

## THE THEORY OF TAXATION

A MAN living in Great Britain, and found or suspected to be in receipt of an income above £160 a year, gets, first, an official letter asking him, not in the politest terms, to send in a statement of what his income is, and thereafter, whether he sends in a statement or not, gets a second letter, in still less polite terms, demanding payment of so many pounds sterling on penalty of £20 and treble duty.

His consent is not asked. The tax is not a *quid pro quo* for a vote; minors and aliens have no vote. He is born to taxes as the sparks fly upward, and it is in vain to protest. He may be a Quaker and object to the army and navy; he may be a harmless soul who never needs the attention of the policeman, or a muscular one who can protect himself; he may not want education, or much believe in it for other people; he may have neither kith nor kin and think it hard that he has to support other people's poor relations; he may be a republican and object to the Civil List, or an anarchist and object to all the machinery of government; he may deny the obligation of a national debt

contracted a century ago. He has to pay. And he will not easily find a place where he pays no taxes, or a country where he will get as much for as little as in Great Britain.

Suppose he asks, with pardonable heat, "Who made this contract? who asked the government to do these things, and gave it authority to distrain in penalty of non-payment?" He is told there never was such a contract made.

Yet there is a contract, none the less binding that it had no formal expression. The whole body of the citizens have the power of breaking it, seeing that the taxing authorities are under the control of their representatives in Parliament. Instead of that, they seldom raise the question. They are like men who begin playing a game: they do not make the rules, they do not even subscribe to them, they only begin to play: in so doing they accept the conditions they find; but if a man begins to play and breaks the rules, he is sent to Coventry, there to reflect on what an unwritten contract means.

The freedom we enjoy and the burden we bear are both the outcome of centuries of evolution. There are anomalies and inequalities, no doubt, but we accept the bad with the good; that is, we accept the services which government renders to us, and we pay the price which the government charges, secure in the comfortable knowledge that the laws exist for the people, and that if we are not pleased—well, they are our own laws, and we can mend them.

This is the surface account of the matter; that the relation between the individual on the one hand and, on the other, a government found to exist and

accepted by a majority, is really an implicit contract, and this is generally as deep as an Englishman cares to go. But it has a philosophical foundation. Man is by nature a political animal, as Aristotle said. It was not good for man to be alone, so he got a wife. It was not good for them to be alone, and so they got children. It was not good for the family to be alone, and so men began to work into each other's hands, finding that there are certain things which cannot be had within self-contained groups. Thus the State, which has its germ wherever men pursue a common good and divide their energies to secure it, became explicit.

The ordinary man, of course, never realizes that his independence is dependence. He does not see that he relies on his fellow-men for his very bread and butter, till, perhaps, some day the city holiday falls on a Monday, and his wife tells him that all the shops are shut, that she has forgotten to look ahead, and that there is no dinner to-day. A few more successive holidays would drive home the lesson that the richest man left by himself will starve, because he has cut himself off from being his own provider. A few days of universal strike, and the civilized inhabitants of the West-end would be breaking into each other's houses in the search for food.

If it is easy to see that man depends on man even for his physical existence, it is more evident still that he depends on him for all those other things that make life worth living as human life. Among the fowls of the air and the beasts of the field there was not found an help meet for Adam. Nor is man himself always or from the first a help to man.

There is that within him—an unregenerate will—which, so far from recognizing mutual natural rights to a quiet rational life, would make existence a continual struggle to assert his “might” against other similar wills. It is not till he has found that the best in him cannot be realized without their help, that he puts the worst within him in chains and becomes free. It is not true, then, that the original state of liberty is a war of all against all, and that, in the formal State, men renounce their individual rights and liberties because they are incompatible. The State is not even a compromise where men pool their compatible rights and agree to give up their incompatible ones. Just as a man becomes “master of himself” by the renunciation of those passions and pursuits which conflict with an ordered and planned rational life and would end in personal wreck, so do men in the State become free and obtain rights from each other by renouncing those aims and pursuits which are incompatible with the realizing of a “good life” which is common to each and to all. In each case men may be mistaken; they may hold down and crush out what requires only due subordination: but, in any case, they buy their freedom only by imposing laws on themselves. Thus, concludes political philosophy, the State is not a collection of individuals, who have merged their previous individual rights in the State, to receive some of them back again from the State; the individual has no rights except such as the State gives him: as it is the State which gives him the very possibility of being a man, so it is the State which alone gives him the conditions

of following out those pursuits that are the end and the crown of human life.

Thus, externally, the State takes the form of organized force. In other times this force was so prominent that many mistook it for the essential thing—

“Kings were by God appointed ;  
And damned were they who did resist, or touch the  
Lord's anointed.”

But in our time it is not difficult to see that the power behind the throne is the General Will. It is the highest, though always the imperfect and progressive expression of our best rational selves, realizing our Freedom—the essential quality of man—by putting ourselves under laws of our own making.

We enforce that will against ourselves if we should forget ourselves, and we enforce it against those who do not acknowledge the general will and desire to fight for their own hand. The government, in short, is the force which we, of our own accord, put over us, or, finding there, keep over us, to do our bidding. It is a committee of ourselves, which we voluntarily assume, to give us, first, the conditions of living, and, second, to give us the conditions of a rational, ordered life. As Aristotle said, “The State, coming into existence that men may live, continues in existence that they may lead the good life.”

The subject which I have to treat here is that part of the implicit contract which deals with taxation, and the first proposition I have to put forward is, that the government renders us certain services which we pay for with part of our income.

Suppose that the defence and protection of the nation were a private business like any other; as, for instance, the great marine insurance companies might fit out armed cruisers to accompany ships, or as our ancestors used to hire the free companies. Suppose that all education were a private profession as it used to be, and that the post office and telegraphs were in the hands of a great limited company, as the telephone service is now, and as the tramway service is still in most cities.

Suppose further that, in the towns, those citizens who had not wells of their own bought their water from a cart, as they did in Glasgow at the beginning of the century; that we lit our houses with oil lamps; that each group of houses had its own private watchman. With a little of the historical imagination, we may conceive of the majority of what are now called imperial and local government functions being undertaken by private enterprise.

Then the position would visibly be that we were buying these services, as we buy the services of domestics; we should, that is, spend part of our income on them, and the price would appear among our ordinary expenses.

As things are, the position is this. In the division of labour great groups of men take up different services. A, let us say, is the agricultural class; B is the manufacturing; C, the merchant; D, the professional; E, the domestic servant. A sells its products to B, C, D, and E; B sells its products to A, C, D, and E; C, its products to A, B, D, and E, and so on, each group getting paid in money, and spending the money on the products of other groups.

But beyond those services which A, B, C, D, and E render to each other, and get paid for by the services of each other—industry being, of course, a great co-operation of mutual service—they set aside another group of services to be rendered by F, and this they call government services. These services are so peculiar and so necessary that we do not, as a rule, allow any competition in them: F is, as it were, our picked class. But the point I want to bring out is, that A, B, C, D, E, *and* F buy their services from each other, and pay for them with their own services. F is not a class outside; it is neither a special providence, nor a tyrannical power, nor the holder of any Fortunatus purse. The government servants buy their bread and butter from us, and we buy justice, defence, education, etc., from them. We spend so much of our income on food products; so much on manufactured goods; so much on commission to merchants; so much for doctor's bills, legal fees, sermons, music, etc.; so much on our cooks and housemaids; *and* so much on soldiers, sailors, judges, policemen, board school teachers, etc., etc. This may now be put in a more concrete way.

There are two incomes which are not usually very clearly related to each other; the National Income, by which I mean the sum of all our individual incomes and the Government Revenue, imperial and local. The National Income is some £1,500,000,000;<sup>1</sup> the Imperial Revenue is £108,000,000; and the Local Government Revenue—the income of county councils, parish councils, burghs, etc.—is, say, another £70,000,000.

<sup>1</sup> See *The Distribution of Income*, Book i.

The relation of the two is this—that the Government Revenue is contained in, and is part of, the National Income, and is not an addition to it. The practical proof of this lies ready to our hand. Our National Income, as I say, on the calculation of Sir Robert Giffen, is £1,500,000,000. What does this mean? It means that the total sum of goods and services produced and rendered by the various individuals of the nation is sold by them for a money price of £1,500,000,000. Now among this £1,500,000,000 appear the salaries, among others, of government, municipal, and other local servants, from the Lord Chief Justice with his £8000 a year, to the blue-coated defenders of our peace with their 29s. 8d. per week.

It is not the case that we working folk make £1,500,000,000 of income among us, and then contribute, say, 2s. per £ of that to the government.

It is the case that we all, working together on our land and with our capital, make up a total sum of goods and services which adds up to £1,500,000,000 in money value. Among these are military, naval, and police services, civil services, justice and education, postal and telegraph services, service of the poor, provision of gas, and water, and markets, etc. And, just as we buy goods generally from each other, so we buy government goods from the government, and local authority goods from the local authorities.

I repeat: the £1,500,000,000 is the price of the whole of our real National Income, and some £180,000,000 of it is the price which we pay for a particular portion of it called government services.



The obvious deduction from this is, that the ordinary conception of taxation, which thinks of it as an evil, is a mischievous fallacy. Of course, it is an evil in the sense that we cannot get for nothing all these good things that government renders us; just as it is an evil that we have to work for our living, and do not find it hanging on trees. But our ancestors did not regard it as an evil that they had to pay a halfpenny a stoup for their water—the evil was that they could not get enough water even by paying for it.

Probably the source of the fallacy is, that many people think of taxation as mostly necessitated by the maintenance of armaments. Well, if one likes to say that it is an evil to have to wear a sword or carry firearms, I agree—in this sense, that it would be much pleasanter not to have to think about defending one's life or property. And then it follows, that the taxation which pays for army and navy—those government services that allow us to dispense with carrying arms because, in the division of labour, the arms are carried for us by red-coated brigades—is an evil also. But, after all, there always have been thieves at home and robbers abroad. The evil is in having the thieves, not in being able to defend one's-self against them; and the taxation for protection is no more an evil than the having to pay for food. Or it may be that we have not yet forgotten the taxation of France before the revolution, when the privileged classes had managed to roll the entire taxation on to the peasants, and when that taxation was spent, not so much for national purposes as on class extravagances and in the pursuit of military

ambitions, in which the peasant had no share. There taxation was an evil, and a great one.

It is difficult, indeed, not to be misled by the historical incidents of taxation. The annals of every State are filled with the attempts of various classes to shift the taxes from one set of shoulders to another. Sometimes it was the landowners who managed to shift them on to the commercial classes, sometimes the other way about; and, all through, there is the attempt of both to put them on the broad backs of the working classes. When a burden is thus shiftable, the people who ultimately bear it get to think that the burden itself is an intolerable evil, not seeing that the evil lies in the fact that they alone have to bear it.

But in a democracy such as ours—which is really the nearest approach to a true republic the world has ever seen—taxation is an equivalent of benefit, a price for value received. It is the payment we make for services done to ourselves as individuals by ourselves as a government; and, moreover, it is a payment regulated and determined by ourselves. He who cheats the tax-gatherer cheats himself, and would be rightly served if he were for the time outlawed, and shown that the penalty of not paying taxation falls on himself. Its best type and example perhaps is a government industry like the post office, or a municipal water supply, where the government evidently provides a commodity which we buy and pay for with a part of our income. In short, as I said, our National Income is not £1,500,000,000 less income tax, but £1,500,000,000. Our individual income is not our

wages less rates and taxes, any more than it is our wages less our butcher's bill; the tax, like the butcher's bill, is part of our annual expenditure. If the Corporation of Glasgow takes over the butchers' shops, and runs them as it does the tramways, our taxes will be greater and our tradesmen's books less, presumably, by the same amount. I repeat, then, my first proposition, that the government renders us certain services which we pay for with part of our income.

Of course this is a mere truism. And, of course, as in the case of most truisms, there are thousands of people who live in entire ignorance or entire disregard of it. If it is a truth so generally accepted that the man who proves it is wasting his time, how is it that a candidate for a seat on any local board will always have a certain following if he promises to cut down taxation? How is it that we hear so much grumbling about the increase of local rates? An increase in rates presumably reflects an increase in service done us: why should we quarrel with paying for a thing if it is necessary and good? I am afraid we shall have to preach this truism a little longer before we get it into the popular mind, and impress on the popular conscience the moral obligation of paying for what the government purveys.

On the other hand, when I look at a common phenomenon of to-day I am inclined to think that, with great sections of the community, it is really a truism. Undoubtedly, a call is being made on the government and on municipalities to do more. The man who suggests a doubt whether manage-

ment by a committee of councillors is an economic management, is looked askance at as having no proper pride in his city ; and I can say for Glasgow at least that those who advocate the largest schemes of municipal enterprise are not rejected at the polls. Perhaps there is a reason for this. I am reminded of that somewhat extensive proposal for old age pensions. One may have no objection to the idea of such pensions. It is, one might presume, a poor man's scheme for insuring himself as soldiers are insured. If poor men, as a class, go to the government, and ask that arrangements be made for securing them an old age provision which will cost, say, ten millions per annum, they have every right to do so. But when the question comes up of how this provision is to be paid, and we hear from every platform, " Let it be taken off rent, or profit, or anything you like except wages," one begins to ask questions. The last Trade Union Congress, for instance, suggested that the necessary funds should be provided by a graduated tax on all incomes above £300. In this certainly there was no suggestion of any mysterious Fortunatus purse belonging to the State! Is it not possible that the present enthusiasm for the extension of government functions arises, not so much from the belief that some enterprises are best conducted by governments and municipalities, as from the idea that the burden of payment is thus rolled off from those who benefit?

Now there is no use protesting against a tendency of human nature. We are all very willing to roll our burdens on to other people's shoulders. When the Chancellor announces that he needs more money,

the answer of the comfortable classes, as a rule, is—  
“By all means; put something more on spirits or tobacco, but, whatever you do, don't increase the income tax.” Indeed, we are all, as a rule, willing to take a collective burden on ourselves on the chance of shifting it. You may show a manufacturer that a general rise in prices will not benefit him or anybody else; he is always willing to risk it if he gets his own prices up. And I fancy that a good deal of the intermittent agitation for protection arises from the idea that the foreigner can be got to pay the bill in the shape of the duties.

I am reminded of a little conversation I had with one of my colleagues while I was writing this paper. He was complaining bitterly that he could not get any money for apparatus from our governing body, the University Court. But, I objected, the Court has no money; its balance is dangerously near the wrong side as it is; if you get your apparatus you will find that all our salaries are curtailed. “Oh, yes,” he replied, “but, you see, I'll only have to pay a fraction of that!”

But perhaps a more honourable excuse is to be found in want of knowledge. It is comparatively easy to show any intelligent man that a tax is a payment for service rendered to the community, and not a burden. But it is difficult for even a very intelligent man to understand why he should pay just 8d. per £ on his income. We buy bread and butter on an estimate that it is worth the money. We buy stamps and pay car fares on a similar estimate. But we are not allowed even to question if general government services are worth the money.

We simply get a blue paper telling us, in truculent terms, that unless we pay our 8d. a £ by a certain date, we shall be fined a sum of £20. And one reason why everybody thinks that he pays too much, or, at any rate, that his neighbours should pay more, is that the least understood question in taxation is just this—Who should pay the taxes, and in what proportion should they pay them? It is this question that we have now to try to answer.

The first thing to clear up is, that this is a much more limited enquiry than at first sight appears. Government services are paid for in several ways and on several principles. Taxation is only one of these ways, and its principle is quite peculiar. Let us take the larger question first.

I pay income tax at 8d. per £ of income. I pay poor rates at  $4\frac{2}{3}$ d. per £ of rental. I pay for gas at 2s. 2d. per 1000 feet. I pay 8s. 6d. for the upkeep of the path in front of my house. The payment of income tax is determined by the amount of my income. The payment of poor rates is determined by the amount of my house rent. I buy my gas as I buy my bread and butter. I pay for the path just what it costs to lay down two carts of engine ashes.

These payments, I think, may be put roughly into two groups. Where the service rendered by the government admits of being rendered direct to the individual or class, and is capable of being measured, the payment is according to benefit received or cost expended. But where the service is a general one, spread over the whole or a large body

of the citizens, and not rendered direct to the individual or class as an individual or class, the price which the citizen pays is proportional to his income or his rental. The former is the principle of government industries, like the posts and telegraphs, and of municipal industries, like tramways and gas, and it is the principle of fees and of special assessments. The latter is the principle of taxation properly so called, whether in the form of imperial taxes or local rates—imperial taxes being assessed on income, local rates on rental.

I. The former group does not seem to need much explanation. We find its *rationale* in the payments we make to private purveyors for ordinary goods. Naturally so; for most of these government functions have been gradually taken from private enterprise. If a government or a municipality takes over a private industry, it is generally because it can do it better, or supposes it can do it better; we should not, I imagine, consent to it on any other terms. Now, in every ordinary exchange, say between a manufacturer and his customers, there are two sides—the seller considers what it cost him to produce; the buyer considers the benefit he gets. According as the buyer or the seller is the stronger economically, will the cost or the benefit predominate. So with government goods. They may be sold at cost, or above cost, or below cost; or they may have no reference to cost, as in the case of licenses and the like. But what the buyer, in all cases, thinks of is the benefit he gets; if he thinks he gets adequate benefit, he buys.

Of course, in such government goods, there is a

certain element of compulsion, but so there is in all monopolies. If we use gas, we must pay the price the municipality charges, or go without. But if we buy thread, we must pay the price dictated by the Coats monopoly. All monopolies are limited by the possibility of substitutes; the government monopoly is limited as well by the fact that it exists for the sake of the consumer. There need be no hesitation, then, in saying that government charges of this sort are Prices, and that the justification and the measure of them is Benefit Received.

2. But the latter group does need a great deal of explanation. The only very obvious thing about it is that, while the benefit conferred on the citizens generally is undeniable, the great bulk of government services cannot be paid for on any *measurement* of benefit to the individual taxpayer.

Take, for instance, the protection services. The Army and Navy form the great shield under the shelter of which we work secure from the interference of foreign enemies—for the world does not love Britain as she deserves to be loved—and this shield protects the Briton even when he works in foreign countries, and is subject generally to foreign jurisdictions and customs. So with the Police—there are enemies at home as well as abroad; sometimes we are our own enemies, and Philip drunk appeals to Philip sober. But as this double shield covers us all: as it is the condition not only of our personal safety, but of that great divided and contractual industry on the quiet conduct of which we depend for a living, it is impossible to measure this benefit individually, and



say—you are protected so much, and you are protected so much.

So with the School Rate. We in Glasgow this year are paying 11d. per £ of rental for school board education. Many good people are indignant at this compulsory payment, for, say they, some of us have no children, and those of us who have do not send them to board schools. True. But the children now being educated in board schools are the people on whom all of us have to depend in the future, to a large extent, for the provision of those things which make our life worth living. We all gain when the new generation grows up better educated than the last. We are manufacturing, as it were, the factors of a larger national income, inasmuch as these children, when they grow up, will be better producers. It was not pure philanthropy that made the millowners of last generation build schools for their half-timers; it had at least something to do with the calculation that these children would in due time become full-timers in the mill, and would be better workers because of the education. All the same it is as impossible to allocate the benefit as to confine it to the board school children. What we can say is that it is not those who pay the heaviest rates that benefit most; it is the people who pay small rates, or no rates at all.

So also with the Poor Rate. It is the most altruistic of all taxes. We have to think twice before we can see how those who pay get any benefit from it. Ricardo denounced it in the strongest terms, saying that no scheme for its amendment merited the least attention which had not its aboli-

tion for ultimate object. And if we look on the maintenance of aged parents as a moral duty, equally incumbent on a man with the maintenance of his young children, we may take T. H. Green's ground and say that the relief of at least the aged poor is perhaps one of those moral obligations, so necessary to the existence of a society in which the moral end can be realised, that it is better it should be done from an unworthy motive than not done at all.<sup>1</sup> Perhaps the best that can be said is that it is the recognition of our common humanity; those who benefit are our poor relations.<sup>2</sup>

In all these cases we recognise the common benefit to the nation, but we cannot measure the individual benefit to the taxpayer. We know the cost, indeed, but we cannot apportion it. The problem is very much the same as would be presented if Lord Kelvin discovered some way of improving the climate, and put the necessary appliances in the hands of the government. We should all be distinctly happier, and some of us *could* measure the benefit to ourselves by the extra rent we got for seaside houses, or for early green peas. But most of us would only be agreed in grumbling that we had to pay anything at all. So we cut the knot in a way that does, as I say, require a great deal of explanation. We charge according to income or to rental.

<sup>1</sup> *Works*, Vol. II., p. 344.

<sup>2</sup> "So far as destitution leads to crime, it is the interest of the self-supporting inhabitants of any district to relieve the paupers, but this is only a small part of the reason for treating the relief of indigence as a public duty."—Sir Robert Giffen, *Memoranda presented to the Royal Commission on Local Taxation*, p. 106.

From old times this principle of payment has received a name. In rates and taxes, from the 14th century downwards, we find the payment for common benefits is allocated according to Ability or Substance—*juxta facultates*. Adam Smith only put old usage into a formula when he said that it was reasonable that expenses "which are paid out for the benefit of the whole society should be defrayed by the general contribution of the whole society," and laid down as his first maxim of taxation, "The subjects of every State ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities." It is certainly not, then, a modern idea; it is not the result of the democratic vote.

It may be granted, however, that the expression Ability to Pay is a little misleading. At first statement it seems as unjust to the rich as taxation is often assumed to be to the poor. If, when you went into a shop to buy eggs, the shopman would not render his account till he had ascertained how much you were worth, and then charged you five shillings a dozen if you were rich, half-a-crown if you were well off, one shilling if you had £160 a year, and nothing at all if you were in receipt of a pound a week, your opinion of the propriety of this would vary according to the class to which you belonged. It seems to convey the idea that, because a man has a good deal in his pocket, it is an excellent reason why we should take a good deal out of it. It reminds one of Robin Hood's code of morality—that he stole only from the rich.

If we replace the expression by Ability to Contri-

bute, we begin to see reason in the principle. As Seligman says, "It is the duty of the citizen to support the government according to his capacity to support himself." The State is a great family. But the State is ourselves. We, therefore, contribute to the national housekeeping in the measure of our own housekeeping. We give our contribution freely, because we give it to ourselves and for ourselves, not to an external power which taxes us in proportion as our pockets are able to stand the drain. The expression "ability to pay," or "ability to contribute," is objectionable only so long as we conceive of the Government as an outside, and so far hostile, body, which takes advantage of us, or lets us off easily, instead of recognising it to be ourselves assessing our own ability to keep the larger family in the best possible condition.

The conception, however, was put on a more satisfactory basis by Mill. "Government," he said, "must be regarded as so pre-eminently a concern of all, that to determine who are most interested in it is of no real importance. If a person or class of persons receive so small a share of the benefit as to make it necessary to raise the question, there is something else than taxation which is amiss, and the thing to be done is to remedy the defect, instead of recognising it and making it a ground for demanding less taxes. As, in a case of voluntary subscription for a purpose in which all are interested, all are thought to have done their part fairly when each has contributed according to his means—that is, has made an equal sacrifice for the common object; in like manner should this be the principle of compulsory

contributions; and it is superfluous to look for a more ingenious or recondite ground to rest the principle upon."<sup>1</sup>

Since Mill's time the accepted principle has been that, as regards common benefit, every taxpayer should be looked on as benefiting equally, and the payment accordingly should be an equal one; only the equality is to be measured, not in money, but in sacrifice. The government practically says: We do not ask of any man how much our service is worth to him; indeed we take it out of his hand to measure its worth; it is worth really an infinite sum, but we shall charge him a sum which corresponds roughly with the same marginal sacrifice of utility to him and to every taxpayer. It is not the truth that the rich should be penalised because they are rich, or the poor escape because they are poor. The economic conception is that the rich should pay much because it means little to them, and the poor should pay little because a little means a great deal to them. In short, the canon of general taxation is Equality of Sacrifice.

The answer to my question, then, is that every man should pay taxes because every man benefits, and that every man should pay with a sum which represents an equal sacrifice.

It may be granted to the full that the word equality takes us too far for the practical world. It is easy to demonstrate that there cannot be a common measure of happiness, and that, accordingly, there cannot be a common measure of sacrifice. Yet

<sup>1</sup> *Principles*, Book V., II., § 2.

we do measure both the one and the other. Every time we spend a sixpence, we measure benefit and sacrifice against each other. Here is sixpence in my pocket. I am lord of all the shops in the city to the extent of my sixpence. I spend the coin on one thing. In doing so I forego the enjoyment of all the other things purchasable in the city. I calculate implicitly that the benefit I am likely to get from the sixpence-worth of goods I buy, outweighs the benefit I might get by spending the sixpence in any of the other ways. But putting this argument on one side, there are two considerations which, I think, may satisfy us that the canon of Equal Sacrifice is sufficiently practical.

1. The first is, that no very accurate measurement of sacrifice is required for our purpose. This purpose is to raise a very large sum of money with a minimum of burden to each. Now, we raise this sum from a very large number of people; and the hardship, or injustice if one likes to call it so, of a rough-and-ready measurement of equality is minimised by the smallness of the sum required from each.

I deprecate the usual argument, that the reason why there cannot be a common measure of sacrifice in taxation is that we are taxing two classes, one of which is in extreme poverty, the other in affluence. Certainly, if you take a man on the verge of starvation and deprive him of one square meal, you inflict on him an amount of hardship which would outweigh almost any amount you can think of as deducted from the income of the millionaire—unless indeed it were a million sterling. But, as certainly, if the community, as a whole, were on the verge of starva-

tion, so that numbers were slipping over into the gulf through no fault of their own, we should not have our present problem, for it is scarcely conceivable that anybody would be allowed to remain rich. We should return to the economics of the short-provisioned ship, or the besieged town, where all are put on an equal diet.

But without stopping to prove that we are not in this desperate position; that a great deal of the so-called poverty is relative to a steadily rising standard of wage which includes a good many "conventional necessities"; and that the poorest class of persons willing to work could, in normal circumstances, spare something without being dipped over the marginal line of animal existence, I would point out that the sacrifice demanded of the citizens, as payment for the services of the government, need not, with us at any rate, amount to a very serious privation. A man in receipt of 20s. a week will, on due occasion—say, the opening of a subscription-list for the families of reservists or a self-denial week of the Salvation Army—contribute a coin of the value of a day's smoke. What would be the corresponding sacrifice among the richer classes? The day's smoke occupies a certain position in the standard of life of the poor man. Ask what would represent the same place in the rich man's standard of comfort; it would probably be measured by a very large sum in money. For, observe, the day's smoke is perhaps the one luxury of the poor man's day. If so, the corresponding sacrifice in the case of the rich man would be all his luxuries for one day—a 365th part of the income he spends on luxuries. If we suppose that the poor

man's one luxury—his smoke—costs him 2d., and that the rich man's expenditure on luxuries of all kinds is £1 a day, then, on the basis of equal sacrifice, the rich man pays 120 times as much as the poor. In short, an equal sacrifice over the whole community, which takes a small sum out of the poor man's pocket, will take a very large sum out of the rich man's, and yet both will pay equally as measured by sacrifice.

This is the first consideration I would advance in saying that the canon of equal sacrifice is sufficiently practical; namely, that a rough-and-ready comparison of sacrifice is sufficient for our purposes. If it is true that, behind any apportionment, lies the great fact that taxation as a whole is payment for services, then it seems to follow that every man should assist in keeping up the framework of law and government, which is the condition of his rational life as a citizen. Poverty is no reason for entire exemption. It is plausible to argue that certain classes are so poor that they should not pay anything, but it is no more logical than saying that some men are so poor that they should not pay for bread. For government, being the condition of any enduring and rational existence, is a necessary of life just as much as bread, and must be paid for by some persons. Only *to the extent that* people are so poor that the rest of us must let them have bread and pay their bills—that is, so far as they are paupers—is it expedient to exempt them from paying taxes.<sup>1</sup>

<sup>1</sup>“The State belongs as much to the life of every civilised man as his daily food or the air: without the State a civilised existence is



2. The second consideration is that the government does not try to assess the poor man's sacrifice. A person does not pay income tax unless his income amounts to £160 a year. I fear this has given rise to the idea that it is the duty—or, shall we say, the privilege?—of the rich to pay for the poor. This is certainly not the meaning of it. One reason belongs to the practice of taxation; namely, that the expense of collecting the tax over a very large number of small incomes would run away with too much of the tax collected, and so violate Adam Smith's fourth maxim, that a tax should take out of the pockets of the people as little as possible over and above what it brings into the public treasury. But the real reason is that the poor man pays his taxes in another way, and yet in a way that allows the government to escape the responsibility of assessing what his equal sacrifice is;—by letting him tax himself.

This brings us to a third way of paying for government services; namely, the taxes on Commodities, or, as it is usually called, Indirect Taxation. The Imperial Budget showed last year a revenue of £21,000,000 from Customs, and £29,000,000 from Excise, besides other £5,000,000 for local taxation account. The meaning of this is, that we put heavy duties on tobacco, liquors, and tea, and that every time a man buys these he pays so much to the government. Now, whatever be the artificial appetite

not thinkable. The minimum of every moral existence includes the blessings of the State. It follows that the minimum of outlay for existence must also include the necessary expenses of the State."—Cohn, *Political Science Quarterly*, iv., p. 64.

born of custom, it is evident that these are luxuries necessary to no man's healthy life. If a poor man requires all his income to live on, he will not pay this taxation, for, presumably, he will not buy luxuries. But if he does buy them, it shows that he has a margin over necessaries. Though we are the richest nation in the world, we have not committed ourselves to the statement that the Briton requires £160 a year merely to live on. A wage much under this will buy a good deal of luxury, and if the wage-earner is able to pay for luxuries, why should he not pay for the necessary of life called government services? The only reason adduced why the poor should escape is that they cannot afford to pay for anything but necessaries, and this gives no ground for saying that the rich should pay for the poor man's tea, or whisky, or tobacco. And there is a very good reason why they should not. If one class pays all the taxation, and another class, much more numerous, receives its full share of the benefit, there is every inducement on this larger class to insist on the government doing more and more. If, further, a large majority gets to voting supplies, while the minority have to pay without benefiting, there is a distinct schism in the conception of government. It is one thing for a majority to dictate the services and the payments: it is another to allocate the services to one class and the payment to another.<sup>1</sup>

<sup>1</sup>The £18,000,000 of income tax are often compared with the £50,000,000 of indirect taxation as expressing the relative proportions borne by rich and poor, and as proof that the poor pay far more than their share. Such a comparison, made deliberately by an educated

Here, then, are two strong arguments showing, I think, that the principle of putting an equal burden of sacrifice on all is not so difficult as it appears—first, that in any case the sacrifice is not a very great one; and, second, that instead of trying to assess the poor at an equal sacrifice with the rich, we assess the rich, but leave the poor to assess themselves.

The point at which we have arrived is this. The *rationale* and justification of all payments to government is Service Rendered by the government; from the economic point of view such payments are Prices. In the case of general services, paid by Taxation proper, the price is a sacrifice price, and must be justified on the principle of equality of sacrifice. In the case of all other government services, the price must be not only justified, but measured, however roughly, by benefit received.

But having laid down these broad lines, I go on to say that the spheres to which these principles respectively apply are not quite clearly marked off from one another. There seems a tendency in many cases to widen the sphere where equal sacrifice rules, and to narrow that of benefit, while, in one great department at least, the principle of benefit seems to be pushing out the principle of equal sacrifice.

1. The peculiar circumstances of cities, or perhaps the strength of the working-man vote, seem to throw more burden on the comfortable classes. In

person—even if he is a candidate for parliament—is distinctly dishonest. In addition to the £18,000,000 and the £14,000,000 of death duties, the rich, of course, are large consumers of tea, tobacco, and liquors, and so pay a very large portion of the £50,000,000.

Glasgow, for instance, there is an agitation, which has considerable support, for free ferries across the Clyde, the reason alleged being that ferries are really bridges. At present thousands of working men cross the river several times a day, and pay a halfpenny per journey: they pay for ferries as they pay for gas. But, if the ferries are made free, the working men who use the ferries will pay almost nothing, and I and other working men who never cross the ferry will pay, perhaps, a penny per pound on our rental. Again, with a Socialist majority on the Town Council, it is quite conceivable that, instead of running at a halfpenny a stage, the cars might be made free, and the expense charged on the ratepayer according to his rental. If this seems too ridiculous—the idea has already been ventilated—it is enough to remember that the government might have built schools all over the country and yet charged fees to cover the expense. Instead of this, I pay 1 d. per £ for the free education of other people's children.

2. Broadly speaking, imperial and local services are two branches of the one system, and are paid on the same general principles. We pay imperial taxes for army and navy; we pay municipal rates for police. We pay 6d. for a telegram; we pay a penny for a car. It is really one taxation, divided, for convenience' sake, between two branches. But, in spite of this, it is the case that local rates, modelled after imperial taxes, admit considerations of benefit that are not thought of in imperial taxes. At all events, the question is at once asked about any increase of a local rate, or the imposition of a new rate: Who benefits by it, and how is the benefit allocated?

The reason for this is to be found in those practical considerations from which taxation never escapes. If our country were a City-State like those of old Greece or mediæval Italy, or like the little republic of San Marino, with its 11,000 inhabitants grouped on an area of 36 square kilometres, all taxation would have only one canon, that of ability to pay or equal sacrifice.

But when, for practical purposes of collection and administration, the general taxation is divided into imperial and local, there emerge two distinct *tests* of ability to pay. In the one case it is income, in the other it is rental. If a man's income is £1000, and his house rent £100, it will be all the same whether he is taxed 8d. per £ on income, or 6s. 8d. on rental. Now, a man's rental may be in proportion to his income, but it may not.

In times when local rates arose, there was perhaps a fair proportion between the two. Agriculture was the great industry, and the rental which a farmer paid for his house and land was a fair criterion of his income; indeed, we admit this even now, in charging him to income tax on one-third of his rent. But as industry grew more complex and local taxation more important, it was necessary to find a "visible ability" on which to assess rates, and this visible ability was found in rental.

Mr. Cannan, in his admirable account of the evolution of the poor rate,<sup>1</sup> has shown most clearly that the intention of legislation was always to tax according to ability to pay, and that the test of

<sup>1</sup> *The History of Local Rates in England.*

income passed into the test of rental only on account of practical exigencies. His argument is as follows. The relief of the poor is a national service, which is as impossible of individual measurement as that of defence and administration. The poor rate accordingly should, in theory, be assessed on the same principle, namely, general ability, and the fact is that it was so assessed in its beginnings. At first poor relief took the form of alms. In Edward VI.'s time this alms-giving was organised. It was enacted in 1551-2 that a register or book should be made up containing the names of the inhabitants and householders, as also the names of all such impotent, aged, and needy persons as are not able to live of themselves nor with their own labour, and collectors appointed, which collectors, once a year, "when the people is at the church, shall gently ask and demand of every man and woman what they, of their charity, will be contented to give weekly towards the relief of the poor, and the same to be written in the said register or book." If any one obstinately or forwardly refused to assist, he might be sent to the bishop, who would, "according to his discretion, take order for the reformation thereof." Naturally, this voluntary system did not yield the desired results, and in 1572 it was thrown over. The justices or magistrates were instructed "by their own good discretions to tax and assess all and every the inhabitants dwelling in every city, borough, town, village, or hamlet, to such weekly charge as they and every of them shall weekly contribute toward the relief of the poor people." The obstinate and forward person was to be brought before two justices of the peace,

and if he refused to pay his contribution, he was to be committed to the next jail, "there to remain until he be contented with their said order and do perform the same."

Although the words are not used, there is no doubt that the canon of assessment here was the old one of ability or substance, which ruled local rates both statutory and non-statutory up till that time. As Mr. Cannan pointedly says, "the canon of almsgiving is ability." We are supposed even to-day to give as God hath prospered us, and the widow's mite is still counted equal to the gifts which rich men throw into the treasury. When the contribution was voluntary and unconstrained, as prescribed by the early Act of 1535, it is obvious that public opinion would regard it as fair that every man should contribute according to his real ability. The parson, in the exhortation ordered in the intermediate Act of 1547, would naturally tell his flock to give according to their means. The church wardens in their gentle demands, and the bishop in taking order for the reformation of obstinacy under the Act of 1551-2, must, perforce, have been guided by the ability of the contributor. In assessing, taxing, and limiting upon the obstinate person who had refused to obey the bishop under the later Act of 1562-3, the justices could adopt no other criterion, and it is entirely contrary to all we know of the ordinary course of English legislation to suppose that, when in 1572 the justices were directed "by their own good discretions to tax and assess all and every the inhabitants," they were expected to follow a different principle of assessment from that which they were expected to

follow in 1562-3, when they assessed, taxed, and limited upon the obstinate person, "according to their good discretions." In modern phrase, the poor rate was intended to be a local income tax upon the inhabitants of the parishes.

What, then, led to the change that the poor rate was levied on local property? It was the impossibility of levying a local income tax. The history of the poor law shows a long struggle to adhere to the old canon. In some places stock-in-trade was taken as the test; in others, an attempt was made to get at salaries; but, as this closely affected the lawyers, there was a very good reason for it being unsuccessful. In Scotland, Means and Substance was the test down till well into this century, and ceased to be so in Greenock only in 1880; but finally the visible test of property conquered. If a man is to be assessed for poor rates on his total ability, and if he lives in Glasgow, and has his shop in Paisley, there seems no way so appropriate to assess the total as to take his house in one place and his shop in the other as indicating his ability. "But," says Mr. Cannan, "it took almost two and a-half centuries to make this transition complete."

Thus we have the explanation why this great tax, imperial in its nature, attached itself, when locally administered, to rental instead of to income.

What followed? This: that, as all local taxation arose out of the poor rate and followed its lines, local taxation as a whole became attached to rental. But whenever this is the case, a phenomenon appears which did not emerge in the case of the poor rate. A man is not rendered better able to pay by an



increase in his poor rate or his education rate. But almost all the other rates do directly or indirectly increase the value of his property. Here benefit becomes measurable, and the eye of the tax-gatherer finds growing ability to pay in the increased value of property. And so it comes that, "in practice, the nearest possible approximation to local rating according to ability, and the nearest possible approximation to rating according to benefit, are one and the same thing, namely, the rating of persons in respect of fixed property in the district."<sup>1</sup> But where the division of rates between owner and occupier is such that the benefit falls to the owner and the payment to the occupier, there arises an anomaly.

To put it another way. Local rates, like imperial taxes, should be paid, not according to measurable benefit received by the ratepayer, but according to his ability to pay. But when, from practical exigencies, rental is made the test of ability, considerations of benefit do have a place in one great group, namely, the so-called "beneficial" or "remunerative" rates. This is *not* the case as regards the "onerous" rates.<sup>2</sup> The only difference between them and imperial taxes is that they are assessed on rental, not

<sup>1</sup> *Ibid.*, p. 132.

<sup>2</sup> "By 'onerous rates' I mean taxation to defray expenditure of which the benefit (if any) which accrues to the individual taxpayer is, generally speaking, so vague and indirect that the principle of proportioning payment to benefit is inapplicable—as we have seen it to be as regards the greater part of national taxation. Poor relief, education, and police are the most important items that come under this head in our local system."—Sir Robert Giffen, *Memoranda presented to the Royal Commission on Local Taxation*, p. 110.

on income.<sup>1</sup> The Poor rate, for instance, might be described as even more of an imperial tax *in natura* than the payment for defence or justice, inasmuch as the service in question is not rendered to those who pay for it. It is in fact almost pure burden—the price we pay for our failures. The School rate, indeed, cannot be called pure burden. It is a service rendered to the numerical majority, although, as benefiting the youth of the working classes, the nation, in the next generation, will have better workers. But it is paid principally by the section of society which gets least direct advantage from it. The Police rate again is partly national, partly local, in its nature. We gain directly by the policing of Glasgow, but the nation gains in that Glasgow is not a centre of lawlessness. The national character of the service, indeed, is recognised by the upkeep of the prisons being charged on to the imperial government.

But it is different with the “beneficial” rates. The services for which they pay approximate to the first group of government services I spoke of, where the service is rendered direct and is measurable. Therefore, in this case we have the emergence of the phenomenon that, while high onerous rates tend to depress the value of property, much of local expenditure actually raises the value of property.

<sup>1</sup>Rental, of course, is in many cases an inadequate test of ability. A shopkeeper in a fashionable locality may pay a rent as much out of proportion to his income in one way as a merchant, doing a large business from a two-roomed office on a top flat, in another. The latter case might be met, in point of theory, by a municipal income tax or a municipal death duty, although the one seems impossible and the other has scarcely been discussed. But it is more difficult to find a remedy for the former.

Thus it comes that here we find ourselves admitting considerations of benefit—judging of the propriety or impropriety of new rates, or increased rates, by the benefit conferred on the property, instead of by ability to pay of the ratepayer.

Such, then, is the recognised theory of our taxation. It is easy to see that practical exigencies make it difficult, if not impossible, to follow exactly the lines of the theory. But, granting this, one need have no hesitation in saying that our taxation is not open to the charge of having neither theory nor principle.

*"It is advisable that a new source of revenue should be obtained by means of some direct charge upon owners of Site Values."—The London County Council: Royal Commission on Local Taxation. Evidence, Vol. II., p. 323.*

*"Can you tell me what views the Council of the City of Glasgow hold?" "They held, four years ago, that they would not support such a doctrine at all, and I told them I would change their convictions or their seats, and I have done it." "And they have changed their convictions for the sake of keeping their seats?" "I am not bound to know the reasons, but, in point of fact, they run out or vote for taxation of land values."—Councillor John Ferguson: Royal Commission on Local Taxation. Evidence, Vol. III., p. 87.*