance of his wealthier fellow-citizen. Unfortunately amongst the wealthy, a tax on ostentation has not the effect of restraining ostentation, whatever may be the intention of a paternal Government. It merely emphasises the ostentation. The expenditure of wealth for the sake of mere brag and display is in no way restrained by the fact that a tax makes the gratification more expensive. For this very reason, although such taxes formed a fruitful field for discussion among the earlier economists, they have been for the most part abandoned. Perhaps also because they did fall on the influential classes, who can make their plaint heard and felt in govermental circles.

Probably the only tax now on the British Statute-

Book which conforms to the idea of a true tax on ostentation, is the duty on Armorial Bearings. This produces £74,000. It can have but slight economic effects. Its sphere lies outside the region of commerce. It is a tax on sentiment and romance. It may tend to curb pride of family, or at least its ostentatious display. On the other hand, it may, perchance, make the use of armorial bearings all the more sought after by those who can well afford the tax, and can rejoice in the certain knowledge that their use of the family insignia is fenced by a payment that some cannot meet. It sets the sign and seal of governmental respectability on the family crest. It is otherwise innocuous.

There are taxes levied under the name of Establishment Duties which partake in some degree of the same nature, though in a less degree now than formerly. These are duties upon Household Men-Servants and upon Carriages. Both of these are restrictive in effect. There seems no good reason nowadays for the retention of a special tax on the employment of men-servants. It is said there is an ever-increasing difficulty in obtaining domestic servants of the female sex. If a man chooses to undertake the more domestic duties of household servant, it seems a little hard that the householder who employs him should have to pay a fine, however small, for accepting his services. Probably it falls in diminution of the man domestic's wage.

Dog, Gun, and Game Licences may be held to fall under the head of Taxes on Ostentation or Luxury.

The Dog Tax has afforded a good example of the inadvisability of increasing a tax beyond what the demand for an article or a privilege will bear. For long the dog licence stood at 5s. a year. Sir Stafford Northcote raised it to 7s. 6d. The result was that the number of dogs diminished so rapidly, that the year following the imposition of the 7s. 6d. the revenue fell below the old amount. The increase of the tax acted like Mehemet Ali's tax on date trees. It was in reality a tax upon product, and diminished the commodity produced.

Gun and Game Licences are partly intended as restraints upon sport, and to keep it within the legal bounds prescribed by the Game Laws. Registration rather than revenue is their object; their effect is distinctly in restraint of the trade of gun-making.

In one aspect the recently instituted tax on Motor-Cars belongs to this class. In so far as motoring is followed as a matter of mere fashion, and not on account of the great facility it affords for rapid locomotion, its pursuit will not be checked by the tax. So far as motoring is a matter of business and convenience, the tax will act as a deterrent, and restrict the trade of motor manufacture.

CHAPTER XIV

LOCAL RATES

THE enormous and ever-increasing burden of the Local Rates urgently calls for careful inquiry into the methods by which it is levied. The total revenues of the local authorities of the United Kingdom have grown from about 70 millions in 1890 to over 158 million pounds in 1904, or by over 125 per cent. in fourteen years. Latterly the increase has been nearly six millions a year, and of this about four and a half millions are raised in rates.

The various channels by which this huge revenue comes into the coffers of the local authorities is shown in the following table:

Source.	Amount.
1. Rates	£61,287,464
2. Gas, Water, and other municipal properties and undertakings .	28,460,614
3. Tolls, Fines, Fees, Licences, and Miscellaneous	12,852,098
4. Government Grants . . .	19,220,540
5. Loans	36,433,133
	£158,253,849

The rate has thus the greatest productive power of any tax in the United Kingdom. The amount produced by it is equal to the Customs and Excise Taxes combined. If equally distributed over the population, it would amount to a tax of nearly 30s. per head. It represents a rate of over 5s. per £ on the rateable rental of the kingdom as appearing in the Assessment Rolls. For England alone the average rate has risen from 3s. 3½d. in 1879–80 to 5s. 9½d. in 1903–4. The mode in which this assessment is made is therefore of prime importance.

In England the principle on which rating is founded may be said to date from the Poor Law of 1601. That Statute adopted the parish as the unit. Prior to that date the duty of providing and repairing the highways had been thrown upon the parish, and subsequent Legislation has extended the principle of rating to all revenue required by every local authority, whether in parish, county, or town. The various rates came into existence under successive Statutes, but for the most part they are collected on the basis of the Poor Rate. Under the Poor Law of Elizabeth the overseers of every parish were ordered to "raise by taxation of every inhabitant, parson, vicar, and other, and of every occupier of lands, houses, tithes impropriate or propriations of tithes, coal mines, or saleable underwoods in the said parish . . . according to the ability of the said parish," for relief of the poor.

The interests thus mentioned as rateable all come under the description of land and improvements

fixed to the land. It is true that attempts were made in various localities to include movable property as an item of assessment, and that practice, irregular and illegal as it was under the terms of the Statute, was accepted as established by practice by the Courts of Law. None the less the general body of ratepayers throughout the country successfully resisted the repeated attempts to place purely personal and movable property upon the Assessment Roll.

In 1838 the Parochial Assessments Act prescribed as the basis of assessment "an estimate of the net annual value of the several hereditaments rated thereunto, that is to say, of the rent at which the same might reasonably be expected to let from year to year, free of all usual tenant's rates and taxes, and tithe commutation rent-charge, if any, and deducting therefrom the probable average annual cost of the repairs, insurance, and other expenses, if any, necessary to maintain them in a state to command such rent." This clearly meant that the value of the estate which was to contribute to the rates, was the value to the owner, not the tenant's interest in the hereditament. Movable and personal property thus disappeared from the roll. The difficulty, amounting almost to impossibility of localising personal property, led to this abandonment of its assessment as impracticable, and rates are now levied solely on heritable estate, land and all improvements physically attached to or incorporated with the land.

The principle of ability to pay, although spasmodically put forward in argument when charges in the mode were suggested, was, for practical purposes, allowed to drop out of sight. The main consideration came to be "convenience of assessment." It was found in practice that the easiest method of determining a ratio of assessment which was at once reliable and little open to objection by the ratepayer, was the annual value of immovable property. In time this was the basis fixed by Statute: the rent at which the hereditament might reasonably be expected to let from year to year. (6 & 7 Will. IV. cap. 96; 5 & 6 Vict. cap. 35; 25 & 26 Vict. cap. 103.)

This system of assessment was extended to Scotland by the Lands Valuation Act of 1856. Thus throughout the United Kingdom rates are levied according to the annual rental or use value of the subject, land and houses, or land and improvements taken together.

A grave objection to such a system is that it leaves unrated land which is unused. Land which may have a high selling value, land which might readily find an occupant if its owner would only sell it or let it, pays no rates, merely because the owner cannot get the price or rental which he is holding up for. Further, as soon as he does allow the land to be used, it is rated on both the value of the land and the value of the improvement for which it is being used; the better the use, the higher the rate.

Sir E. W. Hamilton, K.C.B., in his Memorandum on the Incidence of Taxation (C. 9528, 1898, p. 37), says :

"But it must be remembered that, generally speaking, the Inhabited House Duty and Rates are neither of them levied in respect of the *ownership* of property, but in respect of its occupation. A dwelling-house which is uninhabited is not assessed to the Inhabited House Duty at all. Similarly, a piece of land which is vacant, or which brings in no return, evades the demands of the rate-collector altogether."

This system allows, indeed encourages, the owner to keep valuable land out of use, or poorly used, thus forcing up artificially the price of land which is allowed to be put to use. So long as he keeps the land idle he pays no rates on it. Meanwhile the value of his land is rising year by year, owing to the growth of population around, and the expenditure of the rates and taxes to which others are contributing, whilst he benefits but contributes nothing.

The injustice and inexpediency of this feature of the present rating system have been for long apparent. The Royal Commission on the Housing of the Working Classes in 1885 reported in favour of placing a special rate upon land in the neighbourhood of towns which would be available for building purposes, but is held out of the market, unused or put to a lower use by its owner, in order to press it into use. Their finding on this point

deserves careful consideration. The majority Report (1885, C. 4402, p. 69) says:

"In connection with any such general consideration of the law of rating, attention would have to be given to the following facts. At present, land available for building in the neighbourhood of our populous centres, though its capital value is very great, is probably producing a small yearly return until it is let for building. The owners of this land are rated not in relation to the real value, but to the actual annual income. They can thus afford to keep their land out of the market, and to part with only small quantities, so as to raise the price beyond the natural monopoly price which the land would command by its advantages of position. Meantime the general expenditure of the town on improvements is increasing the value of their property. If this land were rated at, say, 4 per cent. on its selling value, the owners would have a more direct incentive to part with it to those who are desirous of building, and a two-fold advantage would result to the community. First, all the valuable property would contribute to the rates, and thus the burden on the occupiers would be diminished by the increase in the rateable property. Secondly, the owners of the building land would be forced to offer their land for sale, and thus their competition with one another would bring down the price of building land, and so diminish the tax in the shape of ground-rent, or price paid for land which is now levied on urban enterprise by the adjacent landowners, a tax, be it remembered, which is no recompense for any industry or expenditure on their part, but is the natural result of the industry and activity of the townspeople

themselves. Your Majesty's Commissioners would recommend that these matters should be included in legislation when the law of rating comes to be dealt with by Parliament."

Any attempt to carry out this recommendation by legislation would be confronted with the initial difficulty of defining what land is in fact being held out of use or badly used. To build houses on land may not be putting the land to its best use. To keep it unbuilt on may be the best use. As an air space and garden ground, the land may be serving a higher purpose than if it were used for houses. Meantime we quote the finding of the Commission as pointing out a grave defect in our rating system. Their limited remedy may not be practicable, but the inadvisability of allowing valuable land to be held out of use is quite apparent. It is not advisable that a person whose property is increasing in value by the expenditure of the rates, should be permitted to absolve himself from payment of rates merely by holding his land unused. He is thus, by the present rating system, encouraged to inflict a double injury on the community, by evading its rates by his own idleness, and by depriving its citizens of the use of land necessary for their well-being. Although he may claim the land as his, its increasing value is created by the activity of the community; that activity is being maintained out of the rates, to which he is paying nothing. Others who are using their land are thus forced to pay more in rates in order that he may escape paying rates, while his

land is increasing in value at their expense. On the other hand, the citizens lose the opportunity which would be afforded of living better, more comfortably, by the non-use of that valuable land, and this loss can never be replaced. If land which is worth £100 a year if used, is held unused because its owner wants £120, that means that there is a dead loss of wealth to the community to that amount, by having either to go further afield and live on less valuable land, or live overcrowded on more valuable land. This is encouraged by our present rating system.

But there is an even greater injustice inherent in the present system, and one which is very generally felt though by no means generally understood. Between two pieces of land of equal value in themselves, that pays most rates which is put to the best use. That is, the better the house, or the better the factory, or the better the farm buildings, fences, and drains, the higher the rate. This necessarily restricts industry. It has precisely the same economic effect as an import duty on sugar or any other commodity. To enable the builder to throw back the rate on the occupier, he must restrict the number of houses he builds relatively to the demand, so as to force up the value of houses to cover both the rate and the cost, with builder's profit, on the house; *i.e.* the rate enters into the cost, and must be covered by what the tenant can afford to pay for the whole subject. The tenant has been very aptly called "the consumer of a commodity called a house," and

as such he has to bear the burden of any tax put upon that commodity. Like the consumer of a taxed pound of tea, who may think he only buys tea, when in fact half of what he purchases is really tax and not tea; so the consumer or tenant of taxed houses, besides his own patent rates, has to pay an additional rent or price for the taxed house to enable the owner to obtain his return upon his outlay and his owner's rates and taxes on the house. It is quite impossible to place a figure on the amount by which the rent of the house is thus increased to the tenant. The increase stands on the same footing as the increased price of tea consequent upon the tax. All we can say is that a rate on houses and improvements must so restrict the amount of these as to force up the rent to such a point as to cover both cost and rate. Just as the question in the case of tea was complicated by the indirect restrictions caused by Customs regulations and partial monopoly; so here the matter is mixed up with the demand by the owner of the site on which the house is to be built for a monopoly price. If the rate-collector took less, the landowner would be able under the present system to demand more. In the end of the day the tenant has to pay Adam Smith's monopoly rent, all he can afford after meeting the cost of subsistence suitable to his circumstances. This is promoted and encouraged by the present system of rating land, not according to its value, but as its value is put to use.

The same applies very specially to agricultural

subjects. Improvement is restricted by the necessity of paying additional rates with every improvement. This rating of improvements is a root-cause of agricultural decline. To release improvements from liability to rates would enormously encourage better farming. This has been demonstrated by the experience of the working of the Crofters Acts in Scotland.

A crofter is a tenant of a holding under £30 of annual value. In most cases he or his ancestors had put what improvements existed on the holding. Recognising this, the Crofters Act of 1886 gave him fixity of tenure provided he paid a rent to be fixed by Commissioners. This rent is fixed "after considering all the circumstances of the case, and particularly after taking into consideration any permanent or unexhausted improvements on the holding, and suitable thereto, which may have been executed or paid for by the crofter." Now the rent so fixed is the rent entered in the Assessment Roll upon which the crofter is rated. He may make what improvements he pleases on the holding; erect a new house; replace the drains or fences; his assessment is not increased. Under this system the crofter is encouraged to improve his croft. Secure from increase of rent or rate on his improvements, he has had no difficulty in improving his holding. Reaping in safety the result of his own industry, his croft becomes the safest and most remunerative savings bank for his own savings. He can afford to pay reasonable interest on temporary loans. In

many cases, too, sons and daughters who have gone out into the world to better themselves, show their readiness to send money to assist in improving the family home. They, too, thus retain a stake in the land of their birth, and can still look upon it as "home."

Quite otherwise, under the present rating system, is the position of the crofter who *purchases* his croft. He ceases to have the benefits of the Act. His rental valuation on which he is rated becomes like that of any other owner: it increases with every improvement he dares to make. In Sutherlandshire a crofter bought his holding from his landlord. At once his assessed rental went up from his "fair rent" of £2, 8s., the value of the land, to £8, the value of land and improvements together. Rather a deadly penalty on improvements.

Thus, under the present system, as between two farms similarly situated and of equal area, that is highest rated which is best farmed; the better the buildings, the better the fences and drains, the higher the rate. Yet the worse farmed is probably making the greater demand on the vigilance of the local authority, whether sanitary or police.

It is the same in the towns. Of two houses in the same street, the best built, the most sanitary, is highest rated. This is a direct cause of shoddy building and slum properties. The industrious owner is penalised; the idle owner, whose one end in life is to collect rent, is encouraged in his evil way.

Follow the system a step farther, and see its effect

on all industrial operations. All fixed machinery is rated on its value. The better the machinery the greater the rates. If a manufacturer scraps his old machinery and fits up new, in order to enable him the better to meet competition, whether home or foreign, he receives a call from the assessor with inquiries as to what this new machine has cost, and he is fined accordingly in increased rates.

Lord Charles Beresford, lecturing some years ago on the various aspects of Japan's triumph over China, ascribed the cause of her military triumph not so much to any individual martial superiority in the Jap over the Chinaman, but rather to the fact that the finances of Japan were on a solid basis, while those of China were ludicrously antiquated and inefficient. The Chinese system, he said, was this: If a man built a factory, round came a local official and said, "Oh, you have built a great factory. You must be very wealthy. You must pay a large tax." Lord Charles' audience laughed most heartily at this Chinese absurdity. Yet the Chinaman was merely adopting the British method of collecting rates. If we could only see ourselves as others see us!

The method by which we arrive at the rateable value is not open to much exception. When the subject is let on *bonâ fide* lease, the rent in that lease is entered in the Assessment Roll as the rateable value. This is a fairly accurate measure of the actual value, but is open to the criticism that two owners of similar subjects in the same street may quite well enter into *bonâ fide* leases of their respective

properties at widely differing rents. Thus in the case of shop-property, a lease at a low figure may be entered into with a new tenant who has yet to make his connection, while a shopkeeper farther along the street, who has made his connection and wishes a renewal of his lease, may possibly have to pay away part of his goodwill in a much larger rent. In this case he will pay both larger rent and larger rates as the result of his own industry.

But still greater difficulty faces the assessor in the attempt to value properties which are in the actual possession of their owners. Where the property is similar to other property which is let, the ratio is easily found. But there is also property to be assessed which does not lend itself to valuation by comparison with other properties. Properties whose chief value is that they partake of the nature of monopolies, are not capable of valuation by comparison with similar properties in the neighbourhood, or even elsewhere. Of this nature are railways, tramways, canals, docks and harbours, gas and electric undertakings, as well as many undertakings in private hands, which are unique in their value. For these a special code of special rules, with no very definite principle at their root, has gradually been developed, by which a valuation is placed upon the undertaking for the purpose of rating. At best the result is only approximate. In most cases the resulting rate is a heavy tax on an undertaking beneficial to the whole community.

Taking it that the value has been fixed somehow,

then the rate conforms to the requirement of being a tax fixed in amount. It is levied with reasonable cheapness and efficiency, but it undoubtedly restricts the production of wealth. Who pays the rate ultimately, and whether it is levied in accordance with benefit received by the payer, will require consideration in a separate chapter.

CHAPTER XV

INCIDENCE OF LOCAL RATES

Local Government is in many respects a microcosm in which we can usefully study questions of Government and public revenue generally. There is no absolute line between what ought to be the province of the Imperial Government and what ought to be left to the control of the Local Authority. Thus we can, by studying the more limited action of a Town Council and its more definite local effect, gain some useful insight into the economic results of the action of the greater body. The function of the Army and Navy are different in extent, not in kind, from the functions of the Local Police. Both exist for the protection of the citizen in the enjoyment of his liberty and property. From an economic standpoint both render the enjoyment of wealth more secure, and therefore both encourage the production of wealth. So long as defence is necessary, the separate existence of a trained army or a trained police is merely a phase of the general law of the subdivision of labour. The rebuilding of the walls of Jerusalem would not be expedited if every man "with one of his hands wrought in the work, and with the other

held a weapon." There would be much greater efficiency both of work and defence when one half of the men wrought in the work and the other half of them held the spears, the shields, the bows, and the habergeons. No doubt when it came to fighting, the building would have to be temporarily abandoned that all might take part in the active fighting; but here, as elsewhere in production, concentration by each on one duty at a time, and consequent division of labour, is a sound business axiom.

The old system of watch and ward, whereby each freeman of a town was bound to give personal service in defence of the peace of the town, whether from external foes or internal wrong-doers, naturally disappeared with the advance of civilisation. These duties were specialised, and the main body of the citizens paid special men to undertake these duties on their behalf, to the immense advantage of all. The specialising of the police force let each citizen attend to his own affairs, while the police could be trained and subjected to a discipline which made them more effective for the purposes of police.

The citizen being thus set free to attend to his own special calling, it seemed fair to rate him for the upkeep of the special force in proportion to the property he accumulated under the protection of the police. But, as we have seen, his movable property disappeared in a mysterious way when the rate-collectors wished to assess it. His movable property seemed to be more akin to his wages, and there was no public conscience on the side of taxing

a man on his earnings which stood represented in his personal property. As between citizen and citizen, that seemed to be taxing the industrious. Movable estate was readily absolved from rates. It was difficult to find, and it seemed unfair to rate a man because he was industrious. Thus by common consent the rate was confined to that part of a man's estate which no effort on his part could conceal, the land, and improvements attached immovably to the land; land and houses, buildings, drains, fences, and machinery. The rate is laid on according to the annual value of land, and these improvements taken together. Who ultimately pays the rates imposed on this system?

In England the rate-collector calls upon the occupier of the subject to pay the rate, and the occupier gets no statutory power to deduct the rate from his rent. In Scotland and Ireland the collector looks partly to the owner, partly to the occupier; some rates he collects entirely from occupiers, some entirely from owners; others partly from the owner and partly from the occupier.

There is a school of reformers who would have the rate collected in all three countries half from the owner and half from the occupier. As affecting the incidence of new rates or of the increment of increasing rates, this is probably a very just proposal, as it would make both owner and tenant equally interested in any rise in the local rates during the currency of their lease.

But for the ultimate incidence of the rate, where

steadily imposed over a series of years, it is really a matter of little moment whether the occupier or the owner meets the demand of the rate-collector. In the general case it is true to say that the rate and the rent together are the utmost that the owner can demand from the tenant for the use of the subject; that is, the rate and the rent together are the utmost the tenant can afford to pay for the subject.

The difficulty of answering the question of the final incidence of the rate is caused by the fact that the subject rated is twofold in its constitution. The land to which the building or other improvement is attached is indestructible, and at the same time cannot be increased in quantity. Its owner can demand a monopoly price for it; can demand, as Adam Smith puts it, "the highest which the tenant can afford to pay in the actual circumstances of the land" (*Wealth of Nations*, I. xi.). If a rate were uniformly assessed on this monopoly rent of land, whether the land were used or not, it would undoubtedly fall as a deduction from the owner's rights. Such a rate would be a rent reserved to the State. Under our present system, however, no land that is kept out of use is subject to the rate; to this extent, therefore, the monopoly power of the owner is increased and made more effective, and to some extent he may in fact be able to force back part even of the rate on land upon the occupier.

That part of the rate which is exigible in name of buildings and improvements, as apart from the value of the land, stands on another footing. Houses

and all other improvements are consumable commodities. They are created by human labour. They are constantly tending to decay, and apart from the renewed application of man's labour, they, in time, cease to exist. Like man himself, they tend to return to the earth from which they came. As Adam Smith says:

"The rent of a house may be distinguished into two parts, of which the one may very properly be called the building rent; the other is commonly called ground-rent. The building rent is the interest or profit of the capital expended in building the house. In order to put the trade of a builder upon a level with other trades, it is necessary that this rent should be sufficient, first, to pay him the same interest which he would have got for his capital if he had lent it upon good security; and secondly, to keep the house in constant repair, or, what comes to the same thing, to replace within a certain term of years the capital which had been employed in building it. Whatever part of the whole rent of a house is over and above what is sufficient for affording this reasonable profit, naturally goes to the ground-rent" (*Wealth of Nations*, Bk. v. chap. ii. pt. 2, art. 1).

Precisely the same reasoning applies to the case of farms, factories, quarries, mines, or other method of using the earth's surface. One part of the rent of the subject is attributable to interest and sinking fund on capital expended on improvements, and may be called improvement rent; the other is attributable to what Adam Smith calls "ground rent," but which nowadays we speak of as "land value."

Any tax laid on this rent of improvement follows the economic law affecting all taxes on commodities or products of labour; whoever may be the hand paying the tax to the State, he must recover its amount from the consumer of the commodity in an increased price. Just as a tax on tea necessitates the production in the market of less tea, so a rate upon the improvement rent of houses, farms, factories, mines, and other modes of utilising the land, restricts the numbers of houses, farms, factories that can be economically produced.

Some would draw a distinction between the incidence of a tax on houses and a tax on factories, as the latter may be forced on to the consumers of the manufactured article turned out by the factory. This may in part be true, but in any individual case a heavier rate falling on "factory-rent" than falls on his competitors in other places, will tend to close the factory and injure the manufacturer. In any event the result is uniform, a restriction of the quantity of goods manufactured, a burden upon trade, and a diminution in the demand for land upon which to build factories.

The rate would thus seem to fall ultimately on that portion of the produce of the labour of the country which would otherwise fall to the owners of land as rent. The rate and rent together are what the occupier or labourer under the present system of monopolistic rent must pay for the land. In a later branch of our inquiry we shall find that it is just and equitable that they should so fall.

Meantime we must also note that under the existing system the rates fall only on the rent of some land, only on the rent of land which is put to use. That is not consonant with our Canon of Equality. A man may own very valuable land but pay no rates, because he does not use that land. In the course of thus falling on the rent of land in use, the rates grievously restrict the production of the general wealth of the country; they actively retard the growth of the fund out of which all taxes must come.

The present system stands doubly condemned. It penalises both occupier and owner of land in use. It encourages the idle, or merely speculative owner, by exempting him from rates so long as he keeps his land out of use.

Hitherto we have dealt mainly with the effects of raising the local revenue. Let us turn to the other side of the account, and consider the result of the expenditure of the local revenue.

Who benefits by the expenditure of the local rates? Undoubtedly all the inhabitants of a well-managed town enjoy the benefit of good local government. That may be put down as the moral benefit received. But apart from that there are direct and indirect economic benefits conferred, which are capable of being traced.

Take a concrete instance. Everyone who walks or drives on a well-made road enjoys the benefit of it, but it may not put a penny extra profit into many of their pockets. The economic result of the better road is found in the increased rentals of properties

which lie within reach of it. The better road makes it easier, and more desirable to live and work near it. Rents go up.

So, too, with the introduction of a tramway system. Rents go up. The judicious and economical performance of all the functions of the communal government have this tendency; rents are raised.

Recently, especially in the Memoranda and Reports of the Royal Commission on Local Taxation appointed in 1892, very interesting suggestions are made as to the differentiation of local expenditure into what is termed "Onerous" and "Beneficial," and the argument is put forward that while certain departments of municipal expenditure result in direct benefit to the inhabitants, and therefore raise rents, other classes are "onerous" and burdensome, being in their nature national rather than local, and do not increase rents. The suggestion is that while the introduction of efficient cleaning and lighting systems tends to raise rents, the maintenance of an efficient system of education or of pauper relief would not have this tendency.

Sir Edward Hamilton says:

"It cannot be too prominently borne in mind that there are rates and rates. Some rates are levied for the purpose of meeting expenditure, which, like Poor Law expenditure, has more or less a general character, which is devolved on local authorities for administrative reasons, and for which the ratepayer gets no direct return. These are what may be called 'onerous' rates, and, as such, are unquestionably

taxes. But there are other rates levied for the purpose of meeting expenditure of a different kind; expenditure which, like that on drainage, paving, and lighting, the ratepayer could not dispense with, according to modern ideas of civilisation, and which renders him direct service. By such expenditure the individual ratepayer has done for him what he would otherwise have to do for himself; and it is done in that way much more cheaply, for it is clear that the joint wants of a number of persons can be supplied more economically by one authority than the wants of the individual by himself. It has not inaptly been called 'a wholesale instead of a retail transaction.' The rates levied for expenditure of this kind are what may be called 'beneficial' rate; and it is open to doubt whether such rates should be considered taxes at all."

Let us consider this proposition. An efficient system of lighting is beneficial to the ratepayer; this will show itself in increased rents. The citizen gets provided for him what in former times he had to provide for himself, at much inconvenience and with much less efficiency. The lighting of the streets makes them more convenient for the locomotion of the citizens; makes business and pleasure more easily carried on. It oils the wheels both of industry and enjoyment; makes it easier and cheaper to live there than in a town where the streets are either badly lighted or not lighted at all. It adds to the amenity, attracts people to the place, increases the demand for house-room; hence the raised rents.

Now our system of poor-relief, though older than,

is by no means so efficient as, our street lighting; but does it not give the same result from similar causes? Imagine London with no public system of poor relief. Piccadilly, Regent Street, the Strand, the City crowded with street beggars of the sturdy description—Naples on a large scale. Imagine the obstruction to locomotion; the impossibility of getting rid of the importunate beggar by a reference to the poorhouse or other charitable organisation; the cost of the resultant and indiscriminate charity; and then consider whether rents would not fall. Of course they would. In pauper relief, as in lighting, the Local Authority just does "wholesale" what the individual citizen would be compelled to do retail, and does it at much less cost. The fact that more or less efficiently the necessitous poor are provided for, adds to the amenity of the town or parish; makes business or pleasure more easy to carry on; makes it easier and cheaper for the citizen to live there; does add to the sum they are able to pay in rent, and is therefore a "beneficial" expenditure, just as the lighting of the streets is, or the construction of a sanitary system of sewers.

On other grounds a system of poor relief is shown to be beneficial. Without it, our police force would have to be enormously increased. Poor relief is just a department of police. Without it the sturdy beggar would soon become the masterful beggar. A glance at the statutes which preceded the inauguration of the Poor Law under Elizabeth will abundantly prove this, if proof be required.

Poors-relief is a moral cleaning and lighting of our streets, and has the same economic result. It raises rent.

Education, it is said, does not personally concern the payer of the rates, and therefore is not "beneficial" but "onerous." The advantage of education is national, rather than local. That may quite well be, but education raises rents. If an efficient system be extant throughout the country, rents will be higher throughout the country than if the system were less efficient. Any town known for its specially good system of education attracts people to it for the purpose of benefiting by that system. Some towns have education as the backbone of their existence. Their special rental value depends on the education they provide.

Education is just a means for improving the efficiency of the worker, whether master or man. The more generally education spreads, the more efficient should be the worker; the more can the worker afford to pay in rent. Or, take it the other way round, as education becomes more general, the more do the wages of the educated workman fall in value; the more of the product of his labour becomes absorbed in rent.

Education, so far as it is efficient education, so far as it the better fits a man or woman for the work they have to do, has a direct tendency to raise rent. It is the intellectual "lighting of the streets." It clears ignorance from the path of industry.

All the functions of government, so far as useful

and beneficial, have this inherent effect, they raise rents. They do for the individual wholesale, and therefore at less cost, what he would otherwise require to do retail for himself, or do without. If there is no tendency to raise rents, somewhere the governmental expenditure is wasteful and extravagant. The proof of economical government lies here—Does it make the country an easier place to live in? If it does, then that will appear in increased rents.

Thus it was no proof, but contrariwise a disproof, of extravagant government by the recent London County Council, that the opponents of the majority on that Council could point to an almost general rise in rents. Had the régime not been beneficial, there would have been a notable tendency to fall in rents.

Here, however, it may be well to note that an improvement, though it must, if an improvement show a tendency to raise rents on the whole, may decrease rents in some localities, while it increases them elsewhere. An example of this lies to hand in the installation of an efficient method of rapid transport from the centre, or more crowded area, to the circumference. If the means afforded is efficient, *i.e.* cheap and fast enough, the density of population will tend to leave the overcrowded area, and reside farther out, travelling it may be to and from their work. Here we have what is a noticeable result of electric tramways and suburban railways, a fall in rents near the centre so far as the deserted residential houses are not at once taken up

for business premises, and a rise of rents along the route of the tramway or in the neighbourhood of the railway stations.

Now, when rents are raised in any locality, it is the rent of the land that rises, not the building rent, or rent of the improvement. This is apparent if we take the case of a street with a vacant site; if there is a rise of rents in the houses in the vicinity, that vacant site will rise in value as much as the built-on sites. If the adjacent houses are yielding higher rents, a builder can afford to pay higher for permission to build on the vacant site. Or, thus; if a house be burned down, it will cost no more to rebuild it after the rise in rents than before. If it is increased facility of locomotion which has caused the rise in rent, then it may even cheapen the cost of building, and thus depreciate the value of the existing buildings, although the value of the land on which they stand has gone up.

The same stands good for all uses to which land may be put. If rents of farms go up, it is the value of the bare land, the value of the land as a site for a farm, which goes up. This is seen when a countryside is opened up by a railway. The rents of farms near the railway station may go up. That means that the value of the land, and not the value of the improvements on the land, has risen. With the easier means of obtaining materials, many of the farm improvements, houses, sheds, fences, drains may not only be capable of much cheaper but of much better construction. The improvements may

be antiquated, and the readier market may make it advisable to "scrap" them. Yet rents have risen. The land value absorbs the benefit.

We conclude, then, that while all the citizens may benefit by the efficiency of the various governmental functions, may be enabled to work better, to live happier, to move to and from their work more readily, yet for all these and other benefits they pay in increase rents, and the increase in rent is increase in the rent paid for the land, and accrues to the landowner alone.

However the citizens may benefit physically, intellectually, or morally, for that benefit they pay in increased rent.

The man who benefits economically by the good governance of the king, to use Adam Smith's phrase, is the landowner and the landowner only.

Here it may be well to premise that the landowner of any particular area of land may not be an individual. The landownership may be put in commission as it were, and be shared in varying degrees at a given moment of time by various individuals. The theory of the law is that the Crown alone has the right of ownership. That has been broken up into rights of possession or tenancies of varying duration, with rents varying from peppercorn to rents of substantial amount. The tenant-in-chief may pay but a quit-rent to the Crown and have granted one or more leases of 999 years' duration; or, in Scotland, he may be holding lands blench of the Crown for a penny Scots, and may have granted

perpetual leases, or feus as they are called, for substantial rents or feu-duties; these tenants or feuars may have done similarly in their turn, or may have granted leases for short periods. Each of these holders of long or short leases will come into consideration when we have to find the "owner" of the land. They each own rights, more or less limited in amount and in duration, in the land in question. All these individual shares in the ownership are bought and sold in the market. They are all capable of valuation, and each in its degree benefits by the expenditure of the local rate.

Lastly, the value of the land rises quite apart from the value of the improvement upon it. The increase of population, the change of circumstances which makes the land rise in value, may and often does make any improvement existing on it lose any value. Thus, as a town extends, the most valuable agricultural improvements on the land on its outskirts are thrust aside. The increased value is in the land alone, and that whether its owner is allowing it to be used or is keeping it idle. The value of the land increases while the value of the improvement tends to disappear.

CHAPTER XVI

GRANTS-IN-AID

THE British system of Finance has been made hopelessly mystifying by the introduction of grants-in-aid from the Imperial Exchequer, to the revenues of Local Authorities. Local rates are visible burdens on the users of land, and their effect in diminishing the landowners' rent is very apparent. Accordingly, on the plea that land is over-burdened, Parliament has been persuaded from time to time to grant a sum towards this or that expense of the Local Authority. The plea was utterly demolished by the report of a Royal Commission, presided over by the late Lord Goschen in 1870. That report demonstrates that the value of land in Britain has risen far more than the rates, and that the taxes affecting land in this country are a mere fraction of what exists in every country of Europe. Apart from this we have seen that every useful expenditure of a Local Authority, even poor-relief and education, are beneficial and tend to raise the rent of the land. There is therefore no injustice in asking that increased rent to bear the cost of the local expenditure. If it could be shown that in some of the

poorer outlying districts of the country, the rents were falling and the rates were unduly burdensome, some case would be made out for a system of grant-in-aid whereby the wealthier parts of the country should come to their aid. But, as a matter of fact, the grants-in-aid are administered in no such way. The rule adopted seems rather to be the scriptural plan of "To whomsoever hath shall be given." There are various rather complicated rules under which these grants are given, but they all incline to the side of giving most to the wealthier localities.

In their origin the attempt was made to apportion the grant by the measure of some function performed locally which seemed to be rather national than local in its scope. The grants began in a very humble way. In 1835 the National Exchequer took over half the cost of trials at Assizes and Quarter Sessions, and paid a sum of £30,000 to cover the conveyance of prisoners from local prisons to the place of trial. In 1846 the whole cost of such trials was taken over, as well as the cost of pauper education and half the cost of medical relief. In 1836 the Royal Irish Constabulary was formed, and half its cost was thrown on the Exchequer; in 1846 the Government assumed the whole cost. Governing the Irish has been an expensive luxury, and its landowners do not care to pay the price. In 1856 Government assumed responsibility for one-fourth of the pay and clothing of the British policeman. In 1874, Disraeli arranged to increase this quota to one-

half. At the same time 4s. a week was granted for the maintenance of pauper lunatics. In 1877 the same administration took over the upkeep and maintenance of the prisons. In 1882, Gladstone abolished the turnpike tolls, and granted a quarter of a million a year towards the upkeep of the high-roads of England and Scotland.

Up to this point the grants-in-aid were moderate, and may be defended on the ground that the objects aided were of national rather than of local importance. But that shred of an excuse for a system financially unsound disappeared when in 1888, for these limited grants for specified purposes, there were substituted certain Excise Licences with one-half of the Probate Duty, and a special tax of 3d. a barrel on beer and 3d. a gallon on spirits. The amount of the old grants in England had been £2,600,000, while her share of the substituted taxes amounted to £3,000,000. In Scotland the old grants had been £300,000; her share of the assigned taxes came to £318,000. As Ireland was gaining nothing by the change, to her £40,000 was granted as an equivalent. The half of the Probate Duties were allocated between the countries in the now famous proportions of 80 to England, 10 to Scotland, and 9 to Ireland. The sur-tax on beer and spirits, which was expected to amount to £304,000, was dealt with in the same way. When Sir William Harcourt equalised the Death Duties by the Budget of 1894, an equivalent for half of the Probate Duty was given out of the new Estate Duty.

The next chapter in the story of the grants-in-aid is not pleasant reading. With one accord, in 1895 the classes who supported the Government began to make complaints, and demand relief from the public Exchequer. In 1896 the Agricultural Rates Act was passed. This granted a million and a half out of the Exchequer in payment of one-half the rates exigible from agricultural land. The specious excuse for it was that the tenant-farmer required relief from the burden of the rates. It was no new proposal. It appeared as a proposal shortly after the repeal of the Corn Laws. It was designed as a substitute for Protection. Richard Cobden in 1850 refers to it thus: "There is a new red herring thrown across the scent for the farmers; they are told that Protection cannot be had just now; but in the meantime they must have half the amount of the local rates thrown on the Consolidated Fund. I am really astonished that anybody should have the assurance to get up, and, facing a body of tenant-farmers, make such a proposal to them for the benefit of the landowners. The local rates at present are paid on the real property of the country. . . . It is known to everybody that the assessment is on the rent, and if the rate is assessed on the rent, why the tenant charges it to the landlord when he takes his farm. He calculates what the rates and taxes are, and if the farm is highly rated he pays less rent. . . . Only think of this wise proposal of the farmers' friend, who says, 'In order to relieve you tenant-farmers, I will take one-

half of these £12,000,000 of local taxes off, and put it on the Consolidated Fund—that is to say, on tea, sugar, coffee, tobacco, and other articles which you tenant-farmers and labourers consume.' There is a pretty project for benefiting the tenant-farmers!" Logic like that scotched the proposal, and it took nearly half a century to revive. The project became law in 1895 by the Act of that year, which was renewed, and now continues till 1910, when the matter will again come up for consideration. By that time the agricultural landowners will have drawn £21,000,000 from the public purse through increased rents from their tenants.

In 1898 the Irish landlords received £750,000 as an annual grant to reconcile them to the granting of local government on elective principles. Then followed a gift of £600,000 a year to the Voluntary Schools of England, to relieve them from the intolerable strain of competition with schools provided in adjacent parishes out of the rates. The taxpayers of the country were called upon to pay this sum in order that the landlords in certain parishes might not be called on to suffer the indignity of paying, like their neighbours, a rate for the upkeep of the local school. The Tithes Act of 1899 granted £87,000 a year in relief of tithes from rates. It was a burden they were always subject to, and in the commutations of tithes the burden had already been taken into consideration and allowed for.

Thus in three years as many millions had been

filched from the Exchequer in aid of the land-owning class in the country.

Each addition to the system of grants-in-aid has thus followed historically upon some attempt to replace part of the cost of government upon the land which once had borne it all. In 1846 it followed immediately on the repeal of the Corn Laws. In 1856 it was the answer to the Death Duties of 1853. In 1874, Disraeli had reaped the surplus of six millions with which Gladstone had offered to the electorate finally to repeal the Income Tax. In 1896 agricultural landowners were avenged for the Death Duties Budget of 1894, and the surplus consequent on that Budget, which had been ear-marked for the abolition of the Breakfast Table Duties, was dissipated in doles to sections of the population at the expense of sound finance. Mr. Asquith in his Budget this year (1907) proposes to withdraw from the Local Authorities the specific Licence Duties granted to them in 1888, and meantime to grant them a sum in place thereof, direct from the Exchequer. This is the first step necessary to a complete overhaul of the system.

Excluding Imperial grants for education, these subventions of local rates now amount to upwards of nineteen million pounds a year. To all this system there is the grave political objection, that the bodies who have the spending of all these millions are not responsible to the persons from whom these millions come. To the Local Authority the grant-in-aid comes as a species of windfall for which they

feel no responsibility to their own constituents, the local ratepayers. These grants are thus a direct inducement to local extravagance. A cheap popularity may be earned by lavish and unnecessary expenditure. The local elector is quite satisfied if the local rates do not go up. Public control does not follow public expenditure.

Even when the money is well spent, the system is economically unsound. It takes from the poverty of the poor to add to the rich man's wealth. We have seen that the rate and the rent are together the sum the tenant can afford to pay for the subject, be it house or farm. Grants-in-aid merely aid the tenant to pay a larger rent to the landlord. Then they come out of the Imperial purse of which the largest feeders are the taxes on commodities raised in Customs and Excise. These fall heaviest on the poorest. If the local expenditure is beneficial, rents go up. The tenant class has to pay for the benefit in increased rent. The grant-in-aid of local rates merely enables the tenant to pay, and the landlord to demand, a still higher rent. The tenant thus pays twice over, in increased rent, and in Customs and Excise the Imperial Exchequer has made him pay his quota, as a poll-tax, towards paying the grant-in-aid. The direct taxes have been imposed as an instalment of justice, to reimpose the burden of the State on the right shoulders, and therefore do not come into this question. The cost of grants-in-aid is borne by the indirect taxes. These, as we have seen, are paid not according to wealth, or

ability to pay, or benefit received, but according as each uses certain articles of food and drink. Rates, on the other hand, are borne according to the rent of the house you occupy. If you had no rates, under the present monopolistic system of land tenure, you would have to pay more rent.

Now the question of whether one is better to pay his quota of a particular sum required by the Local Authority in rates or in taxes, was very carefully gone into by Dr. Hunter, at that time member of Parliament for Aberdeen. He procured a Government return, showing the number of houses in Scotland at particular rentals; from these he was able to make up the tables given below; they are well worth preserving, for the same argument holds for the whole United Kingdom.

Scotland at that time received about a million and a half in aid of her local rates. This was just about equal to her contribution to the Imperial Exchequer by the duties on tea, coffee, chicory, cocoa, dried fruits, and tobacco. That is to say, but for the grant-in-aid of rates, her quota of the Breakfast Table Duties might have been abolished, and the ratepayer might be buying his tea at 9d. a pound and his tobacco at 1d. an ounce. This gives us the following very interesting table on p. 146, showing what a man would pay if he paid his share of £1,300,000 by taxes or by rates.

In the column marked "Pays in Taxes," Dr. Hunter only gives the amount received by Government, but as the tax is indirect, we have already

	Rent.	Pays in Taxes.	Pays in Rates.	Result of Imperial Subventions.	
				Loss.	Gain.
	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Occupier . .	5	1 12 3½	0 3 4	1 8 11½	...
Occupier .	10	1 12 3½	0 6 3	1 5 7½	...
Occupier . .	15	1 12 3½	0 10 0	1 2 3½	...
Occupier . .	48	1 12 3½	1 12 0	0 0 3½	...
Occupier and owner	100	1 12 3½	8 0 0	...	6 7 8½
„	300	1 12 3½	24 0 0	...	22 7 8½
„	600	1 12 3½	48 0 0	...	46 7 8½

seen that the taxpayer pays at least as much again, in profits on the tax, and we are not overstating the case if we put the amount as paid by taxes at £3, 4s. 7d. One quite sees where the benefit to the wealthy and the landowner comes in, but it hardly appears how financiers who favour this system of relieving rates out of taxes can claim to be the friend of the working man and smaller shopkeepers. Under present methods of raising Imperial taxes and local rates, the above table shows conclusively that grants-in-aid of local rates are merely a mode by which money is taken out of the pockets of the people generally and filtered into the coffers of the wealthy.

Grants-in-aid are contrary to the Canons of Taxation. They are not even attempts to help the needy. The wealthiest get the largest grants. Until the tax by which the amount of the grant is raised is more in conformity with the Canons of Taxation, and the method of distribution of the grant is more in consonance with the actual necessities of the recipients, grants-in-aid stand condemned as the travesty of honest finance.

CHAPTER XVII

THE NATURAL TAX

Our study of the various methods by which revenue, national and local, is raised in this country, has shown that with the exception of certain principles recently introduced into the Death Duties and Income Tax, all our system of taxation presses detrimentally on industry.

Customs and Excise levied on commodities restrict the production of these commodities. They bear hardest on the poorest. They tax a man on his necessities; not on his opportunities. Our whole system of local rates is tainted with the same disease. The idler escapes and enjoys; the improver is taxed as though he were a criminal. The whole machine penalises industry in its crude endeavours to produce the 300 millions required annually for the upkeep of the State. The wonder is not that our country districts are being depopulated, and our towns are faced with the problems of want of work, overcrowding, drunkenness, and immorality. The true wonder is that the trade of Britain is the envy of the world, and her national credit foremost amongst the States. Bad as our system of taxation

is, we abandoned the fallacies of Protection more than half a century ago. Britain leads the world in commerce and finance, and her duty is still to move forward, removing restriction from industry.

If taxation is to be removed from industry, how is the revenue to be raised? We got two glimpses of natural taxation. Once in considering the reform of the Death Duties by Sir William Harcourt; the extension of the duty to unoccupied land, on its selling, not on its actual rental value, encouraged industry by gently impelling the owner to bring that land into use in order to enable him to pay the tax. Again, we found in considering the matter of licences that a tax placed on the selling value of the franchise or licence to sell an article would not restrict, but rather impel, the best use of that right.

This, too, was the lesson we learned from our study of the local rates. These as at present levied on land as it is used, on land and buildings or other improvements, restrict and paralyse improvement, whether agricultural or urban. But a rate laid on the value of land, whether the land is in use or lying idle, on the value of land apart from the added value of any improvement on it, would not discourage or restrict improvement; on the contrary, would encourage improvement by leaving the whole value of the improvement untaxed to the improver.

A tax on the value of land is in direct accord with the Natural Canon of Taxation. By it the

State asks a man to pay according as he has received from the State. The causes of the value of any piece of land, or of all land, are comprehended in these two factors—(1) the presence of a community, and (2) the communal activity or exercise of the governmental functions; the presence and work of the community.

The value of land depends in the first instance on the demand for permission to use the land. An acre of land in London, which almost within memory of man was a mere swamp, is of more value than a hundred square miles of good arable land in Africa. The presence or absence of an industrious population, desirous of using the land, makes the difference.

The second factor in creating land value is government. A good stable Government, providing security alike to life and property, and engendering confidence among traders, manufacturers, and the industrious, is an important element in determining the difference between the values of land in civilised countries and in semi-barbarous countries. We have already dealt with the effects on land value of the activities of Local Authorities. All these enable the inhabitants, as Adam Smith says, "to pay much more than its real value for the ground they build their houses upon"; or their farms or their factories, we may add. All beneficial governmental expenditure may be said to crystallise or reappear in the value of land.

"Nothing can be more reasonable than that a

fund which owes its existence to the good government of the State should be taxed particularly, or should contribute something more than the greater part of other funds toward the support of that government," is Adam Smith's conclusion. Thorold Rogers' note on that is, "A tax on ground rents is one of the most just taxes that could be levied. The value of a ground rent is not in any degree due to any labour or expense on the part of the owner, but arises from the growth of population and wealth."

The value of the land is the day-to-day product of the presence and communal activity of the people. If population deserts a town or portion of a town, the value of land will fall; it may become unsaleable. In roughly narrating the history of taxation, we saw something of the origin of titles to land. Historically, a return to taxation on land may be said to be fully justified. That is a very minor point. What is of importance is, that whatever the historic origin of the present titles to land may import, the fact remains that the owner of land receives from day to day in land value a gift from the community; and justice requires that he should pay taxes to the community proportionate to that gift.

While the State would receive this tax from the owners of land, every citizen would contribute to the sum so collected. In the rent paid by each tenant, part we saw was referable to rent of land or ground rent, and part to rent of building. The

2d. or 4d. paid by the veriest vagrant in a doss-house for his bed contains these two ingredients, the value of land, and the value of building and other improvements. In the land value the dosser has paid the market price of the privilege of having his sleeping accommodation in that place, rather than at some place more remote and less influenced by the presence and work of the community.

"Land value," or "ground rent," as the older economists call it, is thus a tribute which natural law levies upon every occupant of land, however fleeting his stay, as the market price of all the advantages, natural and social, appertaining to that land, including necessarily his just share of the cost of government. In land value a man pays for all the advantages he obtains by occupying a particular piece of land, rather than any other where these advantages are not. By occupying that particular spot of earth's surface he gains an advantage he could not gain elsewhere. That advantage is thus not due to his labour, but proceeds from some superior quality of soil; some greater facility of access to a market in which to dispose of the fruits of his own labour; some greater measure of security provided him for the enjoyment of those results of his own industry. All these go to form the land value, and a tax regulated by the value of the land occupied by a man would fairly and squarely close the account between him and the community.

Now a tax on this value of land apart from improvement will not discourage industry. The

rent paid by the occupier or worker is a maximum already, and the imposition of a tax on that rent will not enable the owner to get any higher rent from the occupier.

Further, all land is not put to its full market use at present. Much of the land of the country is kept out of use owing to the law making no demand on the owner of unused land for any contribution either to the Imperial or the Local exchequer. By the public expenditure this unused land is rising in value, but it contributes nothing towards that expenditure. It pays the owner to hold on till he gets a higher price. Thus the supply of land in the market is artificially kept below the amount of the whole land which has a value. This forces up the price which the occupier has to pay for the use of land, and produces Adam Smith's Law of Rent, which is the measure of rent, not as it should be, but as it actually is under the present condition of artificially created monopoly.

The natural law of rent is that enunciated by Ricardo, and adopted by John Stuart Mill in these terms, "The rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use." This excess is caused by the nature of the land and its position in regard to market and facilities for production, including all the benefits of what we have called communal activities. None of these are due to the labour of the owner, *qua* owner. Rent fixed on this basis leaves to the occupier, whether

owner or tenant, all that accrues as the result of his own expenditure of capital and labour. Thus this natural law of rent is the correlative of the natural law of wages; the labourer as occupier should get the value which accrues from the exertion of his own labour.

The monopoly law of rent, on the contrary, leaves to the tenant, or labourer, the wage fixed by the iron or minimum law of wages. Monopoly rent requires the labourer to pay for access to land, all that he can afford after meeting the bare cost of subsistence. If more is in fact left him, that surplus is due, in the words of Adam Smith, to "the liberality, more frequently the ignorance, of the landlord." Thus the tendency of monopoly rent is to produce the minimum wage. The result of the day's labour is absorbed in rent, with the exception of just so much of it as is essential to keep the labourer in a state to do to-morrow's work. Against this tendency trades-unionism is an attempt to set up the shield of another monopoly for certain kinds of labour. It has thus secured something more than this minimum for certain workers; just as exceptional skill may do for a few. But it never can free all labour from this dire tendency caused by monopoly rent of land.

A tax on land value will break this monopoly. It is a tax on all land that has any value, and according to its value. It will not fall on the tenant, as the amount of rent payable by him is fixed apart from the imposition of the tax; whether

his rent be determined under the monopolistic rule, as at present, or under the natural law of rent. In either case the amount payable cannot be increased by the owner of the land. The tax is part of the rent. Such a tax falling on the value of all land will tend to lower rent. It will press all land into the market for use to the full market extent. It will no longer pay to keep land out of use waiting for a rise in price. An increase of price will correspondingly increase the tax, and the buyer will never consent to pay a price for the portion of the rental which goes to the State in payment of the tax. Where all valuable land is taxed, although some owners might try to hold land unused, paying the tax out of capital, others would be forced to sell in order to meet the tax, and these would lower the market for all.

Such a tax would kill land speculation, which is antagonistic to industry, as it means holding land not to use, but for a rise in price. Land speculation means that industry or capital desiring to use the land has to pay a higher tax to a private individual than is just or necessary, before he will permit them to use the land. The private owner of land is a mere tax-gatherer. As our law has been adjusted by landowners' Parliaments, he retains the tax so gathered for his own purposes, and leaves the State to find its revenue as best it may by placing further burdens of rates and taxes on the industrious, according to their necessities or according to their industry.

A tax on land values would be easily and cheaply collected. No custom-house oaths would be required. Nor could such avail to conceal the subject taxed. The public assessment roll would be the Domesday Book on which the title of the landholder would rest. There need be no inquisitorial inquiries into private affairs. The use made or profit reaped from the land by each citizen would not concern the tax-collector. The time and manner of payment can easily be arranged to suit the convenience of the taxpayer. When the value of the land has been assessed there is no dubiety as to the certainty of the tax.

It has been objected that it is not practicable to assess the value of land apart from the improvement. This question was considered by the Select Committee of the House of Commons which dealt with the Land Values Taxation (Scotland) Bill, 1906. Witness after witness stated that in his opinion such a separation of values was impracticable. Yet these very witnesses were making this separation of values in their daily practice as valuers of subjects which were being bought and sold. This discrepancy between their evidence and their practice arose from their imagining that a valuation of land apart from improvement could be a matter of absolute accuracy. All that can be looked for is a reasonable approximation to accuracy. A closer approximation to accuracy of valuation is possible in the assessment of land values than is possible in the case of any other subject. In ordinary course the basis of the valuation will be the

statement by the owner of the price he puts upon the land. The owner is best able to fix this value if he wishes to do so. There are two lines of pressure which bear upon him to induce him to come to a right determination. If he puts the price too high, higher than he is likely to get in the market, his tax will be unduly increased. On the other hand, he is not likely, publicly, to decry the value of his own property. The resultant of these two conflicting tendencies may be expected to yield a fair valuation.

Again, it is said that in many cases, if improvements be deducted, farm lands will have no remaining land value. With their improvements, some farms barely leave a rent to the owner. This is to forget that much of the existing agricultural depression is due to the pressure of rates, and the land tax, on improvements. That this is so is proved by the experience both of judicial rents under the Irish Land Acts, and fair rents fixed under the Crofters Act in Scotland. Under both these systems, the rent of the land had to be determined apart from improvement. The improvements had in most cases been put there by the tenant or his ancestors, and he was not to be made pay rent upon them. The rents so fixed were on the average less than had been in use to be paid, but in no case did rent disappear, and in all cases the rates payable by the tenant would fall to be added in order to arrive at the land-value rent available for taxation, if all rates and taxes were to be imposed on a land-value basis. In the poorest parts of the country, in the wilds of Connemara, and the

moors of the Highlands, there is even for poorly worked farms a land value, smaller than for an equal area nearer a market; but that merely reaffirms the fairness of taking the land value as the ratio of taxation. It would distribute taxation over the country in proportion to benefit received. The outlying parts which received less would pay less than the towns and cities which benefit most, as in them the population is densest and the communal activity most highly developed.

The present system penalises industry, the proposed system would make it inexpedient to hold land idle or poorly used. The effectiveness of demand for land for any particular use is at once measured by the market price of the land, apart from improvement. The land value apart from improvement will at once give the measure by which in any given instance it can be determined what is the higher use. At present the rate upon the combined subject land and improvement places a premium on holding land with as little improvement as possible, encourages the deer-forest as against the croft, the sheep farm as against the arable farm, the large farm as against the more highly laboured small holding or fruit farm.

But, it is asked, would you tax a man who invests a thousand pounds in landed property, and let off free the man who invests the same amount in railway stock? No. The man who has invested in land is asked to separate the value of any improvements on the land from the value of

the land itself. The former he gets to himself tax-free. He would pay tax only on the land value, or the value of the right to enjoy these, or any improvements on that site. So, too, with the investor in railway stock. He thus becomes part-owner with others in a railway concern. The managers of that concern are asked to divide up the value of the concern between the value of the rails, equipment, buildings, and other improvements, and the value of the right to enjoy the use of these on a particular strip of land. The latter is their land-right,—the right or franchise of running trains, carrying passengers and goods from point to point across a strip of land, it may be hundreds of miles long. This right is a monopoly franchise of such value that millions of pounds are spent to obtain it. It is a right in land all the more valuable that in most cases it is a monopoly. In discussing the assessment of the value of such a right in land, some people talk as if it were to be measured by what the same strip of land would fetch for building purposes if placed on the market with access to it available only from either end. Such a suggestion arises from an entire misconception of what the land value of a railway is. Like other land values, it is the value of the right to enjoy the use of a particular piece of the earth's surface. In the case of a railway, the use to be enjoyed is the carriage of passengers and goods, and the piece of the earth's surface is the strip of land, with sites for stations and other necessary accompaniments of a railway system. At present

our rating system values by a mere rule-of-thumb method the whole railway undertaking, and thereby penalises that railway most which has spent most capital on the construction of its lines, stations, and improvements generally. It would greatly encourage the railway companies to improve their service of the public, if the rates and taxes were removed from their improvements, and placed direct on the value of the franchise granted to them by the community in Parliament. The franchise has been given to the company by the community, and it is right that its value should contribute to the upkeep of the community.

The notion that railway land should be valued at the same rate as agricultural land, or moorland, lying alongside it, is as absurd as the suggestion that it is to be taken as building land. It is definitely devoted to one particular use. That alone determines the value of the land. Its value is as land used for a railway. It is the value of the railway right over the strip of land, with the stations and termini. The value of this right cannot be measured for any particular mile or furlong by the value of the use to which land alongside that mile or furlong may be put. The value of the railway right in land over the whole strip may be millions; if the strip were cut up into a thousand sections, never to be united, the value would probably be *nil*. Certainly for railway purposes the disintegrated strip would have no value whatever, but the value of the land-right as it exists is enormous.

Similarly, all other companies who hold special monopolies would be taxed on the value of their franchise, as apart from the value of the capital they have laid down in exploiting the monopoly right so conferred on them. Thus a tramway company owns as its main asset the exclusive right to use the streets of a town or the roads of a district in a particular way. While other people may run their wheeled vehicles over the same road, even on the rails laid down by the tramway company, it alone may run vehicles on these lines with flanged wheels to fit the rails. Now just like the right of a railway, this exclusive privilege granted to a tramway company has an ascertainable value, and in practice this value affects the market price of the tramway stock when bought and sold in the share market. This part of the assets of the tramway company is expressly excluded from the deal when, in terms of the general Tramways Act, the local authority, after a period of years, becomes entitled to take over the tramway undertaking at a valuation. Only the then market value of the line and structural erections may be taken into consideration. Just so, for the purposes of taxation, the value of the franchise may be separated from the value of the structure by which the company is exploiting the franchise. The value of the franchise is the value of a right to use the land in a particular way. It is conferred, maintained, and increased by the corporate action of the population, and may rightly be made to contribute to the upkeep of the community. The structural

erections are the product of the industry of the company, and any tax on them would tend to discourage the company making full use of the franchise held by it. That can only tend to the detriment of the public as well as of the company. Such a tax restricts industry. If the tramway company pays taxes on the value of the franchise it has received from the public, that will square its account for the benefits it has received from the State. Any other tax would take from it, and through it from its individual shareholders, part of the result of their own industry. Similar considerations apply to all companies which, from one reason or another, receive from the State franchises or exclusive rights to perform one or another function useful to the citizens. The values of these franchises grow with the growth of the community, and are secured to the individual company by the protection of the law. Water works, gas companies, electric light companies, telephone companies are all obvious examples of this rule. Indeed, so evidently are their rights the creation of the communal activity, that more and more the tendency seems to be to keep them under public control, and exploit them for the general benefit. Under present conditions this tendency is a severe strain upon municipal purity. The general restriction of trade, so prevalent under our present system, makes the attempt to extract from the municipality some share of the revenue of these monopolies so tempting as to prove in many cases irresistible. It takes the form of

bribes, more or less tangible, to muncipal officials, by traders and manufacturers, in order to obtain some contract to supply the undertaking with the necessary plant or supplies. For this the only remedy is, not so much public audit and careful supervision, as a general advance in freedom of opportunity to all to trade, which would make it no longer worth while to spend money in illegitimately obtaining contracts. This can only result from the adoption of the system of relieving industry from all taxation, and opening up the opportunity to work, by taxing all land values of whatever sort, so as to press them into the market on equal terms.

All this is especially applicable to the question of Liquor Licences. The grant of the licence at once increases the selling price of the subject licensed. The value of the building is not thereby affected. What has happened is that the right to exercise an exceptional right on that spot has been granted to the licensee. The licence is an addition to the land-rights, and the value of the land is correspondingly increased. In the instance formerly given, which was borrowed from the excellent book on licensing reform by Messrs. Rowntree and Sherwell, we saw that the grant of a licence to premises previously worth £3500, increased that value to £24,500. That means that the building probably was worth some £3000, and that the land value had risen from £500, which we may take as its ordinary building value, to £21,500, which is the value of the right to use that piece of land for the purpose of

selling excisable liquors. That right is the gift of the community. Its value is created by the law which makes the sale of alcoholic liquors a monoply. The value of the building itself is not the gift of the community. We have already seen how the free gift of a licence to an individual tends to the corruption of municipal life, by making it well worth the individual's trouble to spend time and money in inducing the municipal authorities to grant the licence. If, however, the State were to ask for a due equivalent for the right so granted, that inducement would be taken away. The individual would have to pay the community for what the community gave him. There would remain to him the ordinary trade profit to be gained on his trade. There would no longer be excessive competition for the right to carry on the trade of liquor selling. That franchise would no longer produce to the licensee any more than an ordinary shopkeeper's profit. There would be no special inducement to a man to lay out large sums of money merely in order to get permission to enter into a business which would no longer yield him more than a due trade return. This would tend to the removal of one form of impurity which is threatening our municipal life. The licence-holder would pay to the community as he had received from the community.

A tax on land values thus covers the value of all rights to use the land, or indeed the rivers and shores of a country, so far as these have been reduced into private possession. The value of these rights

is not created by the individual who holds them, but is due to the presence and communal activity of the people as a whole. By such a tax the community would but resume its own, and each individual would be left in the full enjoyment of the produce of his own labour. Land monopoly would be destroyed. The occupier would pay natural rent for the right to use the land. The labourer, in a free market, would get a wage measured by his labour. The State would live by the result of its own activity. In the sweat of his own face each would eat bread.

CHAPTER XVIII

ITS SUFFICIENCY

THE land value of any country always is sufficient to meet the cost of good government. As we have seen, in performing the functions of government, the communal authority is merely doing for its individual citizens "wholesale," what it would have been otherwise necessary for them to do by private enterprise at greater cost, or do without. This inherent quality of land value makes its adoption as the basis of the financial system comparatively easy. The alteration from the old and vicious system can be made gradually, and the readjustment may be accomplished step by step, without any grave shock to the financial and commercial system of the country. Even a very partial and tentative instalment will beneficially affect all the industrious portion of the population, while no great hardship need be experienced by those few whose monopoly may be interfered with. Any instalment will act in the direction of relieving industry, and the pressure will only bear upon those who are holding land as a speculation for a rise in price. As the present taxes upon industry are one by one

repealed, the benefit would soon show itself in increased value of the land, and thus add to the fund which would go to replace the repealed tax in the local or national exchequer.

If the present rates were abolished and the local administration were still maintained, rents would rise in each locality. This increase of rents would indicate a still greater rise in the value of the land in the locality, as any unused or poorly used land would share in the rise. This effect of the abolition of a local tax was seen in the well-known case of the old halfpenny toll on Waterloo Bridge; when the toll was abolished and funds for the maintenance of the bridge were otherwise furnished, a noticeable rise in rents took place in workmen's dwellings on the south side of the river Thames. The abolition of the toll decreased the cost of living on the south side of the river by about sixpence a week to those who worked in the city, and very soon this was more than absorbed in rent. Similarly the abolition of any tax makes the cost of living cheaper, and thus tends to raise rent, and a rise in rents means a rise in the value of land.

In this way a readjustment of rates seems merely the reimposition of the old burden under a new name. That is hardly so. The old rate was distributed only upon land in use, and affected it in proportion to the use, thus grievously restricting the use. The new tax would be distributed over all land, whether used or idle, and will affect it according to the benefit it receives from the

communal activity, whether the owner at present avails himself of that benefit or keeps the land out of use. The old rate penalises industry twice over; it leaves unrated the owner who refuses to use his land, and thus enables monopoly rent to be demanded for all land in use; it further penalises industry, because the better the use the higher the rate.

Thus the repeal of the unjust tax will add to the value of land out of which the new tax is to be demanded. Only such owners as are refusing to use their land fully will suffer from the change. The new rate will bear more lightly than the old on all land at present put to its average market use.

The inexpediency of the present system of rating had been explained to a meeting of working men, and was brought home to them by the personal experience of one of their number, who said: "I am just a case in point. I am a foreman mason, and saved up enough money to buy one of those villa-cottages on the brow of the hill. There are six of them in a row, and room for a lot more. Well, we all stood in the roll rated on £20 a piece. In my spare time last year I built a little conservatory at the side of mine. They have put me up to £25 in the roll, while my neighbours still stand at £20. I appealed, and said they were taxing me on my industry. But the justices merely said, 'That's the law,' and left me at the £25." The system does the same with all industrious men, farmers, manufacturers, shop-keepers, all who spend labour and capital in improving their property; and if the land is not

their own, their rents go up as well as the rates on their own improvements. The new system would deal with the foreman mason thus: Each of the villa-cottages stands in its own plot of ground, a quarter of an acre in extent, a model of what a working-man's house should be. The land was let for building at about £20 an acre. So the annual land value of the cottage is £5. This is just a quarter of the old rateable value of the cottages, land and building together. Then, if the ratio of land value to use value were similar throughout that rating district; that is, if over all the value of the land were to the value of the building or other improvement as one to three, the rates would require to be quadrupled if assessed on land value alone. That is, if under the existing system our mason is paying 1s. a £ on his £20 rental, then under the new system he would pay 4s. a £ on his £5 of land value, or 20s. as before. But now having paid his 20s. he could build his conservatory, or add to his house as he chose, without having his rates increased. That would come under the head of improvements, and would not add to his rateable value. They are the result of his labour and skill, and would belong to him. But that is not the whole story. All the land in that rating district is not as well used as his cottage site. Where we have statistics, they show that, on an average, in urban districts the value of the land is about equal to the value of all the improvements; that is, where the present rateable value of a town is £200,000, the

value of the land is about £100,000, and the value of improvements about the same. The ratio all over is not 1 to 3, but 1 to 1 approximately. Therefore the land value rate required to replace an existing rate of 1s. per £ would not be 4s., as we assumed above, but only 2s., to produce the present local revenue. Thus our mason would in future pay 2s. a £ on £5, or 10s. of rates, in place of his old 20s., or the 25s. they demanded after he built his conservatory.

Where, then, would the other 10s. be got to replace the amount he is relieved of? Why, from the land which is at present kept out of use; from those vacant sites alongside the villa-cottages, which at present escape paying rates altogether; and from all the land which is poorly used at present, which is held to a lower than its market use. All land will pay not as it is used, but according to the benefit it receives from the presence and work of the community around.

It is objected that the land value will in many cases not afford a sufficient sum for the payment of the rates if all improvements be exempted. Such an objection arises from a misconception of what economic rent, or annual value of land means. The money rent paid to the owner of land is only one part of the land value. Another very considerable part is, in the case of occupied land, paid to the community in rates and taxes.

Thus one objector stated that with the aid of a skilled assessor he had worked out the annual

value of the land of a small town, taking 4 per cent. on what was the fair market price of the bare land, and found that on this basis it worked out at £10,000 a year, while the present amount of the local revenue raised in rates was £15,000. This, he maintained, meant an assessment of 30s. in the £ on the land value. He forgot that in arriving at the ordinary market price of a piece of land the first thing an intending purchaser does is to deduct from the nominal rental the amount of the owner's rates and taxes. And in arriving at what he can pay to the owner in rent, the tenant has also deducted from the true rent the amount he will have to pay in tenant's rates and taxes. Thus all the rates and taxes affecting the subject have been deducted before the ordinary selling price has been arrived at, and to the annual rental of £10,000 arrived at on the basis of the market price, fall to be added at least the £15,000 actually levied under the present system in rates. These have been deducted in the market price, and would not be collected in future if the new rate were imposed; and hence the land value available for the payment of the new rate is at least the 4 per cent. interest on the present market price, plus the old rate, *i.e.* £25,000 in the case supposed. The ratepayer would be better to pay 12s. per £ of the new rate on his share of that land value, than his present rate of say 3s. per £ on his rental value, land and improvements combined. If he is using the land to the average market extent, "farm" land for farms, "building" land for building, he may still

have to pay the same amount as of old; but once he pays that rate he can improve his holding to his heart's content, and have no increased rate to pay: a freedom of untold importance in the solution of a burning question such as urban overcrowding and rural depopulation. At the root of all such questions lies the artificial scarcity of land, caused by the taxation of improvements, and the concurrent failure to rate valuable land which is unused or badly used.

By whatever mode the State may raise its revenue, the burden must ultimately fall as a deduction from the rent which would be exacted by the landowners of the country, if the circumstances of the land, that is, the benefits it derives from the presence and work of the community, remained the same, but the tax were not exacted.

Taxes used and wont act as a permanent reserved rent vested in the State. At present, to the detriment of all classes, most of our taxes and our rates fall only indirectly upon rent, and that too only upon a part of the rent of land. The position has been well likened to that of a racehorse which objected to having the saddle strapped on. In whatever way the saddle was adjusted the horse had to carry both saddle and rider. The saddle in its proper place would have assisted both the horse and the rider to play their respective parts in comfort. The land must support both the Government and the labourer. If the cost of government is placed direct on the land, both the landowner and

the labourer can act their respective parts in comfort and with the least inconvenience. The present system, whereby the taxes only reach the land after crushing down through the body of industry, is as though the horse were to carry the jockey on his bare back, and the jockey were to strap the saddle on to his own neck, to the discomfort of both horse and rider. Taxation raised directly from the value of land, apart from improvement, would cause an automatic adjustment of the saddle, to the enormous advantage of all concerned.

We found that the rate and his nominal rent made together the sum which the tenant could afford to pay for the subject. The fact that the rate fell on the building as well as on land in use, doubly hurt the occupier. So the Imperial taxes which a man pays fall as deductions from the sum he can afford to pay in rent to the owner of the land for the right to use the land, for the right to work. Customs and Excise increase the cost of living, and that by a far greater sum that what the State receives. Even monopoly rent as defined by Adam Smith can only squeeze out of the labourer as rent for the use of land what remains of the product of his labour after deduction of the cost of subsistence—sometimes a little more, and then immorality, crime, disease, and death ensue. Thus the Customs and Excise ultimately decrease the fund which monopoly rent would claim for itself. This decrease is much greater than the amount received by the State. It includes all those indirect profits which we found

flowed from the additional profits involved in the partial monopolies created by indirect taxes. Even the Income Tax itself, in so far as it is a tax on wages, will, like the Indirect Taxes, fall ultimately, though indirectly through the labourer, on the value of land. So far as it is really a tax on "unearned" income, it will fall directly on the land.

The less direct the incidence the more in proportion will taxes affect the rental value. This follows, as we have seen, from the action of the economic law by which the payer of a tax on a commodity can only force it back on the consumer by restricting the amount of the commodity he produces. Let it be the rate falling on houses; this is forced back on the occupier of the house by restricting the quantity and quality of houses in the market. This in turn restricts the demand for land on which to build houses, for quarries from which to hew the stone, for forests from which to cut timber. Thus all trades are restricted, and the workers, masters and men, brain or hand, are crushed down to their respective "minimum wage." We have over-work and out-of-work, both produced by the attempt to squeeze back on the consumers, who are the whole population, these rates and taxes which through their necessity must ultimately fall as a deduction from the sum they can afford to pay for rent.

This tendency of taxation to reduce nominal rent is reinforced where the expenditure for which the tax is raised is unremunerative. In that case the incidence of the tax is not counterbalanced by an

increase in land value due to beneficial expenditure.

It is said that both in town and country there has been recently a grave diminution of rents. Can we wonder? If taxes are increased and spent upon distant wars, which can bring at best only an infinitesimal benefit to the home worker, it means that land value not being increased by the expenditure, the apparent rent which the occupier can pay to the landowner must be impinged on by the payment of the increased taxes. Here and there over the country a temporary impetus may have been given to certain classes of trade and manufacture immediately concerned in supplying material for the conduct of the war. The withdrawal of so many thousand men from industrial employment to take part in the non-reproductive work of soldiering directly tended to lower rents at the time. That tendency is continued by the action of the increased taxes which still require to be levied to meet the cost of the war debt. Owners naturally attempt to keep their nominal rents up, and if other tendencies shall supervene which more than cancel the lowering tendency caused by the war, the owners may succeed in keeping their rents up. But meantime the occupier is being pressed betwixt the upper and the nether millstone. Where he is bound by a lease he has to pay a higher rent than the place is worth, and higher rates. This must deplete any savings he may have made, or drive him into bankruptcy. Where leases run out, the landlord will try to force

a renewal at the old rent, and will probably rather see his property standing vacant than spoil the credit of the subject by leasing it at a lower rent. In towns, families will tend to crowd into cheaper and smaller houses. This tendency has been very apparent of recent years, but has also been concurrent with a tendency to take houses in the outer suburbs, caused by cheaper and swifter modes of locomotion. Thus the property owner to-day, as against the cry for more and cheaper houses, can point to thousands of houses standing vacant in our large cities. He forgets that with 400 million pounds recently sunk in wasteful war, land value, and therefore rent, has sunk in sympathy with this non-productive expenditure. His efforts to keep up his rents, or refusal to lower them sufficiently, is merely adding to the loss, by forcing efficient workmen to emigrate to Canada and elsewhere, in the hope that there they and their children may get a firmer foothold on the soil, and not be subject to the mere whim of a landowner. In face of all the unoccupied houses, official statistics show that the system of subdividing old houses into smaller houses is growing apace, to the evident detriment of the sanitary conditions of the occupants.

It is here that the new system would more readily lend relief. The fall of value would be accurately and timeously recorded, and the necessary readjustment between all parties be easily and readily effected, to the good of all.

Politically, the value of the new system is apparent. The Valuation Roll would act as a measure

of all governmental action. Wasteful expenditure would show a tendency to lower the scale. Useful expenditure would be more than met out of the consequent increase in land value. The State is doing "wholesale" what the individual would have to do "retail" for himself. It would only be in days of national stress, war, famine, earthquake, that Government outlay would be necessary which did not result in increase of land value. The expenditure would, however, prevent a greater falling in land value than would occur were it not for the State's intervention in such a case.

Many attempts have been made to state in figures the amount of the land value of the United Kingdom. In view of the above considerations, such estimates are rather curious than useful or convincing. Mr. W. H. Mallock, in his *Property and Progress*, estimated the total rental value of Great Britain and Ireland at £99,000,000, while some years later Professor T. Harris puts it at £62,442,000; and another economist, Mr. George Gunter, presents with "crushing" confidence and mathematical accuracy £131,468,288 as the correct figure for the same year. Not one of these estimates happened to contain the rent of the city of London. The House of Lords had persistently refused to allow any return to be called for as to that treasure-house of private privilege. The above estimates omitted any value for land rights enjoyed by railways, canals, mines, and the like. Professor Harris in his estimate mistakes agricultural value for land

value, and includes only such land as is used for farming and rural purposes! More recent opponents have been less ready to put figures on the amount available under a system which placed the burden on the value of the land of the country. A statement by Professor Edwin Canaan, who attempts to show the danger of such a change in our financial system, is, however, worth quoting, as showing that the fallacies evident in the above estimates are not yet dead. In a paper read by him before the International Conference of Economists, held in London in the spring of this year (1907), in the course of attempting to point out the dangers of freeing buildings from rates, he says:

"It is clear that the rent of any land, however productive, could be wiped out by the simple process of enacting that whatever rent there was should be given to all who worked on it, and then admitting all who offered themselves. Competition would attract just such a number of workers as would reduce the advantage of working on that land rather than on any other to *nil*; in technical language, returns would be diminished till the surplus rent disappeared."

Patently the learned Professor is under the impression that if the State resumes the whole economic rent of land by a tax of 20s. in the pound, economic rent will cease to exist. On the contrary, it continues to exist, but in place of being frittered away in the pocket of the private owner, it will exist and fructify in the Exchequer of the State. Does the

Professor think that when free grants of land draw crowds of immigrants to North-West Canada, that the increase of population induced thereby is tending to the obliteration of economic rent? The ordinary non-professional mind is apt to think that the reverse is the result, the greater the population the greater the economic rent.

At present no figures exist from which we can estimate, even roughly, the land value or economic rent of the United Kingdom. All that the above-mentioned statisticians and economists could profess to do, was to give a rough and very imperfect estimate of monopoly rent as at present drawn from those parts of the land of the country which are put to some use, however restricted. Thus such estimates only give the amount the occupier can afford to pay after he has paid the cost of living, which at present includes all his rates and taxes, seeing all these fall on his industry first and only indirectly on the land. There are no figures available to show the value of land in and around our towns and cities, which is rapidly appreciating in value owing to the demand that they should be made available for buildings. It is impossible even to venture an estimate as to what figure would cover the value of this land thus held to a lower than its true market value. Land is held either vacant or as arable where the necessities of the housing of the people demand that it should be built on. Land is held in large farms where it might with advantage be put to more intensive cultivation as small holdings or garden ground.

Two million acres of possible arable land is devoted to sport in the Highlands, and so on. Further, the demand that it shall be put to the higher use is at present artificially restricted by the law which rates the land higher the better it is used.

Any figures available for this country can thus only profess to afford ground for an estimate of the monopoly rent at present enjoyed by the owners of rights in land, and that after the occupier has met the burden of the present rates and taxes other than those placed directly on ownership. Thus, from the Income Tax Report, 1906, we take the following figures, classifying them according as they seem to represent pure rights in land, or incomes derived from land and improvements conjoined:

NET INCOMES FROM REAL ESTATE, 1904–5

I. From pure Ground Rents—		
Manors, tithes, fines, etc.	£1,296,000	
Fishing and shooting rights	222,000	
Market privileges and tolls	854,000	
		£2,372,000
II. From Land and Improvements—		
Agricultural lands	£52,258,000	
Houses	201,573,000	
Canals, waterworks, mines, ironworks, gasworks, etc.	41,642,000	
Railways	41,211,000	
	£336,684,000	
50 per cent. of this		168,342,000
Net annual incomes from land		£170,714,000

There is undoubtedly room for controversy as to whether 50 per cent. is a reasonable figure by which to divide the income derived from "land and improvements" combined, so as to arrive at an estimate of the monopoly rent of land alone. It is an estimate, and cannot profess to be more than reasonably fair. We know that in the centres of towns the value of the ground usually greatly exceeds the value of the buildings, while towards the outskirts the proportions are reversed. The same gradation of the ratio between the land and the improvement is observable in farm land. Close to the town the value of the land may exceed the value of the improvements; the ratio gradually changes, until in outlying or poor land the ratio may be reversed. No definite figures are available on this matter in this country, but in New Zealand, where a National Tax of 1d. in the £ was placed upon the capital value of all land apart from improvements, we have the following figures for 1903:

Unimproved land value .	£103,476,000
Value of improvements .	65,373,000
	£168,849,000

or a ratio of 61 per cent. land value and 39 value of improvements. In New York City the land has been valued separately from the improvements, and there, too, the ratio of land is 60 per cent. of the whole. Boston, U.S.A., has also separate valuations of land

and of improvements, and the ratio comes out the same.

Our estimate of the monopoly rent of the United Kingdom is therefore supported by the experience of those places where figures, more or less accurate, are available. But, while that is so, we must always remember that they give but little indication of the economic rent which would be available for the maintenance of the State when the land-values basis had been gradually adopted to the elimination of all other taxes. The process of substituting the one system for the other may easily be made so gradual, that presently existing private contracts need not be seriously disturbed during the process. Each step in advance will add to the freedom of industry; curb and finally eliminate the domination of monopoly and class privilege; make all men free; affording equal opportunity to each, and privilege to none.

CHAPTER XIX

OPEN SPACES

ONE objection which has had considerable effect on the public mind is the allegation that taxation of land values would cause the owners of open spaces in towns to build upon them to the evident detriment of the community at large. The fallacy at the root of this allegation is that by building on a piece of land the highest value can be got out of it. In many cases building may be the proper use of land, but it always depends on circumstances whether it is the best. One constantly recurring example of a higher economic use than building is the demand for land for railway purposes. Dwelling houses are "scrapped" and the land used for a new line of railway. Similarly, with the growth of a town the widening or straightening of a street may be a better use than dwelling-houses or even shops and offices. A costly building may have to be bought up and pulled down, in order to widen the street. In the result the value of the resulting site, even as diminished in size, often covers the whole cost. So it is with public gardens and air-spaces generally. The value of the land which is devoted

to public garden ground is not lost, it reappears in the increased value of the sites around it. When Liverpool purchased Sefton Park from the Earl of Sefton and devoted it to the use of the public as a park, the value of the rest of his land around the park was increased in value by about three times the cost of the park to the city of Liverpool. The park was a public improvement, and added to the value of surrounding property far more than its cost. It would have been a beneficial improvement which Lord Sefton, with benefit to himself, might have made in the administration of his own estate. It is just such an improvement as a proprietor laying out a building plan of his estate often makes, knowing that the space is not lost, but is an exceedingly advantageous method by which to obtain higher prices for the remaining land on which building is permitted. It is of the nature of a public improvement, on the same footing as any other addition to the convenience or amenity of the neighbourhood—it adds to land value around. So far as necessary for the health and well-being of the community, the provision of such open spaces ought not to be left to the goodwill or the caprice of the individual proprietor. The public authority ought to be endowed with reasonable powers, especially in reference to land as yet unbuilt on, to mark down the amount and situation of air-spaces necessary for the health of the community. Under the present conditions of local rating, the exercise of such a power is rendered impossible by the difficulty of adjusting the duty of

providing land for open spaces among the various proprietors. The open space might be upon the lands of one, while the benefit would accrue to the lands of all the surrounding proprietors. Taxation of land values would automatically make the necessary adjustment. At present roads may be provided or widened at the cost of all the ratepayers of a county or district. But these may not all be benefited; some of them may even be detrimently affected by the diversion of traffic. Certainly the accruing benefit is not in proportion to the value of the improvements each has put on his land. Here it is that the land-value system comes in to facilitate matters, for if the rates were levied on each according to the value of his land, then each would pay only in proportion to the benefit he received from the new road. Thus, if taxation of land values were in force, there need be no difficulty in the public authority exercising a power of providing such open spaces as the health, comfort, and enjoyment of the population demanded. Nay, there would be an invincible pressure on them to see it done. The present system has not prevented garden ground being built up, to the detriment of the public health. In the centre of every large town, gardens have long since disappeared. This disappearance has been unduly hastened by the holding up of land all round the town. The monopoly ring round the town has forced its buildings skyward at the centre, and the old air-spaces have been obliterated in the process. The squares and gardens that still remain have been

preserved against this economic tendency by legal restrictions in the titles. All these legal restrictions would be as valid under the new system as under the old, and the economic pressure on them would be immensely relieved under the new system, which would clear the barriers and allow lateral extension to proceed on natural lines.

In Prussia, where the rating is more and more being placed upon the selling value of the subjects, the municipal authority has been given the power to map out the surrounding country on a building plan, to which proprietors must conform when they come to build. Power is given to adjust the boundaries of the various proprietors where necessary. A similar power would follow naturally in this country when the land-value system of rating is once in operation.

CHAPTER XX

ITS JUSTICE

Natural Taxation can alone secure true freedom to the citizens of a State. By our present Revenue system the citizen is subject not only to the State, but to the landowners of the country. In some places this may be concealed by the multiplicity of landowners in the town or district. But in agricultural parts, where one owner may rule a country side, and even in towns and cities, the power of the landowner is patent at every turn. No man can touch the land till the landowner's price has been paid. Until his views are met no local enterprise need be set on foot. He is a lord indeed, although he may not have been summoned to sit among the Peers. Of what avail the right to vote, even under the ballot, if the owner of the land you live on disapprove. His rights are rights to tax industry, and by our present system he is left free to exercise these at his will. He can ask such a price, or place such restrictions upon use, as to interfere and prohibit the growth of a town, or make half a county into a deer-forest. A combination of land-owning corporations has the same despotic power of life and death over a community; while community of interest

without any set agreement operates the same unhealthy limitations, even where the land is held by many individuals.

Taxation of land values would operate as a check upon this unrestricted power of private taxation. It would place a tax upon the right to tax. The State would merely resume a right which has been filched from it without contract and without payment. It would leave the landowner in possession of the land, but would secure that that land should not lie idle, but be put to its best use as determined by market price, not by the will of an individual.

It was quite right and seemly that the landowner collect rent from occupiers of land, so long as he in person performed the governmental functions of protection and justice which gave the occupier that security which made it worth his while paying a rent for land on which to labour. Now that these functions are all performed by the State in one or other of its capacities, it is not just or seemly that the owner should absorb or dissipate the rent paid for the performance of those functions. The old peasantry were content to pay rent for their lands to the landlord who protected them. As Piers Plowman says to the knight who tells him he will try to do his duty,—

"Ye profre yow so faire
That I shall swynke and swete and sow for us both,
And other laboures do for thi love al my lyf-tyme,
In covenant that thow kepe holikirke and myselve
Fro wastoures and fro wikked men that this world struyeth."

The covenant was that one should do the ploughing if the other did the fighting. This mutual contract no longer holds, and the exaction of rent for land, apart from the improvement on the land, is taxation by private individuals. Nothing can be fairer than that the State, which now performs the functions for which such rent is paid, should draw its support from taxation of the value of the right to exact such rent.

This is not a mere question of unearned increment. In this world nothing is unearned. Someone's labour must have earned it. Our present system leaves in the pockets of the owners of rights in land a profit which they have not earned. The land value is the result of the presence and work of the community. If the community does not insist on its right to get the result of its communal labour, then it in turn has to take from the labourer what is justly due to his own labour. That interferes with the rights of private property in a manner subversive of all law. There is no middle course. Due respect to the rights of natural property requires that the State shall not hand over to private individuals the value of the land, which is the fund created by its own existence and activity. It is the property of the State, and must be the fund on which the State subsists. Thus alone can equal justice be done by the State. Thus alone can she secure equality and freedom for her citizens. To hand over this State-created fund to private individuals is to put them in a position of unearned pre-eminence among their fellow-citizens;

it makes them lords and masters. Then the State to find its revenue is driven still further to do injustice, by depriving all who labour, whether by hand or head, of part of the results of their labour. Justice is one and indivisible. Unless the State pays its way justly, freedom is impossible. Justice, Freedom, Equality, are one.

Of the right of the State to resume its natural powers over the land of the country there can be no question. The only question which is open to argument is the expediency of the manner in which this right of resumption should be exercised.

National well-being can never be attained if any injustice be permitted to continue. *Salus populi suprema lex.* The consent of one generation, or a hundred generations, can never deprive the State of the supreme duty of seeing justice done. If what is essentially a communal right, arising directly upon the performance of communal duty, has passed out of the hands of the State, the duty and right of the State demand that it resume as speedily as may be the right relinquished in ignorance, or obtained from it by fraud.

It is said that such resumption would be confiscation. That is a much abused word, but it is not in its evil sense applicable to what is here proposed. The failure to replace the taxes on the land means the perpetuation of the present system, whereby the results of personal industry are penalised both by taxes to the State and by monopoly rent to individuals who have done nothing to earn it. So far

from taxation of land values being confiscation, it would act as a repeal of the power of individual citizens to confiscate the just earnings of their fellow-citizens, while themselves performing no useful function in return.

Taxation of land values is merely the demand that each individual shall pay to the State according as he has received benefit from the State. Not one penny that is the result of his own personal labour would be asked from him by the State. Further, he would be released from the present unjust demands both of the State through taxes on industry, and of the owners of land for monopoly rent. Any improvement on the land would remain intact to its owner, and for it he would receive the improvement rent due therefor.

As we have seen, the land value of the country will always more than suffice for the necessary expenditure of the State. Thus, while it may be expedient to adopt the system gradually, so that the redistribution of the burden may take place without unnecessary hardship to any, still, even when all the revenue is placed as a direct burden on the land, there will still be a margin of land value, and a very considerable margin, left to those possessing the land, in addition to their just rents due for any improvements they may have made on the land.

Against any alleged hardship upon the landowners of such a redistribution of the national and local taxation, surely we may place the awful hardships and social miseries caused by the present

system. Our Statute-Book is crammed with well-intentioned but futile attempts to relieve the situation caused by the injustices of the present system, which rates and taxes men as they are industrious, and allows others to reap where they have not sown. It is not a question of the present owners giving up rights. These they never had in justice, since they absolved themselves from their feudal duties. They merely yield to the State what have always been the natural rights of the State.

In all discussions as to the equity of interfering with "the sanctity of private contract," it should be kept in mind that the existence of the contract, say a building lease, or perpetual feu, was rendered possible in its existing shape by the fact that the landholder had constituted himself landowner, by absolving himself from the rent in kind stipulated to be paid by him to the State. His ownership is not in terms acknowledged by the law. This no-rent plan of campaign on the part of the feudal vassals of the Crown was undoubtedly sanctioned by Parliament, but Parliament only represented the landholders themselves. No one generation can barter away the freedom or rights of succeeding generations. Secondly, to give absolute weight to the alleged sanctity of private contract, is to continue the present interference with the still more sacred natural right of each man to the product of his own labour. Until the State has resumed what it never had the right to give away to any individual, its right to the fund created by its own existence and its own endeavour,

it must do what is devoid of any moral sanction, deprive individual citizens of the result of their own individual labour. It is the primary duty of the State to secure each of its citizens an equal right to exercise his own industry, by protecting him in an equal right of access to the land which is the only opportunity of labour; the gift of the Creator equally to all the sons of men, not to a favoured few. A contract of lease whereby a private person claims ownership in land, and takes another bound to pay rent for the use of that land, and to build a house and leave the house in good condition and repair on the land at the end of the lease, has the same moral sanction as the purchase of a slave, and no more. The exigencies of the slave may have forced him to render a lip-acquiescence to the contract, but moral sanction it has none. But just as in the abolition of chattel slavery time was given to allow of the gradual readjustment of circumstances, so the abolition of praedial slavery may be accomplished gradually, to the ultimate gain of all concerned.

Again, it is objected that to tax the land values will be to cripple many public and private trusts whose money has been invested in ground rents. Where the trust is for an object of public utility, it has been the means of recovering for the people a portion of their lost heritage,—but let no one suppose that it is the truster's money which is supporting the object. His money has been employed in buying from someone else the right of levying taxes on the labour of each successive generation of labourers.

It is to-day's labourer whose industry is supporting the object; so far as the payment he thus makes represents value of the land, it forms a portion of what the State has a right to claim from him to-day, and it were better the State should itself perform the function of the trust, whether it be hospitals or education, or pensions. In many cases the State, by granting free elementary education, superseded the purposes of many private trusts. The State should thereupon have entered into possession of the trust funds as well. No individual has the right to earmark any portion of the earnings of future generations, in the manner that the system of trusts binds the occupiers of certain areas of land to upkeep certain objects in all time coming. Until quite recently, such a continuing trust required Legislative sanction, and even that sanction each Parliament can only give for itself. So far as private trusts for private purposes are concerned, they have the same and no more sanctity as the property of the private individual. Justice to the individual owner will equally secure justice to the beneficiaries under his last will and testament. To insist that the injustice of absolute ownership in land must be allowed to continue indefinitely, merely because its abolition might deprive some widows and orphans of a privileged position, is to deny the duty of the State to see equal justice done to all widows and all orphans. A just instalment of taxation of land values would at one stroke place the State in possession of funds which would enable it to place on a

business footing not only the claims of all widows and orphans, but also the honest claims of all who by old age are no longer in a position to earn their livelihood by their own labour. In New Zealand an old-age pension scheme followed close upon the inauguration of the land-value system of taxation. Given justice as the basis of its revenue, and the State can act a father's part to all children and adults who may be unable to help themselves.

Charity can never be a substitute for justice. Until justice is done by a nation or an individual, charity is a mere mockery. The evils that flow from the injustice can only be exorcised by abandoning the injustice; when that is done, charity may come in to tide over evils already caused. Nature never listens to the plea that the injustice has the sanction of antiquity. The moral depravation of those who appear socially to gain by the injustice, is probably greater and more insidious than the moral and physical degradation of those who suffer from the wrong. No sops or doles to individuals or classes, no amount of Legislative compulsion, restriction, or penal clauses, can ever rid the nation of the evils caused by an unjust revenue system. Such ills can only be healed by removing the injustice. Natural Law demands that the community should reap where it has sown. Its revenue is garnered in the value of the land apart from the value of improvement, and in basing its revenue on that basis the nation does justice between its citizens as individuals, and between its citizens and the State. Its citizens are

each required to give to the State as each has received from the State. That fulfils the Law of Equality. Having thus settled their account for the State's maintenance, each is accorded full liberty to reap as he hath sown; liberty to each to enjoy the exercise of his individual talents. This is the basis of a true democracy, a nation of free men in a free State.

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