

Dhananjayrao Gadgil Library
१ ११११ ११११ ११११ ११११ ११११
GIPE-PUNE-016509

S.2309

~~K/423~~

ROYAL COMMISSION ON LOCAL TAXATION.

S.2309

FIRST REPORT

93

OF

HER MAJESTY'S COMMISSIONERS

APPOINTED TO INQUIRE INTO THE SUBJECT OF

LOCAL TAXATION.

LOCAL RATES IN ENGLAND AND WALES.

VALUATION AND COLLECTION.

Presented to both Houses of Parliament by Command of Her Majesty.



LONDON:

PRINTED FOR HER MAJESTY'S STATIONERY OFFICE,
BY EYRE AND SPOTTISWOODE,
PRINTERS TO THE QUEEN'S MOST EXCELLENT MAJESTY.

And to be purchased, either directly or through any Bookseller, from
AND SPOTTISWOODE, EAST HARDING STREET, FLEET STREET, E.C., and
32, ARINGTON STREET, WESTMINSTER, S.W.; or
JOHN MENZIES & Co., 12, HANOVER STREET, EDINBURGH, and
90, WEST NILE STREET, GLASGOW; or
HODGES, FIGGIS, & Co., LIMITED, 104, GRAFTON STREET, DUBLIN.

1899.

Price 6s.

TABLE OF CONTENTS.

	<u>Pages.</u>
Royal Commissions	3 to 5
	<u>Paragraphs.</u>
I. Introductory	2 to 3
II. History of the Law affecting Valuation	4 to 39
III. System of Valuation for the Purposes of the Poor Rate and the Collection thereof	40 to 60
IV. System of Valuation for the Purposes of the County Rate and the Collection thereof	61 to 70
V. System of Valuation for the Purposes of the Borough Rate and the Collection thereof	71 to 74
VI. System of Valuation and the Collection of Rates in the County of London	75 to 103
VII. System of Valuation for the Purposes of the Income Tax (Schedule A.) and Inhabited House Duty	104 to 106
VIII. System of Valuation for the Purposes of the Land Tax	107
IX. Objections to the present System of Valuation outside the County of London	108 to 116
X. Objections to the present System of Valuation in the County of London	117 to 119
XI. Attempts made to improve the System of Valuation	120 to 141
XII. Objections to the present System of the Collection of Rates	142 to 144
XIII. Attempts made to improve the System of Collection	145 to 150
XIV. Suggested Areas for the Purposes of Valuation	151 to 163
XV. Recommendations	164 to 165
	<u>Pages.</u>
Reservation by MR. C. B. STUART WORTLEY	42
Reservation by MR. C. A. CRIPPS	42
Memorandum by MR. T. H. ELLIOTT	43
Appendix A.—Tables showing, as regards Population and Rateable Value, the relation of Poor Law Unions to Counties and Boroughs in England and Wales; with a list of the County Boroughs therein	47 to 50
Appendix B.—Statements of Witnesses referring to the System of Valuation	50 to 55
Appendix C.—Statements of Witnesses referring to the System of Collection	55 to 57
Appendix D.—Deductions allowed in various Unions in arriving at Rateable Value	58 to 60
Chronological Index to Acts of Parliament referred to in the Report	61
List of Cases referred to in the Report	62

APPENDIX I.

SCHEDULE of EXCISE LICENCES, the PROCEEDS of which are assigned to LOCAL AUTHORITIES in GREAT BRITAIN, showing the NUMBER of LICENCES issued, and the AMOUNT of the PROCEEDS in 1895-6.

(Cf. *Thirty-ninth Report of Inland Revenue Commissioners*, pp. 38-9.)

	GREAT BRITAIN.		
	NUMBER OF LICENCES.	Amount of Duty charged, 1895-96, including Duty for which no Licences were issued.	Net Amount of Duty received, 1895-96.
CLASS A.			
LICENCES TO VENDORS OF INTOXICATING LIQUORS:—			
Dealers in Beer	No. 9,229	£ 29,752	£ 29,752
" " additional Licences to retail	4,071	5,050	5,050
Dealers in Spirits	10,237	105,988	105,987
" " additional Licences to retail	7,864	24,868	24,868
Dealers in Wine	4,485	45,927	45,927
Retailers of Spirits—Publicans	74,048	1,391,506	1,391,168
" " occasional Licences	30,698	4,978	4,978
" " Grocers, Scotland	3,815	36,069	35,964
Retailers of Beer, Cider, and Perry:			
To be consumed on the premises	30,534	106,388	106,370
Occasional Licences	951	57	57
Not to be consumed on the premises	12,630	16,420	16,420
Retailers of Beer and Wine:			
To be consumed on the premises	4,986	19,444	19,443
Not to be consumed on the premises	1,569	4,671	4,672
Retailers of—			
Cider and Perry	53	65	65
Table Beer	90	22	22
Wine:			
To be consumed on the premises (Refreshment Houses)	351	1,115	1,114
Occasional Licences	442	24	24
Not to be consumed on the premises	8,320	19,560	19,553
Sweets—Dealers	76	398	392
Retailers	1,915	2,320	2,320
TOTAL CLASS A.	206,314	1,814,117	1,813,641
CLASS B.			
LICENCES TO TRADERS OTHER THAN VENDORS OF INTOXICATING LIQUORS:			
Auctioneers, Appraisers, and House Agents	11,551	77,971	77,945
Hawkers and Pedlars	11,107	22,220	22,218
Pawnbrokers	4,556	34,170	34,170
Plate Dealers:			
To sell 2 ozs. of Gold, or 30 ozs. of Silver, or upwards, in one article	4,167	23,690	23,684
To sell more than 2 dwts. and less than 2 ozs. of Gold, or more than 5 dwts. and less than 30 ozs. of silver in one article	12,781	28,400	28,400
Refreshment Houses	11,501	8,547	8,546
Tobacco Dealers	285,671	78,235	78,235
Tobacco Dealers' occasional Licences	20,043	575	574
TOTAL CLASS B.	361,377	268,808	268,772
CLASS C.			
ESTABLISHMENT LICENCES:—			
Male Servants	195,460	147,013	146,980
Carriages:			
Hackney Carriages	115,807	86,500	86,506
Other than Hackney Carriages:			
With four or more wheels, and adapted to be drawn by two or more Horses, or by mechanical power	47,873	100,095	100,099
With four or more wheels, and adapted to be drawn by one Horse	79,005	82,645	82,649
With less than four wheels	306,946	229,577	229,270
Armorial Bearings:			
Painted on or affixed to a Carriage	15,286	32,101	32,102
Otherwise worn or used	40,841	43,016	42,957
TOTAL CLASS C.	801,218	720,947	720,563
CLASS D.			
GUN AND GAME LICENCES:—			
Gun	175,467	87,740	87,660
Game, to kill	58,132	163,516	163,415
" " (occasional)	6,742	6,742	6,742
" " to deal in	3,861	7,722	7,722
TOTAL CLASS D.	244,202	265,720	265,539
CLASS E.			
Dog LICENCES	1,345,283	504,568	504,519
TOTAL	2,958,394	3,574,160	3,573,034

APPENDIX II

TABLE classifying TAXES raised by PARLIAMENT in 1868-9, on BASIS of TABLE D., at p. 35 of MEMORANDUM

DESCRIPTION OF TAX.	Taxes incidental to the Ownership, Occupation, or Transfer of Property.			Taxes not incidental to Property.				GRAND TOTAL.
	Rateable Property.	Non-Rateable Property.	Total.	Taxes levied in respect of Commodities.	Taxes levied in respect of Incomes derived from Personal Exertion.	Miscellaneous Taxes.	Total.	
	(1.)	(2.)	(3.)	(1.)	(2.)	(3.)	(4.)	
1. CUSTOMS DUTIES	£	£	£	£	£	£	£	£
	—	—	—	22,422,000	—	—	22,422,000	22,422,000
2. EXCISE DUTIES:								
Duties on Consumable Articles (including Licences falling on Consumable Articles).	—	—	—	19,112,000	—	—	19,112,000	19,112,000
Licences (other than those falling on Consumable Articles).	—	—	—	—	—	803,000	803,000	803,000
Railway Passenger Duty and Stage Carriage Duty.	—	—	—	—	—	536,000	536,000	536,000
Assessed Taxes	—	—	—	1,000	—	1,234,000	1,235,000	1,235,000
TOTAL EXCISE DUTIES AND ASSESSED TAXES	—	—	—	19,113,000	—	2,573,000	21,686,000	21,686,000
3. DEATH DUTIES:								
Probate, Administration and Inventory Duties.	422,000	1,170,000	1,592,000	—	—	—	—	1,592,000
Legacy Duty	548,000	1,506,000	2,054,000	—	—	—	—	2,049,000
Succession Duty	614,000	106,000	720,000	—	—	—	—	720,000
TOTAL DEATH DUTIES	1,579,000	2,782,000	4,361,000	—	—	—	—	4,361,000
4. STAMP DUTIES:								
Deeds and other Instruments	703,000	740,000	1,443,000	—	—	—	—	1,447,000
Securities to Bearer	—	90,000	90,000	—	—	—	—	90,000
Fire Insurance	670,000	340,000	1,010,000	—	—	—	—	1,019,000
Gold and Silver Plate	—	695,000	695,000	57,000	—	—	57,000	67,000
Bills of Exchange and Promissory Notes	—	132,000	132,000	—	—	—	—	695,000
Bankers' Notes and Composition for Duty on Bankers' Bills and Notes.	—	—	—	—	—	—	—	132,000
Newspaper Duty	—	—	—	112,000	—	—	112,000	112,000
Playing Cards	—	—	—	10,000	—	—	10,000	10,000
Licences and Certificates	—	—	—	—	—	133,000	133,000	133,000
Life Insurances	—	17,000	17,000	—	—	—	—	17,000
Marine Insurances	—	80,000	80,000	—	—	—	—	80,000
Patent Medicines	—	—	—	64,000	—	—	64,000	64,000
Receipts Drafts, &c.	—	507,000	507,000	—	—	—	—	507,000
TOTAL STAMP DUTIES	1,387,000	2,679,000	4,066,000	243,000	—	133,000	376,000	4,442,000
5. LAND TAX (unredeemed)	1,118,000	—	1,118,000	—	—	—	—	1,118,000
6. INHABITED HOUSE DUTY	1,131,000	—	1,131,000	—	—	—	—	1,131,000
7. INCOME TAX:								
Schedule A	3,003,000	17,000	3,020,000	—	—	—	—	3,020,000
Schedule B	—	139,000	139,000	—	270,000	—	270,000	418,000
Schedule C	—	347,000	347,000	—	—	—	—	847,000
Schedule D:								
Fishings and Shootings	4,000	—	4,000	—	—	—	—	4,000
Railways in the United Kingdom	175,000	235,000	410,000	—	—	—	—	460,000
Quarries, Mines, &c.	100,000	117,000	217,000	—	—	—	—	277,000
Railways out of the United Kingdom	—	16,000	16,000	—	—	—	—	16,000
Foreign and Colonial Securities and Coupons.	—	31,000	31,000	—	—	—	—	31,000
Municipal Interest, other Interest, and other Profits.	—	13,000	13,000	—	—	—	—	13,000
Public Companies	—	371,000	371,000	—	—	—	—	371,000
Trades and Professions	—	517,000	517,000	—	2,060,000	—	2,060,000	2,583,000
Schedule E	—	—	—	—	521,000	—	521,000	521,000
TOTAL INCOME TAX (at 6d. in the £)	3,403,000	2,353,000	5,756,000	—	2,861,000	—	2,861,000	8,617,000
8. POST OFFICE (excess of revenue over expenditure)	—	—	—	—	—	1,144,000	1,144,000	1,144,000
GRAND TOTAL	8,020,000	7,814,000	15,834,000	41,778,000	2,538,000	3,850,000	48,494,000	64,928,000
PERCENTAGES OF GRAND TOTAL	13.3	12.0	25.3	64.4	4.4	5.9	74.7	100

APPENDIX III.

**A DETAILED ACCOUNT of the various SUBVENTIONS in RELIEF of LOCAL TAXATION,
prepared by MR. BLAIN of the TREASURY.**

(For the amounts contributed under the respective heads, see Table A. of Memorandum, pages 24-26.)

ENGLAND AND WALES.

1. METROPOLITAN FIRE BRIGADE.

This is a fixed subvention of 10,000*l.*, annually granted by Parliament in pursuance of the Metropolitan Fire Brigade Act of 1865 (28 & 29 Vict. c. 90), which imposed upon the Metropolitan Board of Works the duty of extinguishing fire and of protecting life and property in case of fire in the Metropolis, including the City, with certain outlying parishes and districts. The grant, which is borne on the Vote for "Rates on Government Property" (Class I. of the Civil Service Estimates, Vote 13), appears to have been originally made by way of compensation for the loss occasioned to the Board by there being in the Metropolis a number of public offices which were exempted from legal liability to local rates. But, as the Government now contributes to rates on the same footing as private persons, the grant may be regarded as a spontaneous subscription to the expenses of the Metropolitan Fire Brigade, to which all companies insuring property in the Metropolis against fire also contribute. The deficit is charged on the Metropolitan, now the County, rate.

2. RATES ON GOVERNMENT PROPERTY.

All property occupied by the Crown for the public service is, except where otherwise provided by special Acts, exempt from legal liability to local rates. In 1859 the Government undertook to make a voluntary contribution in lieu of rates; but this contribution was limited to the poor rates and to parishes in which the Government property represented one-seventh of the total rateable value. In 1874 the basis of contribution was extended to include all local rates and all Government property. A Treasury minute of 7th February 1896 provides for the quinquennial re-valuation of Government property in London for the purposes of this contribution, and for re-valuation in the provinces whenever private properties are re-valued. The general provision for contributions in lieu of rates is made in Class I. of the Civil Service Estimates, Vote 13, additional provision is made in the Post Office Estimates for rates on Savings Banks premises, and in the Telegraph Estimates for rates on telegraph wires and premises.

3. DISTURBISHED AND MAIN ROADS.

The first grant-in-aid, 250,000*l.*, was voted in 1832, in deference to the claim for some relief to ratepayers in respect of the charge which had been transferred to them through the abolition of turnpikes and the consequent augmentation of highway rates. Under the Act 41 & 42 Vict. c. 77., one-half the expenses of main roads formed a charge on county rates, the other half falling upon the districts or parishes. The object of the Parliamentary grant was to relieve the districts or parishes of half their burden, *i.e.*, of one-quarter of the total cost. In the first year one Vote was taken for the whole of Great Britain, but in subsequent years the Votes for England and Scotland were taken separately. The grants ceased on the passing of the Local Government Act, 1888.

4. SALARIES OF TEACHERS IN POOR LAW SCHOOLS.

This grant was first voted by Parliament in 1846, the object being to increase the efficiency of workhouse instruction by inducing the guardians to appoint teachers where they did not already exist, and to obtain more efficient services where they did. The amount payable to each board of guardians was dependent upon the number of scholars and the terms of the certificate furnished by an inspector of the Local Government Board. The grant ceased on the passing of the Local Government Act, 1888.

5. SALARIES OF POOR LAW MEDICAL OFFICERS.

This grant was first voted by Parliament in 1846 with a view to improve the system of medical relief. Provision was made for half the salaries of the Poor Law medical officers, and also for half the expenditure

incurred by guardians for drugs and medical appliances, —the latter addition being rendered necessary because in some cases the medical officer's salary covered the cost of such requirements. The grant ceased on the passing of the Local Government Act, 1888.

6. SALARIES OF MEDICAL OFFICERS OF HEALTH AND INSPECTORS OF NUISANCES.

This grant originated in consequence of the passing of the Public Health Act, 1872, the Government having undertaken, in connexion with that Act, to bear half the cost of the salaries of the medical officers and inspectors to be appointed thereunder, subject to the condition that their qualifications, salaries, &c., should be in accordance with the regulations of the Local Government Board. The grant ceased on the passing of the Local Government Act, 1888.

7. SALARIES, &c., OF POOR LAW (NOW DISTRICT) AUDITORS.

Under the Poor Law Act of 1834 (4 & 5 Will. IV. c. 76.) the auditors were paid officers of the Unions. In 1846 the first Parliamentary Vote for their salaries was taken, and from that time forward they were paid, so far as regards the audit of Poor Law Accounts, by the State. Successive Acts assigned to the same officers the audit of the accounts of Local Boards, School Boards, and Highway Authorities, but with the proviso in each case that their remuneration for these duties should be borne by the respective authorities.

In 1879 the District Auditors Act (42 & 43 Vict. c. 6.) directed that all payments to these officers out of local rates should cease, and that they should be remunerated out of the Votes. At the same time every local authority whose accounts they audit was required to contribute to the cost by a stamp duty according to scale. Similar provision has since been made in regard to the audit of the accounts of county councils and parish councils (Vote for Local Government Board, Civil Service Estimates, Class II., Vote 16).

8. PUBLIC VACCINATORS.

Under the provisions of the Vaccination Act, 1867 (30 & 31 Vict. c. 84.), payment was made to public vaccinators at a rate not exceeding 1*s.* for each successful operation; such payment being in addition to the remuneration provided for these officers by the boards of guardians by whom they were appointed. That grant ceased on the passing of the Local Government Act, 1888. But the State still provides, in the Vote for the Local Government Board, England, the salaries and other expenses of the National Vaccine Establishment. This institution, originally under the care of the Medical Colleges, from whom it was taken over in 1858, is concerned with the collection and distribution of lymph, and with instruction of students in vaccination (Civil Service Estimates, Class II., Vote 16).

9. PAUPER LUNATICS.

This grant was made to each of the three kingdoms as part of Sir Stafford Northcote's scheme of additional relief to local taxation in 1874. In England it was paid to boards of guardians and to county and borough authorities in respect of the pauper lunatics chargeable to these authorities; in Scotland, to parochial boards; and in Ireland, to county and borough authorities. The maximum amount was 4*s.* a week per head in each country; but in England the payment could not exceed the net cost of the patient's maintenance after deducting sums recoverable from his relatives or otherwise; while in Scotland and Ireland it must not exceed one-half of the actual net cost.

As regards England, the grant ceased on the passing of the Local Government Act, 1888.

CRIMINAL PAUPER LUNATICS.

The Criminal Lunatics Act, 1884 (47 & 48 Vict. c. 64. s. 10), provided for the maintenance out of voted

moneys of criminal pauper lunatics detained in any asylum. Consequently, since the passing of that Act, no claim has been made upon local authorities for the contributions to which they would otherwise have been liable for the maintenance of pauper inmates of the Broadmoor Criminal Lunatic Asylum (Class III. of Civil Service Estimates, Vote 10).

10. REGISTRARS OF BIRTHS AND DEATHS.

The Births and Deaths Registration Act, 1874 (37 & 38 Vict. c. 88.), increased the rate of remuneration payable by boards of guardians to the registrars. A vote in aid of the additional expense entailed upon the guardians was taken for the first time in 1875, and continued until the passing of the Local Government Act, 1888.

11. CRIMINAL PROSECUTIONS (REPAYMENTS TO COUNTIES AND BOROUGHES):

Prior to 1752, the cost of a criminal prosecution had to be borne by the prosecutor himself. The Act 25 Geo. II. c. 36. empowered the Court, in cases of conviction for felony, to order the county (or quarter sessions borough) to make reasonable compensation to the prosecutor, and this provision was subsequently extended to other offences. In 1835 a Vote was taken to reimburse to the local authorities one-half the expenses of all prosecutions at assizes and quarter sessions, and from 1846 onwards such expenses were charged wholly to the Votes until the grant ceased on the passing of the Local Government Act, 1888.

12. CLERKS OF ASSIZE.

These officers were remunerated entirely by fees, paid out of county funds, until 1856. Under the Nisi Prius Act, 1852 (15 & 16 Vict. c. 73.), and the Criminal Justice Act, 1855 (18 & 19 Vict. c. 126.), they were placed on salaries, the provision for which was made in the Vote for criminal prosecutions up to the year 1883-4, and since that year in the Vote for the Supreme Court of Judicature (Civil Service Estimates, Class III., Vote 3).

13. CENTRAL CRIMINAL COURT.

From the establishment of the Court in 1834, the salaries and expenses were borne by county rates until 1846, when the whole cost was provided in the Parliamentary Votes as part of the expense incurred for criminal prosecutions. The grant ceased on the passing of the Local Government Act, 1888.

14. LONDON SESSIONS.

Under an Act of 1839, a deputy was authorised to be employed in the absence of the Assistant Judge of the Middlesex Sessions, to be paid from the Middlesex county rates. Any sums so paid by the county would have been repayable to them out of the Vote for criminal prosecutions, so the deputy's remuneration was made a direct charge upon that Vote. Under the Local Government Act, 1888, the Assistant Judge became Chairman of the London Sessions, and the above arrangement was continued for the tenure of the then chairman. The provision was made in the Vote for miscellaneous legal expenses (Civil Service Estimates, Class III., Vote 2) until 1896-7, when it ceased.

15. CLERKS OF THE PEACE, &c. COMPENSATIONS.

The Criminal Justice Act, 1855 (18 & 19 Vict. c. 126.) provided for payment out of the Parliamentary Votes of compensation to clerks of the peace and other officers of quarter sessions whose emoluments were diminished by the operation of the Act. Provision for this gradually expiring charge was made formerly on the Vote for criminal prosecutions, and is now included in the Vote for miscellaneous legal expenses (Civil Service Estimates, Class III., Vote 2).

16. METROPOLITAN POLICE (CONTRIBUTION IN AID).

The cost of this force was borne by the metropolitan parishes until 1833, when the Act 3 & 4 Will IV, c. 89. provided for the payment of a Government contribution sufficient with a parish rate of 6d. in the £ to meet the total charge; subject, however, to the condition that the annual contribution should not exceed 60,000*l.* The limitation to 60,000*l.* was changed in 1857 to that of an amount equal to the produce of a 2*d.* rate, and again in 1868 to one-fourth of the total charge, which was not itself to exceed the amount of a 9*d.* rate.

The scheme of Government relief to local rates in 1874 contemplated for the metropolitan, as for the

provincial police, an increase of the previously existing subvention by an amount equal to one-fourth of the cost of pay and clothing. It proved inconvenient to make the contribution in a twofold form, based partly upon the amount of the police rate and partly upon particular items of expenditure. So, as it was found that the total contribution thus reckoned was equal to about 4*d.* in the £ on the rental assessed, that basis was fixed upon in 1877 for the contributions of future years.

The contribution ceased on the passing of the Local Government Act, 1888.

17. METROPOLITAN POLICE (COMMISSIONERS AND RECEIVER).

From the establishment of the force in 1829 there were two Commissioners, paid by the State, until 1856. In that year, by the Act 19 Vict. c. 2, one Commissioner was dispensed with, and two Assistant Commissioners were substituted. Their salaries are still defrayed out of the Parliamentary Votes.

In 1839 the Receiver of the Metropolitan Police, who had formerly been paid out of the Police Fund, was made also Receiver of the Metropolitan Police Courts, and his salary was charged on the Consolidated Fund as part of the Police Court charges; in 1854 the charge for his salary was transferred to the Votes. (Vote for Police (England and Wales), Civil Service Estimates, Class III., Vote 7.)

18. POLICE, COUNTIES AND BOROUGHES.

Prior to 1856 the establishment of a police force in the English counties was at the option of the justices (under the Acts 2 & 3 Vict. c. 93. and 3 & 4 Vict. c. 88.), and the power was not largely exercised. In boroughs the Act 5 & 6 Will. 4. c. 76. purported to make the appointment of sufficient police compulsory, but there was no power to compel a proper standard to be maintained.

In 1856 the Act 19 & 20 Vict. c. 69. made the formation of a police force compulsory in counties as well as boroughs throughout England and Wales, provided for inspection under the Home Office, and empowered the Treasury to contribute one-fourth of the cost of pay and clothing of any force certified as efficient, except in boroughs of less than 5,000 inhabitants. Similar provisions were applied to Scotland in the following year (20 & 21 Vict. c. 72).

As part of the general scheme of relief to local taxation in 1874 the limitation of the contribution to one-fourth the cost of pay and clothing was suspended by the Act 37 & 38 Vict. c. 58. (afterwards continued annually), and the contribution from the Votes was increased to one-half the cost. It continued until the passing of the Local Government Act, 1888.

19. PRISONS (MAINTENANCE OF PRISONERS IN COUNTY AND BOROUGH GAOLS).

Up to the year 1346 local authorities had to provide for the accommodation and maintenance of all prisoners, not only while awaiting their trial, but also after conviction, pending their removal to a convict prison or the hulks. In 1846 the first Vote was taken to repay the cost of maintenance, in the local prisons, of prisoners convicted at assizes or quarter sessions, or summarily convicted under certain specified Acts. The contribution for this purpose was at the rate of 4*s.* a week for each prisoner. It was included for some years in the Vote for "Criminal Prosecutions" and afterwards in the Vote for "County Prisons, &c., Great Britain," which ceased on the transfer of the local prisons to the State under the Prisons Act, 1877.

20. PRISONS TRANSFERRED.

Up to the year 1877 local authorities in each of the three divisions of the United Kingdom were under obligation to provide for the accommodation of prisoners awaiting trial or undergoing sentences of imprisonment for short terms, while the State maintained convict prisons for the custody of prisoners sentenced to penal servitude. The three Prisons Acts of 1877 (*vis.*, 40 & 41 Vict. c. 21. for England, c. 53. for Scotland, and c. 49. for Ireland) transferred to the State all prisons belonging to local prison authorities, and made the expenses of maintenance of prisons and prisoners chargeable to the Votes. The transferred prisons in England are provided for in the Civil Service Estimates, Class III., Vote 8.

21. PRISON OFFICERS' PENSION COMMUTATION ANNUITIES.

Superannuation allowances awarded to officers who were in the service of local prisons at the date of their transfer to the State are chargeable proportionably to Imperial and local funds. For convenience of payment it was provided by the Act 41 & 42 Vict. c. 63. that either the Treasury or the local authority might commute its share of the joint payment. Where the Treasury share is commuted, the necessary capital sum for its discharge may be advanced by the National Debt Commissioners under the Act 45 & 46 Vict. c. 72. Such advances by the National Debt Commissioners are repaid by means of terminable annuities for which provision is made in the Superannuation Vote. (Class VI. of Civil Service Estimates, Vote I.) This arrangement applies to England and Ireland, but not to Scotland, where it could not be conveniently carried out.

22, 23. MAINTENANCE OF CHILDREN IN REFORMATORY AND INDUSTRIAL SCHOOLS.

Reformatory and industrial schools were in their origin voluntary institutions. They are still under the control and management of committees of private persons, except a small number of industrial schools provided by the local authorities. Their expenses are defrayed mainly from the Parliamentary Vote, partly from the contributions which local authorities are empowered, but not obliged, to make, and for the rest from voluntary subscriptions. The payments levied by magisterial order on the parents of the children are taken by the Government in aid of the Parliamentary Grant.

The first Parliamentary Vote for "Reformatory Institutions" was passed in 1854-5. A grant for industrial schools was included in the Public Education Vote from 1856-7 to 1861-2, when the provisions for the two classes of schools were united into one vote.

The expenses of reformatory schools are regulated by the Act 29 & 30 Vict. c. 117, which empowers contributions both by the Treasury and by local authorities; and similar provision was made in the same year for industrial schools by the Act 29 & 30 Vict. c. 118. The Parliamentary contribution is a capitation grant, the general rate for each child in reformatory schools being 6s. a week, while for industrial schools it is 5s. a week in England and 4s. 6d. in Scotland.

(Civil Service Estimates, Class III., Vote 9.)

24. REMOVAL OF CONVICTS FROM COUNTY PRISONS.

In 1835 the first vote was taken for repaying the cost of removal of convicted prisoners from local prisons to the convict prisons or the hulks, an expense which had formerly been borne by county rates. The provision was for some years included in the estimate for "Criminal Prosecutions, Repayments to Counties and Boroughs." Subsequently a separate estimate was set up under the title "County Prisons, &c., Great Britain," which continued to be voted until the whole cost of convicted prisoners became a direct charge upon the State under the Prisons Act, 1877.

25. GRANTS TO SCHOOL BOARDS IN POOR DISTRICTS.

These grants are paid under the Elementary Education Act, 1870 (33 & 34 Vict. c. 75. s. 97), which provides that, in the case of any school board district in which the sum required for the expenses of the year is actually paid to the Board by the rating authority, and does not exceed the proceeds of a rate of 3d. in the £—such rate at the same time being calculated to produce less than 20l., or less than 7s. 6d. a child—a special Parliamentary grant may be made sufficient, with the proceeds of a 3d. rate, to make up 20l. in all, or 7s. 6d. a child, as the case may be. The provision is made in the estimate for public education (Class IV. of Civil Service Estimates, Vote I.).

26. BERWICK BRIDGE.

This small grant of 90l. 9s. has a very ancient origin. It represents a grant of 160l. made by Charles II. to the Corporation of Berwick for maintaining the bridge built by James I. It was paid out of the Civil List to the end of the reign of George IV., and as the House of Commons was at that time against the transfer of the charge to Crown Revenues it was placed on the Votes, on which it has since been annually borne. The Corporation has to show by its accounts that the money is actually expended on repairs of the bridge. The grant

is now included in the Vote for "Miscellaneous Charges and other Allowances, Great Britain." (Class VI. of the Civil Service Estimates, Vote 4.)

27. REGISTRATION OF VOTERS.

A special vote was taken in the year 1885-6 to relieve localities of the expenditure entailed upon them in connection with the registration of voters under the Act for the extension of the County Franchise. A motion was introduced into the House of Commons at that juncture, in favour of exempting local rates from all charge for Parliamentary registration (3 Hans., vol. 298, p. 367). The Government resisted the motion, but undertook to provide by vote in that year for the exceptional expenditure resulting from the new Act. The amount of the contribution was calculated at 4d. per voter in England and Scotland; in Ireland it was fixed on different lines, and was equivalent to a somewhat higher rate.

28. DISEASES OF ANIMALS.

Under the Contagious Diseases (Animals) Act, 1878 (41 & 42 Vict. c. 74.), local authorities were empowered to require the slaughter of animals which were affected with pleuro-pneumonia or had been exposed to infection, and to pay the owners compensation out of the local rates. By the Pleuro-Pneumonia Act of 1890 (53 & 54 Vict. c. 14.), this power was transferred to the Board of Agriculture, and provision was made for meeting the expenses of compensating owners out of moneys voted by Parliament. (Vote for Board of Agriculture, Class II. of Civil Service Estimates, Vote 11.)

SCOTLAND.

29. RATES ON GOVERNMENT PROPERTY. See No. 2.

30. DISTURBED AND MAIN ROADS. See No. 3.

31. MEDICAL RELIEF, PROPORTION OF EXPENSE.

Sir Robert Peel's scheme of 1846 contemplated the provision in Scotland, as in England and Ireland, of one-half the salaries of Poor Law medical officers, and of the cost of medicines. But in Scotland the local Poor Law authorities were not obliged to appoint medical officers. Consequently, the subvention took the form of a fixed annual grant, which was distributed among the parishes on lines laid down by the Board of Supervision. The amount of the voted grant remained at 10,000l. from 1846 to 1832-3, when it was raised to 20,000l. as the result of an agitation by the Scottish Members of Parliament. It ceased on the passing of the Local Government Act, 1889.

32. VACCINE LYMPH.

Since 1867-8, an annual provision of 100l. for cost of vaccine lymph has been included in the estimate for the Board of Supervision, now the Local Government Board, Scotland. (Class II. of Civil Service Estimates, Vote 31.)

33. PAUPER LUNATICS. See No. 9.

The grant for Scotland ceased on the passing of the Local Government Act, 1889.

34. CRIMINAL PROCEEDINGS (SCOTLAND).

In Scotland, criminal prosecutions undertaken at the instance of the Lord Advocate in the High Court or, with his cognizance, in the Sheriff Courts, have always been defrayed by the Crown. Formerly they were charged upon the Hereditary Revenues, but in 1831 they were transferred to the Parliamentary Votes. Criminal investigations before Justices of the Peace and minor cases in the Sheriff Courts were paid out of a county rate, called the Rogue Money Assessment, until 1851, when (by Treasury Minute of 6th June 1851) it was directed that these charges should be paid from the Votes in order to place Scotland on an equal footing with England. The procurators fiscal or public prosecutors, before 1850, received their remuneration from public funds entirely by way of fees, but since that time the fees have been gradually abolished and fixed salaries provided instead. (Class III. of Civil Service Estimates, Vote 11.)

35. POLICE, COUNTIES AND BOROUGHS. *See* No. 18.36. PRISONS TRANSFERRED. *See* No. 20.

The transferred prisons in Scotland are provided for in the Civil Service Estimates, Class III., Vote 14.

37, 38. MAINTENANCE OF CHILDREN IN REFORMATORY AND INDUSTRIAL SCHOOLS. *See* Nos. 22 and 23.

39. PRISONS (MAINTENANCE OF PRISONERS IN COUNTY AND BOROUGH GAOLS).

Concurrently with the grant made for the same purpose in England, provision was made on the Votes in 1846 for contributing to local prison boards in Scotland the cost of maintenance after conviction of prisoners tried by jury. In 1851 the contribution was extended to include prisoners convicted without a jury, when tried under a sheriff's warrant. As in England the maximum allowance was 4s. a week for each prisoner, and the contribution continued to be made in the Vote for "County Prisons, &c., Great Britain," until the transfer of the local prisons to the State under the Prisons Act, 1877.

40. REMOVAL OF CONVICTS FROM COUNTY PRISONS.

The grant initiated in 1835 for conveyance of convicts from local prisons to the convict depôts appears to have applied to Scotland as well as to England. In 1849-50, when the charge for this service was removed from the Vote for "County Rates Repayments" to the general Prisons Vote, the provision was described in the estimates as for "Conveyance of Convicts, Great Britain," and it continued to be borne upon that Vote until the passing of the Prisons Act in 1877 threw upon the State the whole charge for prisoners after conviction.

41. GRANTS TO SCHOOL BOARDS IN POOR DISTRICTS.

Under the Education (Scotland) Act, 1872 (35 & 36 Vict. c. 62, s. 67), grants are made to school boards in poor districts in Scotland, the conditions being the same as for the corresponding grants in England under the Act of 1870. (*See* No. 25.) (Class IV. of Civil Service Estimates, Vote 9.)

42. SHERIFF COURT HOUSES.

Since 1861-2 an annual Vote has been taken to provide half the cost of building and maintaining sheriff court houses in Scotland, the other half being provided out of county rates. The reason for this division is, that the Scottish sheriff courts have not only a civil jurisdiction corresponding to that of county courts in England, but also a criminal jurisdiction, corresponding to that of petty and quarter sessions, the cost of which falls on local funds. (Class I. of Civil Service Estimates, Vote 5.)

43. REGISTRATION OF VOTERS. *See* No. 27.44. DISEASES OF ANIMALS. *See* No. 28.

45. LOCAL TAXATION RELIEF.

In 1891-2 the first Vote was taken for fee grants to schools in England and Wales under the Elementary Education Act, 1891. Pending the legislation necessary for the extension of the fee grant system to Scotland, an equivalent sum of 110,000*l.*, being 11-80ths of the English grant in that year, was voted in 1891-2 as a grant in aid of local rates in Scotland, to be applied by county and town councils and police commissioners in relief of the rates raised by them in such manner as they might determine. The fee grant system was extended to Scotland in the following year, and so this Vote was not renewed.

IRELAND.

46. RATES ON GOVERNMENT PROPERTY. *See* No. 2.

47. SANITARY OFFICERS.

Under the Public Health (Ireland) Act, 1874 (37 & 38 Vict., c. 93, s. 10), the Treasury was empowered to regulate the salaries of sanitary officers to be appointed under the Act, or the additional salaries in cases where

the appointment might be conferred on an existing officer; and provision was made for payment out of voted moneys of such part of these salaries and additions to salaries as Parliament might determine. Accordingly, provision is made in the Vote for the Local Government Board (Civil Service Estimates, Class II., Vote 35), for repaying to the local authorities one-half of the new and additional salaries.

48. SCHOOLMASTERS AND SCHOOLMISTRESSES IN WORKHOUSES,

and

49. POOR LAW MEDICAL OFFICERS AND COST OF MEDICINES.

When Sir Robert Peel in 1846 took over the English charge for salaries of teachers in the Poor Law schools, and half the salaries of Poor Law medical officers, he refrained from extending the same provision to Ireland on the ground that considerable alterations in the Irish Poor Law system were then in contemplation. The Select Committee which inquired into Irish taxation in 1864-5 recommended that Parliament should give Ireland the same aid as was given to England, and as a result of that recommendation provision has been made on the Votes since 1867-8 for the salaries of Irish workhouse schoolmasters and schoolmistresses, and for half the salaries of medical officers and of the cost of medicines and appliances. (Vote for Local Government Board, Class II. of Civil Service Estimates, Vote 35.)

50. POOR LAW AUDITORS.

The English Poor Law Commissioners, appointed under the Act 4 & 5 Wm. IV. c. 76., were entrusted with the administration of relief to the poor of Ireland, and the provisions of that Act in regard to Poor Law auditors (*see* No. 7) applied to the latter country. Since 1868-9 a separate vote has been taken for the Irish Poor Law Commission (now the Local Government Board, Ireland), and the auditors' salaries are provided in that Vote (Class II. of Civil Service Estimates, Vote 35). The salaries cover the work done by the auditors in auditing the accounts of other local bodies besides boards of guardians, the payments made by such local bodies for those services being taken into the Exchequer.

51. VACCINE LYMPH.

Prior to 1876 a small annual grant had for many years been made to the Dublin Vaccine Institution, out of the Vote for Hospitals and Infirmaries, Ireland. In 1876, in consequence of a discussion raised by the Irish members on the Vote for the English Local Government Board, the institution was taken over by Government, and provision made for its expenses in the Vote for the Local Government Board, Ireland (Class II. of Civil Service Estimates, Vote 35).

52. PAUPER LUNATICS. *See* No. 9.

The Irish grant for this purpose is still borne on the Votes (Class VI. of Civil Service Estimates, Vote 4.)

53. CRIMINAL PROSECUTIONS.

Prosecutors and witnesses' expenses were charged to county funds until 1859. A committee on County Rates in Ireland recommended in 1858 that such costs of prosecutions as has been transferred to the Votes in England and Scotland should be similarly defrayed in Ireland. This proposal was carried out from the 1st April 1859, the first provision being made in the Estimates for 1860-61. The contribution continues to be provided on the Votes (Civil Service Estimates, Class III., Vote 15).

54. DUBLIN METROPOLITAN POLICE.

An annual Parliamentary Vote has been taken for this service since 1819. The form of estimate then presented showed the anticipated cost of the force and the revenue from local sources, and Parliament was asked to vote the deficiency. A Select Committee of the House of Commons, which inquired into the Irish Miscellaneous Estimates in 1829, recommended that the charge should be equally divided between the public and the locality; but practically the system has remained unaltered, under which the State provides for all expenditure which is not covered by receipts from local sources. These receipts consist of a police tax—levied since 1837 at 8*d.* in the 2 on the rateable value of property in the police district—of carriage

rates, and of sundry licences, fees, fines, and penalties. They amount at the present time to rather more than one-third of the gross expenditure. (Class III. of Civil Service Estimates, Vote 19.)

55. ROYAL IRISH CONSTABULARY.

The force was created in 1836 under the Act 6 Will. IV. c. 13, which made half the cost a charge upon the Consolidated Fund, the other half being repayable to that Fund out of local rates. In 1846, by the Act 9 & 10 Vict. c. 97, the provision for recovery of one-half the expenses from local authorities was repealed, this measure being designed by Sir Robert Peel as compensation to Ireland for the injury which his free-trade policy was expected to inflict on the agricultural interest of that country. Since 1846 the Constabulary has been administered and provided for wholly by the State. In 1854 the charge was transferred from the Consolidated Fund to the Parliamentary Votes, on which it is still borne. (Class III. of Civil Service Estimates, Vote 20.)

In 1857 the Revenue Police, which had previously existed in Ireland as a separate force, was abolished, and the duties were transferred to the Constabulary. This service being of an Imperial, not a local, character, its estimated cost (about 40,000*l.*) is deducted in calculating the cost of the Constabulary as a local charge.

56. PRISONS (MAINTENANCE OF PRISONERS IN COUNTY AND BOROUGH GAOLS).

The contribution under this head, initiated in Great Britain in 1846, was not extended to Ireland until 1859. The conditions of the grant corresponded to those which applied in England, but the maximum rate of grant, instead of 4*s.* a week for each prisoner, was fixed at first at 3*s.* a week, and was raised to 3*s.* 9*d.* in 1874. The contribution continued until the transfer of the local prisons to the State under the General Prisons Act, 1877.

57. PRISONS TRANSFERRED. See No. 20.

The transferred prisons in Ireland are provided for in the Civil Service Estimates, Class III., Vote 21.

58, 59. MAINTENANCE OF CHILDREN IN REFORMATORY AND INDUSTRIAL SCHOOLS.

The first Vote for reformatory schools in Ireland was taken in 1859-60, and for industrial schools in 1869-70. The maintenance grant is at the rate of 6*s.* a week for each child in reformatory schools and 5*s.* a week for each child above six years of age in industrial schools.

60. SURVEY AND VALUATION.

This service was instituted in 1826 to make a valuation of Ireland for the assessment of county rates. It was provided that the cost should be advanced out of the Consolidated Fund, to be repaid in full by the counties. The valuation was begun as a townlands valuation, but was changed to a tenement valuation in 1846, owing to the introduction of the Poor Laws into Ireland. It was not completed until 1864, and since then it has been annually revised or corrected under the Act 17 Vict. c. 8.

In 1857-8 the charge was transferred from the Consolidated Fund to the annual Votes.

In 1860, as the valuation was then being used for various Imperial purposes, as well as for local purposes, the Act 23 Vict. c. 4 provided that one-half only of the annual cost of revision should be repaid by the counties, the other half being borne by the Votes of Parliament. This division continued until 1874, when the Act 37 & 38 Vict. c. 70 prescribed a fixed annual sum as the contribution of each county and city. These contributions—amounting to a total of 8,000*l.*—are now appropriated in reduction of the annual Vote. (Class II. of Civil Service Estimates, Vote 39.)

61. INFIRMARIES.

An Act of the Irish Parliament (5 Geo. III. c. 20) established public infirmaries throughout Ireland, and provided for contributions by grand juries in aid of their expenses. In 1807 these contributions were charged upon the Consolidated Fund by the Act 47 Geo. III. c. 50, and in 1854 the charge was transferred from the Consolidated Fund to the annual Votes. In 1851 the Medical Charities (Ireland) Act, 14 & 15 Vict. c. 68, enacted that any allowance or stipend payable under the foregoing provisions to any officer of such institutions should terminate with the existing recipient, except as regards institutions in the city or County of Dublin. The effect of that enactment was to make the allowances moribund, except in the case of four Dublin infirmaries; and the result up to the present has been to reduce the number of participating institutions from 39 to 5. (Class VI. of Civil Service Estimates, Vote 5, Subhead E.)

62. DUBLIN HOSPITALS.

By a provision of the Act of Union between Great Britain and Ireland, the Parliament of the United Kingdom was bound to provide, for local purposes in Ireland, during the first 20 years after the Union, an annual sum not less than the average sum expended by the Irish Parliament for certain local purposes, which included the maintenance of pious and charitable institutions. This obligation was very liberally fulfilled by the United Parliament; and, since its period expired, annual grants have continued to be made to certain Dublin hospitals. The grants are now made, in accordance with the recommendations of a Select Committee of 1854, to nine hospitals, and they amount to an annual sum of 15,850*l.* (Class VI. of Civil Service Estimates, Vote 5, Subhead D.)

63. REGISTRATION OF VOTERS. See No. 27.

64. DISEASES OF ANIMALS. See No. 28.

65. EXCHEQUER CONTRIBUTION TO IRELAND.

As explained in Sir Edward Hamilton's Memorandum (page 21), a certain advantage accrued to England and Scotland from the exchange of their grants-in-aid for the proceeds of Excise licences under the scheme of 1888. In Ireland there was no corresponding exchange, and the existing grants-in-aid were continued; but as an equivalent for the gain which the other two countries secured by the exchange, an annual grant of 40,000*l.* was made to Ireland, which was voted in the first year, but has since been charged upon the Consolidated Fund under the Act 54 & 55 Vict. c. 48.

This annual grant has been used to build up the guarantee fund under the Purchase of Land (Ireland) Act, 1891. Having now served that purpose, it becomes available for grants to boards of guardians in Ireland, for labourers' cottages, and for other local uses.

APPENDIX IV.

MEMORANDUM by Sir ALFRED MILNER explaining the BASIS of TABLE D. at p. 35 of MEMORANDUM, which purports to classify all TAXES (including those transferred to the LOCAL TAXATION ACCOUNTS) raised by PARLIAMENT in the year 1895-96.

UNITED KINGDOM.

The table herewith is an attempt to classify the taxes raised in the year 1895-96 under the following heads :—

I. Taxation incidental to the ownership, occupation, or transfer of property :

1. Rateable.
2. Non-rateable.

II. Taxes not incidental to property, viz. :—

1. Taxes levied in respect of commodities.
2. Taxes levied in respect of incomes derived from personal exertion.
3. Miscellaneous taxes.

The various taxes have been dealt with in the order in which they appear in the finance accounts for 1895-96, viz. :—

1. Customs duties.
2. Excise duties.
3. Death duties.
4. Stamp duties.
5. Land tax unredeemed.
6. Inhabited house duty.
7. Income tax.

1. CUSTOMS DUTIES.

These duties, amounting to 20,965,000*l.*, being imposed upon articles of consumption exclusively, have been placed under the first sub-head of taxes not incidental to property.

2. EXCISE DUTIES.

These duties (with the exception of those licences which do not affect consumable articles, and of the railway passenger duty) fall under the same head and sub-head as Customs duties. They account for 29,704,000*l.* of the total.

The balance, viz. :—

	£
Licences not falling on consumable articles (such as gun, game, and establishment licences)	1,632,000
And railway passenger duty	259,000
Total	1,891,000

are classified under "Miscellaneous."

Dealing in the first place with Excise duties falling on consumable articles, the following details show how the total of 29,704,000*l.* has been arrived at, viz. :—

	£
Beer duty	11,131,000
Spirit duty	16,380,000
Charges on delivery	4,000
Coffee mixture labels, and chicory duty	8,000
Total	27,518,000

Licences on consumable articles :

1. To vendors of intoxicating liquors* 1,970,000
2. To manufacturers of the same (brewers, rectifiers, &c.)† 17,000

* The details will be found under Licences, Class A, 39th Report Inland Revenue, pp. 30 and 31.

† The details will be found under Licences, Class B, 39th Report Inland Revenue, p. 32.

	£
3. To vendors of consumable articles other than intoxicating liquors*	199,000
Total	2,186,000

Grand total of Excise duties on consumable articles 29,704,000

The following are the details of the licences *other* than those falling on consumable articles classed under "Miscellaneous," 1,632,000*l.*

	£
Auctioneers	85,000
Pawnbrokers	37,000
Establishment	721,000
Gun licences	95,000
Licences to kill game	183,000
Dog licences	504,000
Penalties	7,000
Total	1,632,000†

Railway passenger duty, 259,000*l.* classed as miscellaneous.

3. DEATH DUTIES.

These duties must evidently be classed in their entirety with "taxes incidental to the ownership, occupation, or transfer of property." They constitute a true property tax, though levied by way of "fines" payable at irregular intervals and at varying rates. On the other hand their distribution between rateable and non-rateable property presents many difficulties, and only an approximate result can be arrived at.

Probate and Account Duty.

	£
Rateable	48,000
Non-rateable	133,000

The proportions of rateable to non-rateable, viz. 26.5 per cent. and 73.5 per cent. are based upon an analysis of the property subject to Probate duty made by me in connection with my evidence before the Commission on Agricultural Depression. The details of the calculations, by which these proportions were arrived at, are fully set forth in my "Statement of Evidence" (Vol. IV. of Evidence, pp. 579 and 580).

Temporary Estate Duty.

	£
Rateable	150,000
Non-rateable	13,000

The sum of 150,000*l.* is made up as follows :—

Rateable Property.

Realty	146,000
Personalty (26.5 per cent. of the total duty on personalty)	4,000
Total	150,000

Page 66.
39th Report
Inland
Revenue.

* The details will be found under Licences, Class B, 39th Report Inland Revenue, p. 32. The whole of the licences in Class B are included under this heading, except those already included in 2, and auctioneers', &c. and pawnbrokers' licences. This heading also includes game dealers licences (see 39th Report Inland Revenue, p. 33 where these appear in Class D).

† See pp. 32 and 33 of the 39th Report Inland Revenue.

Non-rateable Property.

	£
73.5 per cent. of the total duty on personalty - - - - -	18,000

The proportions of rateable to non-rateable in the personal property subject to the Temporary Estate duty are the same as in the case of the Probate duty, and the amount of duty has been distributed accordingly.

Estate Duty.

	£
Rateable - - - - -	3,540,000
Non-rateable - - - - -	6,383,000
Total - - - - -	<u>9,923,000</u>

The non-rateable portion is 73.6 per cent. of all the duty paid on personalty.

The rateable portion includes all the duty (1,250,000*l.*) paid on realty and 26.4 per cent. (2,290,000*l.*) of the duty paid on personalty.

It will be observed that the proportions of rateable to non-rateable in the case of personalty subject to *estate* duty differ only fractionally from the proportions in the case of *probate* duty. The proportions in the one case, as in the other, are the same as those taken by me in my analysis of tax revenue submitted to the Commission on Agricultural Depression (*see above*). As already stated, their accuracy is not beyond question. Indeed if the death duty statistics of a number of years were analysed, the proportions would doubtless vary somewhat in every year. But there is no reason to suppose that the year actually taken is otherwise than an average one.

Legacy Duty.

	£
Rateable - - - - -	724,000
Non-rateable - - - - -	2,007,000
Total - - - - -	<u>2,731,000</u>

The legacy duty is paid entirely by personalty. The rateable proportion has been arrived at on the basis adopted in the case of the probate duty, i.e., 26.5 per cent. rateable, 73.5 per cent. non-rateable.

Succession Duty.

	£
Rateable - - - - -	897,000
Non-rateable - - - - -	154,000
Total - - - - -	<u>1,051,000</u>

Of the total capital paying succession duty one-fifth has been taken as representing personalty; one-fifth of 1,051,000*l.* = 210,000*l.*, but of this 210,000*l.* a certain proportion must be assigned to rateable property, and this proportion has been based on the percentages previously ascertained, viz.:—

26.5 per cent. rateable 56,000*l.*, 73.5 per cent. non-rateable 154,000*l.* Adding 56,000*l.* to 841,000*l.*, the duty on realty, we have the total duty on rateable property, 897,000*l.*

Corporation Duty.

The accounts at the Inland Revenue Office enable us to state with approximate accuracy the actual duty borne by rateable and non-rateable property, viz.:—

	£
Rateable - - - - -	34,000
Non-rateable - - - - -	6,000
Total - - - - -	<u>40,000</u>

4. STAMPS.

1. Deeds and other instruments.
2. Securities to bearer.
3. Joint-stock companies' capital.
4. Contract notes above *ld.*
5. Bills of exchange and promissory notes.

6. Bankers notes.
6. Composition for duty on bankers' bills and notes.
7. Cards.
8. Licences and certificates.
9. Life insurances.
10. Marine insurances.
11. Patent medicines.
12. Receipt, draft, and other *ld.* Inland Revenue stamps.

1. *Deeds and other Instruments.*

The stamps on these documents fall under the head of:—

Taxes incidental to property

	£
Rateable - - - - -	1,946,000
Non-rateable - - - - -	2,059,000
Total - - - - -	<u>4,005,000</u>

1. The distribution of the duty on "Deeds and other Instruments" is, necessarily, only approximate, this being one of the heads of revenue, the analysis of which presents the greatest difficulty.

A certain number of the instruments are executed on stamped paper and their precise nature is not known and cannot be discovered. The same applies to instruments to which adhesive stamps are attached. The bulk of the documents, however, consists of conveyances, mortgages, and leases. Conveyances (including under that term transfers of stocks and shares) account for upwards of 2,950,000*l.*, leases and mortgages for another 350,000*l.*; so that these items between them represent upwards of 82 per cent. of the total. From accounts kept at the Inland Revenue it is possible to distinguish the conveyances, leases, and mortgages of land and houses, from similar documents dealing with other property. The stamps on the whole of the former category, upwards of 1,000,000*l.*, have, of course, been credited to rateable property. The amount of stamps on transfers of stocks and shares has, on the other hand, been divided between rateable and non-rateable in the proportion of about 35 to 65; this having been taken, in the calculations submitted by me to the Agricultural Commission, as the proportion of rateable to non-rateable property in the capital of public companies, including railway and others of the class technically assessed under Schedule A.

These figures were the mean result of several independent calculations, not differing very largely in their outcome, and are probably not far from the truth, but they cannot pretend to accuracy.

The rest of the yield of stamp duties on "deeds and other instruments" consists of items, most of which are very difficult to distribute. Fortunately the amount is not sufficiently large for any error in this distribution to affect very materially the total result of these calculations.

2. Securities to bearer, and
3. Companies' capital duty.

The stamps in both these cases are clearly borne by non-rateable property, and have been allocated accordingly.

4. Contract notes.

These stamps have been divided between rateable and non-rateable property in the same proportion as the stamps on transfers of stocks and shares under the heading "Deeds and other Instruments." On further consideration, however, I think this is not quite correct. Contract notes are issued, not only in connection with transfers of stocks and shares of Public Companies, but with transfers of foreign stocks—all non-rateable—consols, &c. Consequently, I think that the amount assigned to rateable property under this head is rather too large. But I can think of no means of arriving at anything like an exact division. One-fourth and three-fourths is, as a pure guess, what I should be inclined to take. The amount at issue is very inconsiderable.

The remaining items under the head of stamps, with the exception of 7 and 11 (playing cards and patent medicines, which I believe everyone is prepared to leave under the head of duties on consumable articles), and 8 (licences and certificates which are classed as miscellaneous), are items which it has been decided

to transfer from the category of taxes not incidental to property, in which I was disposed to place them, to that of taxes on non-rateable property.

My reasons for dissenting from this change have been so abundantly stated in conversations with Sir E. Hamilton and Mr. Murray that I do not think it necessary to repeat them here. I still adhere to my original opinion, but I admit that the question is one of great difficulty, and I feel so much the force of the arguments used on the other side that, while still dissenting from the prevalent view, I was, before resigning my seat on the Commission, quite prepared to acquiesce in the course preferred by Sir E. Hamilton and Mr. Murray.

5. LAND TAX UNREDEEMED.

This tax is all on rateable property.

6. INHABITED HOUSE DUTY.

This tax is chargeable on the occupiers of dwelling-houses, which are rateable, and has, therefore, been classed under the head of "Taxes incidental to the ownership, occupation, or transfer of property." This, of course, gives the go-by to the question of "real incidence." As far as that is concerned, the question seems to me identical with that of the incidence of "onerous" rates—that is to say, of those rates, which are really taxes, whether on the owner or occupier, and not merely payments for services rendered.

7. INCOME TAX.

Schedule A.

	£
Rateable - - - -	4,766,000
Non-rateable - - - -	28,000
Total - - - -	<u>4,794,000</u>

The non-rateable portion only calls for explanation. The 28,000*l.* thus classed represents principally the duty levied in respect of mortgage, interest, &c. secured on churches, chapels, and other property which is not rated.

Schedule B.

	£
Non-rateable - - - -	59,000
Incomes derived from personal exertion - - - -	119,000

This latter sum represents two-thirds of the duty collected under Schedules B. and D. (Farmers).

The other third represents the duty attributable to the farmers' capital.

Schedule C.

£1,800,000.

Schedule C. is a tax on the income derived from Government securities, home, colonial, and foreign. These are property, but they are clearly not rateable property.

Schedule D.

Fishings and shootings, 22,000*l.*

The income tax paid by these sources of profit is attributed to rateable property.

Railways in the United Kingdom, 1,033,000*l.*

The tax borne by these is attributed partly to rateable property, and partly to non-rateable property. The division is made on the following principle. We know from the income-tax assessments the total profits on which railways are charged. We know from the returns of local taxation their gross estimated rental. The tax on so much of the profits as is equal to gross estimated rental, 645,000*l.*, has been attributed to

"rateable property"; the tax on the balance, 388,000*l.*, to "non-rateable property."

Quarries, mines, canals, ironworks, waterworks, gas-works, salt springs or works, markets, tolls, and cemeteries, 851,000*l.*

The profits of all these sources of revenue, the last four of which are almost a *quantité négligeable*, have been dealt with together and on the same principle. Like railways, they are rateable, and, like railways also, they are rateable only on a portion of their profits. In order to divide income-tax paid by them between "rateable property" and "non-rateable property," the same system has been followed as in the case of railways; accordingly, 447,000*l.* is apportioned to rateable property, and 404,000*l.* to non-rateable property.

Railways out of the United Kingdom, 390,000*l.*

The tax on these should clearly be credited, in its entirety, to "non-rateable property," these undertakings being, of course, not subject to rates so far as this country is concerned.

Foreign and Colonial securities and coupons, 495,000*l.*

This includes all Foreign and Colonial securities not assessed under Schedule C. These, again, are entirely "non-rateable property."

Municipal interest, other interest, and other profits, 239,000*l.*

This is a small item, and again is "non-rateable property."

Public companies, 1,929,000*l.*

This head comprises all companies other than railway companies and companies owning property already dealt with under the head "Quarries, Mines, &c." The income-tax paid by such companies under Schedule D. is entirely credited to "non-rateable property." No doubt a portion of their property (such as factories or business premises) is rateable. But such portion pays income-tax under Schedule A. and has therefore already been dealt with. Their profits under Schedule D. are arrived at after deducting the assessments, which are charged under Schedule A.

Trades and professions, 3,628,000*l.*

This head comprises all profits made in industry, business, or the exercise of any profession by individuals as distinct from public companies. The assessments on the *immobilia* of such individuals, like those on the *immobilia* of public companies, are made under Schedule A., and are deducted in arriving at their profits under Schedule D. Therefore, so much of the income-tax paid on the profits of "trades and professions," as is attributable to property at all, must be credited to "non-rateable property." But no materials exist for determining what proportion of the incomes arising from "trades and professions" as above defined is derived from property, *i.e.*, from capital, as distinct from personal exertion. Sir Robert Giffen in his "Growth of Capital," following Mr. Dudley Baxter, estimates it at one-fifth. In a matter where, admittedly, "no exactness is possible" the procedure of these eminent economists has been followed. "Non-rateable property" has, therefore, been credited with one-fifth (726,000*l.*) of the income-tax on the profits of "trades and professions," while the other four-fifths (2,902,000*l.*) have been classed as "taxes in respect of incomes derived from personal exertion."

Schedule E.

1,124,000*l.*

Schedule E. is a tax on salaries; the duty has, therefore, been classed as one on "incomes derived from personal exertion."

8. POST OFFICE.

The treatment of the Post Office revenue is explained in Sir E. Hamilton's Memorandum (pp. 36-7).

Answers by Lord Farrer.

Question 1. Is the classification of Imperial Taxation indicated in the accompanying Table a correct classification: if not, what alterations can you suggest?

Question 2. Assuming the classification, is it complete, and are the several items correctly distributed?

I am unable to suggest any amendment of the classification of Taxes contained in the Table.

Question 3. In particular, should such an item as the net revenue of the Post Office, be treated as a Tax, and, if so, under which of the heads specified in the Table?

I think that the surplus Revenue of the Post Office, after paying the expense of the service, is rightly treated as a Tax, and is rightly placed under the heading "Taxes not incidental to Property," and the Sub-heading "Miscellaneous."

But it differs from most other Taxes, inasmuch as the principal object in administering the Post Office should be, not the amount of Revenue, but the efficiency of the service.

Question 4. In considering the equity of any tax or system of taxation, what tests should be applied?

This question has a very wide scope. I do not suppose the Commission desire their witnesses to write an essay on principles of taxation, or to repeat Adam Smith's canons, or to discuss the mysteries of "equal sacrifice." But there are two or three practical suggestions concerning taxation which have occurred to me, and which seem peculiarly appropriate to the subject before the Commission. They are as follows:—

- (a.) Taxes have a tendency to distribute their burden fairly, if only they are constant and uniform. This is especially true of taxes on property. The corollary is that unnecessary changes in such taxes are to be avoided.
- (b.) Facility of collection is no doubt a great advantage to a governing body. But this facility should not be such as to make the taxpayer unconscious of the burden. Otherwise a great security for economy and good administration is lost. Those who pay the piper call the tune; and in calling the tune they should not only pay the piper, but feel that they pay him.
- (c.) It is not enough that a tax is fair in its ultimate incidence. It should be made clear to the taxpayer that it is fair. Otherwise a good tax may be endangered in consequence of ignorant discontent. Sentiment and ignorance play a large part in questions of taxation.
- (d.) Simplicity in accounts is a test of good Finance. Where accounts are so confused that ordinary people cannot understand what they pay, who pays it, how it is applied, or who is responsible for its right application, there will probably be not only ignorance and discontent, but maladministration.

Question 5. Can you offer any suggestions which would assist the Commission in determining the question of the real incidence of taxation as distinguished from its primary or apparent incidence?

I will not invade the domain of the professor by attempting to write an essay on this very difficult and very speculative question. In my answer to Question 6 I have said a few words about the ultimate incidence of the special taxes referred to in these questions. Here I will only say that I believe it to be a general truth that taxes have some tendency to stick where they first fall. This is true, though to a comparatively small extent, even of taxes on consumption, such as customs and excise duties. The ultimate incidence of these taxes is undoubtedly on the consumer, but the shifting of their incidence may be modified or concealed by the state of the market. If a brewer is making large profits, he may prefer to bear a small tax rather than alter the price of a pot of beer. If he is losing, he may raise his price by more than the tax, or may withdraw from the business. The price to the consumer is no doubt ultimately affected. But the change may be delayed, accelerated, or concealed by other circumstances.

That taxes have a tendency to stick where they fall is much more generally true of taxes on property. It is, indeed, doubtful whether a permanent tax on permanent property is ever shifted at all from the first possessor to any subsequent purchaser. The first purchaser pays a smaller price in consequence of the tax; and every succeeding transferee takes the property with the burden.

Between these two extremes, viz., of certain ultimate shifting in the case of taxes on consumption, and of no shifting at all after the first purchase in the case of permanent taxes on property, there are a great variety of degrees of shifting which are difficult to trace.

Question 6. Could you, for example, state your view as to the real incidence of—

- (a.) *The Inhabited House Duty ;*
- (b.) *Rates levied on houses and trade premises ;*
- (c.) *Rates levied on agricultural land ;*
- (d.) *Taxes on the transfer of property ;*
- (e.) *Taxes on trade profits ;*
- (f.) *Death duties.*

First as regards the real incidence of—

- (a.) *Inhabited House Duty ;*
- (b.) *Rates levied on houses and trade premises.*

I can add little to what is contained in Sir E. W. Hamilton's Memorandum pp. 37 to 39, with which, and with Mr. Goschen's Reports and Speeches on Local Taxation, I agree. I mean, of course, the Mr. Goschen of 1870—not the Mr. Goschen of 1887-90.

I disagree entirely with the School who deny that any part of these Rates and Taxes can be shifted from the occupier to the owner. I believe, that if the Inhabited House Duty and all existing Rates were abolished in London to-morrow and replaced out of Customs, Excise and Income Tax, one result would be a large increase in the rent roll of London at the cost of the industry of the Nation. Those who deny this are often the same persons who allege as one of the grievances of the present system that by the improvements made with expenditure out of the Rates, the permanent value of land in London is increased. And in this I think they are right. But when they say that an improvement—*e.g.*, sewerage—has increased the value of London land, and deny that a permanent or quasi-permanent charge imposed for the purpose of making sewers is not to be set against the value of the improvement, they appear to me to be inconsistent. The whole estate, from the occupier to the owner in fee, is benefitted by the improvement; and each successive reversioner gets his proportion of the benefit. The whole estate, from the occupier to the owner of the fee, is burdened with a charge, and each successive reversioner bears his proportion of this charge. Of course the benefit and the burden may not exactly correspond either in time or in amount; but in general we may assume that they have some correspondence in point of time, and that (if administration is good) the benefit is greater than the burden.

This is the case with permanent improvements such as Sewers. It is less obviously the case with works of shorter duration, such as paving and lighting, and less obviously still in case of what are called onerous charges, such as police and education. But in these cases if the capital outlay is less, it is recurrent or constant, and so is the improvement. Look at London as a whole, and there can be no doubt that the value of London land and buildings to all parties interested in them is largely increased by the expenditure of all London rates; and that against this value has to be set the burden of these rates, which as tenancies fall in, is, like the increase in value, one of the elements in fixing rents.

As regards the Inhabited House Duty, the shifting of the incidence is probably similar on the whole to the shifting in the case of Rates. But there is, as pointed out by Sir E. W. Hamilton, somewhat greater difficulty in shifting it since the Duty is the same everywhere, whereas Rates differ in different places; but I do not think that this prevents the House Duty from being a burden on landlords. Abolish the House Duty and the Duke of Bedford's income would probably be increased.

On the other hand, it must be remembered—

1. That the tenure of houses, especially in London, is very complicated, and that there are many interests besides those of the occupier and the owner in fee, all of which share the benefit and the burden in varying degrees.
2. That any addition to Rates not contemplated when the tenancy began, falls, undoubtedly, during the tenancy, on the tenant.
3. That, as noted above, Rates and Taxes have a tendency to stick where they fall; and further that the facility with which they can be shifted depends on the state of the market. The taxation on a house which a man rents or lets is only one of many elements which decide him in making or accepting an offer, and the weight it has with him must depend on the proportion it bears to other

elements. Under such circumstances I do not see how we can expect to arrive at any definite conclusion concerning the exact proportion of any given Rates which fall upon rent from any actual figures which it is possible to procure. All we can say is that when a man is letting or looking for a house, the charge for rates and taxes which he knows will have to be paid upon it, is one of the things he takes into consideration.

The point in question is one of extreme importance, as pointed out by Mr. Goschen in 1870. The error of supposing that Rates are wholly paid by the Occupier of houses in towns and are not shifted at all on to the reversioner, has led the inhabitants of towns to make common cause with landowners in a crusade against Rates, and in attempts—too often successful—to get them paid or subsidised out of the National purse. The general result of these attempts is more fully noticed below. Here it may be pointed out that the attempts in question may operate so as to defeat the object of the agitators and to impose an additional burden on the occupier.

For instance, if the burden of Rates now falls to any extent on the Owner, then any abolition of Rates, or any substitution of other Funds for Rates, is to that extent a gift to the Owner, and not to the Occupier. It may be even more; it may be a gift to the Owner at the expense of the Occupier.

Mr. Goschen (the Mr. Goschen of 1887, not the Mr. Goschen of 1870) has subsidised local rates out of the National purse. As a matter of name and of account, this subsidy is said to be charged on the Death Duties on Personalty. Assume this fiction to be a fact, and we have as a result that the owners of personalty in London—who are for the most part occupying tenants—are made in addition to what they pay as occupiers, to help as owners of personalty to pay that share of the rates which London rent-owners now pay. But, disregarding the mischievous fiction that the subsidy is really paid out of the Death Duties on personalty—a fiction which answers no purpose except that of confusing accounts—and looking to the real facts, viz., that this subsidy to London rates is paid out of the general National purse, the case is worse still. For the effect of Mr. Goschen's charge is to make the industry of the country which pays Income Tax, and the poorer classes of the country who contribute the Customs and Excise duties, pay towards subsidising not only the London occupier but the London landowner.

Such are some of the consequences of a misapprehension of the incidence of taxation, coupled with the influence of the land-owning classes, on a Minister who in his earlier and stronger days did more than any other man to expose the injustice which he was afterwards induced or compelled to commit.

How it may be possible to remove these misapprehensions, and to make it clear that the reversioner shall bear his due proportion of local taxation, is considered below in answering question 9.

(c.) Taxes levied on Agricultural Land.

It seems to be generally agreed that the incidence of these taxes is on the landowner; subject, of course, to any special stipulations in leases, where leases exist.

(d.) Taxes on the Transfer of Property.

Theoretically, I think, these taxes diminish *pro tanto* the selling value of the property. Who actually pays the tax in any given case, is more than I can say.

(e.) Taxes on Trade Profits.

If this Tax is a Tax on all Profits, I suppose that, theoretically, it would diminish profits. How far any given Tax can be shifted on to Customers or Consumers I cannot say. It will depend largely on the special circumstances, and the condition of the market. If reference to the existing License Duties is here intended, I may express a doubt whether their abolition would lead to any reduction of the charges now made by the Licensees to the public.

(f.) Death Duties.

I am inclined to think that these cannot be directly shifted, and that they remain where they fall, a charge on the estate of the next possessor. Of course this must be taken subject to the consideration that his expenditure has to be reduced. If the State takes 10,000*l.* from a great landowner or millionaire, he will have so much the less to spend, and work and wages will be shifted from the persons he employs to the persons employed by the State.

I have put down the above as the most summary answers I can give to questions so difficult that they probably admit of no certain and definite solution. This will

probably suit the purpose of the Commissioners better than an elaborate essay stating all the pros and cons, which may be found in the books and treatises referred to in Sir E. W. Hamilton's memorandum.

Question 7. Is it possible to frame any criterion whereby the purposes for which taxation should be raised locally can be distinguished from those for which taxation should be raised by the central Government?

Question 8. Should the two kinds of purposes and the expenditure on them be kept distinct, or should the expenditure for local purposes be partly borne by the central Government?

I will take these two questions together, since it is difficult to separate them, and between them they raise all the most difficult points upon which the Commission have to report.

The desiderata as between Imperial and Local Taxation appear to be—

1. That the accounts of receipts and expenditure, both Imperial and Local, should be accurate, clear, and intelligible, so that ordinary persons may be able to understand from what source each item of receipt is derived, and to what purposes it is applied.
2. That Imperial receipts and Imperial expenditure should, so far as possible, be kept distinct from Local receipts and Local expenditure.
3. That the Authority which receives Taxes should be responsible for their expenditure, and, *per contra*, that the Authority which administers the expenditure should collect and have control of the Taxes out of which it is paid.
4. That both in the case of Imperial and of Local Taxation the Authority which has the control of a tax and of its expenditure should be responsible to the persons who pay the Tax.

In short, let those who pay the piper call the tune, and let those who call the tune pay the piper.

These are devout imaginations—ideals which it is impossible wholly to realise; but in whatever degree the practice conforms to them, in that degree it may, from the point of view of the Commission, be considered to be satisfactory, and in whatever degree it departs from them to be unsatisfactory.

There are certain fields of administration, and certain Taxes which realise this ideal completely. For instance, there are the great National Functions of War and Foreign Policy, the functions of the Central Executive and of the Central Administration of justice, and other functions of a like National character, which are paid for out of the general taxes paid by the whole Nation. The National Government is solely responsible for the discharge of these functions, and it levies and controls the Taxes requisite for their performance. Again, there are local functions, such as paving and lighting, which are discharged by local bodies elected by the persons who are interested in their discharge, and which are paid for by rates levied on these persons. Here again the benefit and the burden—the duty and the taxes requisite for its performance—are in the same hands and are co-extensive in their application and incidence. Indeed, from the point of view from which we are considering taxation, there is probably no tax which fulfils all the requirements of a good tax so well as a local rate applied to local purposes. The benefit and the burden are co-extensive; the accounts of receipt and expenditure are simple and obvious; the responsibilities of the local authority are clear; and the control of the ratepayers direct and complete; add to which that it falls on property and not upon industry or consumption. If it fell upon all property equally, upon movables as well as immovables, it would be an ideal tax.

In the cases we have been considering there is no confusion between what is Imperial and what is Local. And if it were possible to bring all functions of Government and all forms of Taxation under one or other of the above categories, our difficulties would be solved. But, unfortunately, this is out of the question. Between the two classes of administrative action above indicated, there is an immense mass of subjects which are partly Imperial and partly Local, and which it is impossible to reduce into either of the above classes. We may, I think, take it for granted that it is a hopeless task to make a complete separation between Imperial and Local administration, so that one set of subjects shall be dealt with exclusively by the Imperial Government and paid for by Imperial taxation, and so that a separate set of subjects shall be dealt with exclusively by Local authorities, and paid for out of Local taxation. We cannot afford to transfer Local Administration to the Central Government simply because there is a difficulty in paying for it out of local resources. Local administration, weakened and demoralised as it too often is by Imperial subsidies, is too valuable a thing to be abandoned for the sake of financial simplicity; and experience shows that it cannot

and will not discharge the ever increasing duties demanded of it without financial help from Central Funds.

If we consider how these demands have arisen, we shall see the more reason why this help is necessary. The demand for local improvement seldom begins with the localities themselves. If it did, if they were the first to feel the want, they might exert themselves to supply it. But this is not the way in which improvements begin. Philosophers or Statesmen are the first to perceive a great want; the country takes it up, and it becomes a National concern. The people as a whole are ahead of local communities, and the Imperial Parliament and Government are ahead of Local Administrative bodies. Parliament requires certain things to be done, and in order to get Local bodies to do them, is compelled both to direct how they shall be done, and to give help and inducements towards getting them done. This has been the case with Police, with Education, and with Health, which now form the principal objects of Local Government; and it is likely to be the case still where new developments are required. This is more especially the case in growing towns; and the consequence is that by the time the town population have become keen about their own wants, they have also become accustomed to look for Imperial relief, and are ready to join with the powerful landed interest in the constant endeavour which that interest is always making, to transfer local burdens on to National shoulders. The pressure is all in this direction, and however unreasonable the pressure may be we must accept it as a fact. Mr. Goschen, who in 1870 did more than anyone to prove its unreasonableness, has since that time succumbed to it altogether. It is always the Locality which wants help from the Central Government, not the Central Government which wants help from the Locality. This consideration governs the whole question, and what we have to discuss is, in what form this help can best be given.

Before attempting this, it is desirable to understand distinctly in what form this help is now given. This is a very difficult and complicated matter; for the confusion of the present accounts, especially since the so-called reforms of 1888, and the subsequent changes, is such that it is scarcely possible for anyone who is not an expert to ascertain what are the matters in which the Imperial Government subsidises Local Authorities, and in what form and under what conditions the subsidies are given. In Sir E. W. Hamilton's memorandum, at page 24, a "Table A." is given, which sets out the items in which Local Taxation is now relieved by the State; (1) Out of General Revenues paid to the Exchequer, and (2) out of the assigned Revenues paid to the Local Taxation Account under Mr. Goschen's changes. But this table does not set out the appropriation to different purposes of the sums paid to Local Authorities out of the Local Taxation account, which constitutes, of course, by far the greater part of the help given by the State. This appropriation has been furnished to me by Sir E. W. Hamilton in a separate memorandum, so that in Table A. of Sir E. W. Hamilton's memorandum, coupled with this memorandum, we have a complete list of all the sums paid by the State to Local Authorities and of the objects to which they are appropriated.

The facts and figures, as given in these two documents, are as follow:—

I.—EXTRACT from TABLE A. in SIR E. W. HAMILTON'S MEMORANDUM, showing the EXTENT to which LOCAL TAXATION is now RELIEVED by the STATE in ENGLAND. (Extracted from House of Commons Papers, numbered 402 of 1873, 187 of 1879, and 344 of 1896.)

I.—ENGLAND AND WALES.

	1895-96.
(1.) OUT OF GENERAL REVENUES PAID TO THE EXCHEQUER.	
	£
Metropolitan Fire Brigade	10,000
Rates on Government Property	343,709
Disturnpiked and Main Roads	—*
Poor Law Unions:—	
Salaries of Teachers in Poor Law Schools	—*
Moiety of Salaries of Poor Law Medical Officers	—*
Moiety of Salaries of Medical Officers of Health and Inspectors of Nuisances	—*
Poor Law Auditors' Salaries and Expenses and Superannuations	9,860
Public Vaccinators	981

* The charges against which there is set an asterisk are charges which were transferred from the Exchequer to the Local Taxation Accounts under Mr. Goschen's proposals.

	1895-96
	£
Pauper Lunatics	141
Do. (Criminal Lunatics Act, 1884)	7,291
Registrars of Births and Deaths (37 & 38 Vict. c. 88.)	—*
Criminal Prosecutions:—	
Repayments to Counties and Boroughs	—*
Clerks of Assize	17,573
Central Criminal Court	—*
London Sessions, formerly Middlesex Sessions	1,344
Clerks of the Peace, &c., Compensations	193
Metropolitan Police:—	
Contribution in Aid	—*
Salaries and Pensions of Commissioner and Receiver	5,300
Police, Counties and Boroughs	—*
Prisons, Reformatories, &c.:—	
Maintenance of Prisoners in County and Borough Gaols	—
Prisons transferred (40 & 41 Vict. c. 21.)	415,282
Prison Officers' Pension Commutation Annuities	5,609
Maintenance of Children in Reformatory Schools	58,042
Maintenance of Children in Industrial Schools	133,508
Removal of Convicts from County Prisons	—
Grants to School Boards under 33 & 34 Vict. c. 75. s. 97.	26,507
Repair of Berwick Bridge	90
Registration of Voters	—
Diseases of Animals	22,000
	—
Total out of Exchequer Revenue	£1,057,148

1895-96.

(2.) OUT OF ASSIGNED REVENUES PAID TO THE LOCAL TAXATION ACCOUNTS.

	£
Additional Beer and Spirit Duties:—	
(a.) Customs	162,793
(b.) Excise	953,746
Excise Licences	3,188,448
Share of "Probate Duty" and "Estate Duty"	1,952,034
	—
Total out of Local Taxation Revenue	6,257,021
	—
GRAND TOTAL	£7,314,169

II.—ADDITIONAL MEMORANDUM furnished by SIR E. W. HAMILTON showing the EXPENDITURE of LOCAL AUTHORITIES which is met out of the LOCAL TAXATION ACCOUNT in ENGLAND and WALES.

"The Local Government Act, 1888, enacted that the sums carried to the Local Taxation Account as the proceeds of Excise Licences and of the Probate Duty grant, should be distributed to the Councils of Counties and County Boroughs. Each Council was to receive as its share (1) the amount of Licence Duty collected within its own area, and (2) a share of the Probate Duty Grant proportionate to the share which it had received in the preceding year out of the Exchequer grants in aid of local rates.

51 & 52 Vict. c. 41.

Section 20.
Section 22.

"All sums received by a Council from this source were to be carried to a separate account called its Exchequer Contribution Account. The moneys standing to that Account were to be applied by the Council to the following purposes:—

Section 23.

"I. Costs of the Exchequer Contribution Account (a trifling amount).

Section 24.

"II. Payments in substitution for the discontinued Exchequer grants, viz.:—

- "(1.) To Boards of Guardians: the amounts certified by the Local Government Board for remuneration of Teachers in *Poor Law Schools* and of *Public Vaccinators*;
- "(2.) To Boards of Guardians: the *School Fees of Pauper Children* in public elementary schools;
- "(3.) To Local Authorities paying a *Medical Officer of Health* or Inspector of Nuisances, one-half the salary of such Officers;
- "(4.) To Boards of Guardians: the amount formerly received out of Exchequer Grants for remuneration of *Registrars of Births and Deaths*;

* The charges against which there is set an asterisk are charges which were transferred from the Exchequer to the Local Taxation Accounts under Mr. Goschen's proposals.

" (5.) Four shillings a week towards maintenance of *Pauper Lunatics* chargeable either to the County, to Boards of Guardians, or to Borough Councils;

" (6.) Compensation payable to *Clerks of the Peace* and other Officers of Quarter Sessions;

" (7.) One-half the cost of Pay and Clothing of the *County and Borough Police*.

" For counties contributing to the Metropolitan Police the amount is differently computed, and has to be certified by a Secretary of State.

Sections 23
and 26.

" III. Payment to Boards of Guardians of the costs of *Union Officers* and Officers of District Schools, and of Drugs and Medical Appliances.

Section 23.

" IV. Remainder to be applied to *General and Special County purposes*, and in distribution between *Borough and District Councils*, on a prescribed basis, for application to any rating purposes.

" In 1890 the additional Customs and Excise Duties were directed to be paid into the Local Taxation Account, and the Act 53 & 54 Vict. c. 60. provided for their distribution. The English share of these additional duties was to be applied as follows:—

" I. To *Police Superannuation* 300,000*l.* a year, of which—

" (a.) 150,000*l.* was to be paid to the Receiver of the Metropolitan Police District;

" (b.) The remaining 150,000*l.* to be distributed among the other Police Authorities in England on a basis prescribed by the Police Act, 1890 (53 & 54 Vict. c. 45. s. 17).

" II. The residue (after payment of the 300,000*l.*) to be distributed among County and County Borough Funds,* to be carried to their Exchequer Contribution Account, and to be applied, like the other moneys carried to those Accounts, to the *purposes defined by the Act of 1888*, as described above; but with the proviso that a Council might instead apply its share of such residue, or any part thereof, as a contribution to the *Cost of Technical Education*.

" To show how the money is actually applied to the respective purposes, the figures for the year 1894–95 will be taken, that being the latest year for which complete accounts are available.

Summary of
Local Taxation
Returns,
1894–95.
H. of C.
Paper 218 of
1897, p. v.

" The Finance Accounts, 1894–95 (p. 103), show that the amount paid into the Local Taxation Account (England) in that year was 5,976,281*l.* 13*s.* 8*d.*

" The amount paid out of the Account in that year by the Local Government Board was 6,006,876*l.*, which was distributed as follows:—

	£
" To <i>Councils of Counties and Boroughs</i> :—	
" (a.) For Exchequer Contribution Accounts	- 5,074,995
" (b.) For Police Pension Funds	- 149,665
" To <i>Receiver of Metropolitan Police</i>	- 781,899†
" To <i>Hove Improvement Commissioners</i> (for Police Pension fund)	- 317
	£6,006,876

" The amount, however, with which we are here concerned is not that of the payments, either into or out of the Local Taxation Account, but of the payments during the year by the respective Councils out of their Exchequer Contribution Accounts. As just stated, the sums received by County and County Borough Councils for their Exchequer Contribution Accounts during the year amounted to 5,074,995*l.*; the payments made by them out of those accounts during the same period amounted to a total of 5,122,182*l.*, viz.:—

Summary,
p. 35.
p. 38.
p. 47.

	£
" By County Councils	- 3,360,094
" County Borough Councils	- 1,239,993
" London County Council	- 522,095
	£5,122,182

* The sums received by County and County Borough Councils for their Police Pension Funds do not pass through their Exchequer Contribution Accounts.

	£
† <i>i.e.</i> , Half cost of Pay and Clothing (paid direct for Metropolitan Police)	- 631,899
For Police Pension Fund	- 150,000
	£781,899

“The following Table shows the detailed purposes to which the payments included in that total were applied :—

PAYMENTS out of EXCHEQUER CONTRIBUTION ACCOUNTS, 1894-95.

	By County Councils.	By County Borough Councils.	By London County Council.	Total.
	£	£	£	£
Cost of Exchequer Contribution Account - - -	725	243	—	968
Payments to Public Vaccinators - - -	5,470	1,894	2,459	9,823
Paid to Boards of Guardians.	Teachers in Poor Law Schools - - -	8,579	5,137	13,484
	Pauper Children - - -	—	—	—
	School Fees - - -	212	42	—
	Registrars of Births and Deaths - - -	9,525	1,035	582
	Pauper Lunatics - - -	319,824	148,061	109,099
Paid to other Local Authorities.	Union Officers - - -	741,061	257,351	1,221
	Medical Officers and Inspectors of Nuisances - - -	83,106	6,718	49,423
	Pauper Lunatics - - -	41	—	—
	Police Pay and Clothing - - -	79,026	—	—
	Technical Education, &c. - - -	391,239	146,718	57,000
Paid to Council's own Accounts.	Pauper Lunatics - - -	8,543	3,998	—
	Compensation to Clerks of Peace, &c. - - -	387	826	—
	Police Pay and Clothing - - -	510,714	418,667	—
Residue paid to the General Funds of Councils and in aid of rates - - -	Other transfers - - -	2,527	—	—
		1,199,115	249,303	288,827
	£ 3,360,094	1,239,993	522,095	5,122,182

“The figures in the last line of the foregoing Table represent the amounts at the disposal of the County Councils in aid of their own revenues after meeting all the specific charges imposed by Statute upon their Exchequer Contribution Accounts. But it is to be noted that some of the preceding items, being paid into the Councils' own accounts, and not to other local authorities, operated also to reduce the burden upon the County and County Borough rates; also, more especially, that the amounts contributed to Technical Education are so devoted at the option of the Councils, who are at liberty if they please to forego contributing to that purpose from their Exchequer Contribution Accounts and to apply the money instead in relief of their rates for general purposes.”

“(Dated 14th January 1898.)”

It will be observed that the above Table and Memorandum do not deal with Education or with the grants made out of the Public Exchequer for that purpose, except so far as regards the amounts applied by County Councils to Technical Education out of the grants made by the Act of 1890. The Commissioners do not, in their questions, refer to the Education Grants.

The mere fact that it requires the work of a careful expert to give the above summary of the present state of things, and the complications obvious in the summary, are enough to condemn the present system. But the more it is examined, the stronger are the objections to the present system. A state of things bad enough before has been rendered intolerable by recent changes.

The gravest objection in principle to this gigantic system of doles from the public purse is that they constitute a transfer from the shoulders of property and accumulated wealth to the shoulders of poverty and industry.

The doles or grants in question amounted in 1896, according to Sir E. Hamilton (p. 26), to nearly 13,000,000*l.* If to this sum be added the Irish grant of this year, and the increase which has taken place in the grant out of Estate Duty, the whole amount will now probably be more than 14,000,000*l.* And if the very peculiar Education grant of last year be added the amount will be still more. By far the largest proportion of these grants has been made in recent years. Sir E. Hamilton states (p. 26) that the whole amount of such relief in 1842-3 was only 650,000*l.*, and he further states (p. 30) that the proportion which Imperial grants in aid of local taxation bore to the whole amount of money raised for local purposes was only 5 per cent. in 1842-43; that it was raised to 9 per cent. by Sir Robert Peel in 1853;

that it was further raised from 10 to 13 per cent. by Sir Stafford-Northcote's measures between 1873 and 1875; and that it was still further raised from 15 to 24 per cent. by Mr. Goschen's measures of 1888-90. The recent measures of the present Government must have made the proportion larger still. The fund out of which this large sum is contributed consists of the aggregate amount of National Taxation raised by Parliament. These taxes in 1895-96 were as follows (see Sir E. W. Hamilton's memorandum, p. 35):—

	£
1. Customs duties - - -	20,965,000
2. Excise duties - - -	31,595,000
3. Stamp duties - - -	7,339,000
4. Income tax - - -	15,983,000
5. Post Office surplus - - -	2,994,000
6. Death duties - - -	14,089,000
7. Land Tax - - -	1,021,000
8. Inhabited House Duty - - -	1,487,000
Total - - -	<u>£95,743,000</u>

Out of these taxes the first five, amounting to more than three-fourths of the whole, fall to a very large extent on the poverty and industry of the country, whilst the last three, amounting to 16,597,000*l.*, fall principally, though not exclusively, on accumulated property. The exact proportion cannot be ascertained without elaborate calculations and estimates; but it may safely be asserted that any grant made out of this total is drawn for by far the greater amount from charges laid by Parliament on the consumption of the working classes and on the industry of the nation.

Local rates, on the contrary, are to a very large proportion of their whole amount charges on that form of realised property which is subject to rates, in other words, on immoveable property. Consequently the large and increasing sum which has been paid out of the National Taxation in aid of rates since the middle of the century, constitutes to a very great extent an addition to the burdens on the poverty and industry of the country and a relief *pro tanto* of immoveable property. Moreover, it will probably be found on a careful investigation of the incidence of rates, that the persons who derive the greatest benefit from grants in aid of rates are not those who most require relief. In agricultural districts, where the ultimate incidence of rates is on the landowner, it is the landowner, and not the distressed farmer, who ultimately benefits; to which it must be added, as shown by Mr. Goschen in 1870, that the recent increase of rates, of which so much complaint is made, has been comparatively little felt in those districts. On the other hand, in towns there is no such distress as exists in agricultural districts: the larger proportion of the amount raised by rates is probably paid by comparatively wealthy occupants; and if the poorer occupiers have a grievance, it is a grievance which should, as pointed out below, be remedied at the expense of the urban landowners, and not out of the taxes levied on consumption and industry.

In short, the history of taxation in recent years shows that, whilst on the one hand there have been constant efforts to reduce taxes on consumption and to throw the national burdens more and more on realised property, these efforts have been to a considerable extent neutralised by a counter effort to throw burdens heretofore borne by realised immoveable property on to the shoulders of the general taxpayers.

Considerations such as these lead to the conclusion that, if the policy of taking taxes off industry and consumption and placing the burden of National expenditure on accumulated wealth is a sound policy, then the policy of relieving the ratepayers at the expense of the general taxpayer must be an unsound policy; that the further progress of such a policy should be checked; and that, if and so far as is possible, what has been already done in furtherance of this policy should be recalled. But without going this length there are ample reasons why the steps taken in recent years should be reconsidered and modified. These reasons may be stated as follows:

(1.) *Practical misrepresentation in case of Probate Duty.*

So far as concerns the large amount granted out of Probate (now Estate) Duty under the Acts of 1888 and following years, and Mr. Chaplain's Agricultural Rates Act, 1896, the Acts themselves and the accounts founded on them contain a practical misrepresentation. The Probate Duty was selected by Mr. Goschen, as stated by

Sir E. Hamilton, "because it was the one tax which fell exclusively on realised personalty; and it had always been the dream of reformers of local taxation to make personalty contribute thereto." But this is a mere delusion, calculated only to deceive the ignorant. The sum appropriated to the Relief of Rates is not really taken from the Probate Duty. It is taken from the aggregate sum arising from National Taxation, which Taxation has to be increased for Imperial purposes by whatever amount is taken from the Probate Duty for Local purposes. If you draw from one supply pipe of a cistern, you exhaust the cistern just as much as if you draw from the cistern itself; and if the cistern has to be kept at a certain level, you must increase its other supplies by as much as you draw off. The Relief to Local Rates falls really upon the industry of the country in the shape of Income Tax, and upon the consumption of the working classes in the shape of Customs and Excise duties, just as much as it falls on realised personalty. It is only as a matter of account—and that a false and misleading account—that the relief thus given to local rates comes out of personalty. The effect of the enactments charging it on Probate duty is only to confuse the public accounts and mislead the people. A misrepresentation of facts does not become less serious because it is authorised by an Act of Parliament and embodied in the Public Accounts.

(2.) *Confusion in the Public Accounts.*

The natural and simple way of keeping an account is to show first all the receipts, and then how these receipts are expended. In the present case the natural way would be to show all the receipts from Imperial Taxation on the one side, and then to show all the items of expenditure, including grants in Relief of Local Taxation, on the other. But by taking certain sums out of the National Taxation before they reach the National Exchequer, this simple form of account is abandoned, and it is made difficult to ascertain what the National Revenue really is. The Accounts, instead of showing that amount, and then showing how it is spent, show a sum which has to be supplemented by the sum which is applied in aid of Local Taxation. Consequently, in every attempt to deal with the National Finances this process has to be gone through, to the infinite vexation and probable blundering of writers and readers.

(3.) If National Accounts are confused, Local Accounts are still more confused. It is, as above stated, almost impossible to ascertain, and quite impossible to state in any simple form, what aid is given by the State to Local Authorities, or for what purposes.

There are—

1. The several items still paid out of the National Exchequer as stated in Sir E. W. Hamilton's Memorandum, Table A., page 24.
2. The various items paid out of or charged upon the Local Taxation Accounts.

These items again are disposed of in various ways.

Some of them, *e.g.*, the London Police Contributions, are intercepted before they reach the Exchequer Contribution Accounts. Some are paid to Local Authorities for the purpose of being handed over to other authorities. Some parts are specifically appropriated to specific purposes, so that the local authority is as to them a more conduit pipe. It is only a comparatively small residue which is really at the disposal and discretion of the Local Authority.

Let anyone take up the accounts of a Local Authority—say the London County Council, and endeavour to ascertain how much the Imperial Government gives to the London County Council, to what purposes it is applied; how much of it is at the discretion of the London County Council; and as to how much the London County Council is merely a conduit pipe, through which various sums—fixed I know not how or when—reach their destined object, and he will have some idea of the confusion introduced into Local Accounts by the system of Exchequer Grants, and consummated by Mr. Goschen's ill-omened changes of 1888 and the following years.

(4.) *Effect in stopping demands.*

It was supposed, or stated, that the reforms of 1888 would have been final, and have checked further demands on the Imperial Exchequer; but what has been the actual result? There has been, in 1890, upwards of a million a year granted by a sort of fluke out of the additional Beer and Spirit Duties for various local purposes; and since then we have had two of the most flagrant instances of doles which impudent interests have ever exacted from a weak or complaisant Government, namely, the grants under the Agricultural Rating Act and the Voluntary Schools Act.

The Agricultural Rating Act is especially open to Financial criticism. Regarded as a form of rating, it gave relief to that class of ratepayers upon whom, as proved by Mr. Goschen in 1870, the burden of rates fell least severely. Regarded as a relief of distress, it was not only inefficient, but the relief it gave, as I know by my own personal experience, and to my own personal advantage, was given without discrimination, and often to those who least required it.

The Voluntary Schools Act transcends the limits of mere Finance, and I should scarcely have referred to it if Mr. Balfour in his speech at Manchester on January 10th, 1898, had not spoken of it as a most successful experiment in local organisation. If Mr. Balfour thinks it an administrative triumph to induce a particular class of persons who have a special cause warmly at heart to combine in favour of that cause by offering them a grant of public money, he will find that local government is a very easy thing; but at what cost to the public exchequer, and to other public interests, it is difficult to say. Small wonder that Local and Imperial Finance should have got into a state of confusion, when a statesman of Mr. Balfour's eminence can speak so lightly on such a subject.

It may be added that the practice of giving Doles out of the National Exchequer to special local interests is still growing. *Vires acquirit eundo.*

(5.) *Parts of Taxes transferred—not even ear-marked.*

The half of the Probate Duty, and the special taxes on beer and spirits, imposed in 1890, are both of them parts of large national taxes, which are not even ear-marked. There is not only danger that local authorities may make further demands on other parts of these taxes, but the fact that the local authorities have an interest in aliquot parts of them may seriously embarrass future Chancellors of the Exchequer in dealing with these taxes.

(6.) *Effect on local Government.*

Over the collection and amount of the subsidies thus given local authorities have no control whatever; and when we come to look into their application, we find that in many, perhaps in most, cases they have no control over the manner in which they are to be applied. Consequently, they do little or nothing towards fostering an independent spirit of self-government, but the reverse.

(7.) *Distribution of the new subsidies.*

This is what Mr. Goschen said on this subject in introducing his scheme :

“There is a proposal that you should give the new money in proportion as counties and boroughs have been in receipt of the old grants. It seems to me that nothing could be more unjust. If there were a great lunatic asylum, in a particular county, receiving a considerable Imperial grant, and if you were to say, ‘this county has been receiving so much, and practically, as there is more money to be distributed, you must pay in proportion to what it has received hitherto,’ you would be offending against every principle of justice: you must rather look to see where the shoe pinches most.”

And yet the course which Mr. Goschen thus emphatically condemned was the course actually adopted. I need not dwell more on this point, which will no doubt be brought fully before the Commission by the representatives of London and other towns, which complain bitterly that they do not recover their fair share. In justice to Mr. Goschen, I ought to state that the pressure which made him depart from his original intention, was in a great measure due to the action of persons who were not supporters of the Government.

(8.) *No Control by taxpayer.*

The effect of the reforms of 1888 has been, to withdraw the grants in relief of local taxation from the control of Parliament, without giving any control or any responsibility to the local taxpayer. So long as the Exchequer grants were placed upon the votes, there was—in form, at any rate—some control by Parliament. Where taxes are placed wholly in the control of local authorities, there is control by the local ratepayer. But these subsidies are an anomaly and an exception to all our ordinary rules. They are taken out of the sources which ought to fill the national purse, and are then diverted by permanent Acts of Parliament to special local purposes, without the criticism and publicity which is given to the ordinary national expenditure; they are then placed in the hands of local authorities who have no control whatever over their amount or their collection, and who have therefore the smallest possible interest in spending them economically, and who, moreover, are in many cases mere conduit pipes for conveying them to certain objects already determined. The Metropolitan

Police is a curious instance of this; it is supported partly by rates, partly by a grant out of the Local Taxation Account—that is, out of national taxation—and yet, neither the ratepayers of London nor the taxpayers in Parliament have any control over this expenditure; whilst the Home Secretary, under a recent Act, has in certain events an unlimited power of raising additional rates in London for the support of this force.

Suggested Remedies.

It is not easy to criticise satisfactorily a system so confused and unintelligible as that which now prevails. But it is still less easy to suggest satisfactory remedies.

(1.) *Abolish Local Taxation Account with its mystifications.*

It is indeed, easy enough to suggest the abolition of recent complications and mystifications. It is easy and obvious to do away with the misleading fiction that local rates are relieved out of the Probate and Estate Duty; and to restore the whole of that duty, and the whole of the Beer and Spirit Duties, which are essentially National Taxes, to the National Exchequer. It is no less easy and obvious to do away with the Local Taxation Account; to make all National Taxes payable into the National Exchequer; and to let all such payments as it may still be necessary to pay out of the National purse towards local objects, be paid directly and expressly out of the National Exchequer under the authority of Votes of Parliament.

All this is easy and should certainly be done. The real difficulty is to determine what transfers of work or of taxation can be made which will separate Local from National Funds, and thus abolish or reduce the grants made out of the Public purse for Local purposes.

The following suggestions must be taken subject to the observation that I am painfully conscious of my own insufficient knowledge and experience.

(2.) *Transfer of subjects of administration from Local Authorities to Central Government.*

My first suggestion is, that inquiry should be made whether it may not be possible to help Local Authorities by transferring certain subjects of administration, with the attendant expenses, from Local Authorities to the Central Government. This has been done in the case of Prisons, and, so far as I know, with success. The change has not impaired Local Government, and it has saved Local Authorities a very considerable expense, as appears by Table A. above quoted. Might not the same thing be done with some other subjects? Those which—looking to the above Lists—I should suggest for this purpose, are—

The care of Pauper Lunatics;
Reformatory Schools;
Industrial Schools;
Public Vaccination;
Registrars of Births, Deaths, and Marriages.

I am well aware what excellent work is now bestowed on some of these subjects by members of the London County Council and other administrative bodies. But I see no reason why they should not be equally well administered by the Central Government. Nor do I see any reason, economical or otherwise, why the expense of such institutions should be greater in the hands of the Central Government than it is in the hands of local bodies. What the relief to rates would be, I do not know. But it would be considerable; and it would be applied in those places where growth of population has brought with it increased local burdens.

(3.) *Transfer of certain Taxes to Local Authorities.*

But the relief to be afforded by transferring whole subjects from Local to Imperial administration is necessarily limited. There is a wholesome tendency in favour of decentralisation and of local administration to which Finance must accommodate itself; and the question therefore is, how local bodies can be furnished with additional resources in such a manner as that the settlement may be final, as between Local and Imperial Exchequers; and also in such a manner as to provide, that taxes raised for local purposes shall be levied out of local resources with a large amount of discretion, both as to their amount and their application, so as to throw the burden, the responsibility, and the benefit on the same local shoulders.

One method of doing this is to transfer certain taxes bodily from the National Exchequer to Local bodies.

A beginning has been made with the License Duties. These are local duties, and such part of them as is levied in each county or borough is handed over to the Council of that county or borough. These duties are, therefore, local taxes devoted to administrative purposes in the locality in which they are collected, and they thus fulfil one condition of a good local tax. But this is the only good condition of a good local tax which they fulfil. They are still collected by the Inland Revenue Commissioners; there is no power to vary them; and if their collection were handed over to the Local Authorities, those authorities would have no real control over their amount. Is this sound policy? Is it clear that none of these duties could be raised, or lowered by different authorities without inconvenience? Is it not possible that the power to vary them might not only be convenient to the local authorities, but might lead to useful experiments in legislation, *e.g.*, high license duties for the sale of alcoholic liquors?

Again, might there not be power given to Local Authorities to raise other taxes of the same description, *e.g.*, taxes on amusements, or on advertisements?

Further, it should be considered whether Local Authorities should not also have much greater discretion than is given by the present law in applying the proceeds of these taxes. At present they are bound to administer them, or a great part of them, for certain prescribed purposes.

In short, it is clear that until the power of increasing, diminishing, or repealing these duties, and the power of selecting the purposes to which they are applied, is given to Local Authorities, their transfer does little or nothing towards advancing self-government or self-taxation. The Local Authority is a mere conduit pipe.

(4.) *Taxation of Immovable Property in each District.*

But the obvious fund for relief of local taxation is the immovable property within the district. It is the source suggested by Mr. Goschen in 1870; it is a fund which is increased in value by expenditure out of the local rates; it is a fund which in urban districts, where the burden of rates is greatest, is constantly becoming larger, and, therefore, more able to bear taxation. It is property which Local Authorities are accustomed to assess, and which, therefore, they are competent to tax. It is property which it is their interest to tax fully and fairly, but which it is not their interest to tax so as to kill the goose which lays the golden eggs. If, therefore, there are any Imperial Taxes on this property which can be transferred to Local Authorities, there will be many advantages in substituting such transfer for the present modes of relief.

(a.) INHABITED HOUSE DUTY.

This duty seems peculiarly appropriate for transfer. In 1871 Mr. Goschen proposed to hand over this tax to local authorities. Why he did not do so in 1887 we can only guess. Was it because the relief afforded by such transfer would have been most felt in Urban Districts, which most need relief from increasing rates, whilst it would not have been felt by the rural landowner, whose rates have increased but little, but whose pressure on a weak or compliant Government seems to be irresistible?

(b.) LOCAL DEATH DUTIES ON IMMOVABLE PROPERTY.

These are also taxes which might, for the reasons above stated, be properly handed over to Local Authorities; and before Sir W. Harcourt's Budget of 1894 a Municipal Death Duty was one of the most obvious methods suggested for the purpose of relieving Rates. The Reforms introduced by that Budget have created a considerable difficulty with respect to Estate Duty. That duty is levied for National purposes on all the property moveable and immovable left by the deceased, and it would be difficult, if not impossible, to separate that part of this duty which is levied on immovables in a given district and hand it over to the Local Authority of that district. But is there any reason why the Legacy and Succession Duties, which fall on particular bequests, should not be divided, and that portion of them which falls on immovable property be transferred to local authorities? I am not sufficiently acquainted with the practice to judge whether there would be any insuperable difficulty in this.

Another mode of effecting the same object would be to have a new Municipal Death Duty, to be levied and applied by Local Authorities, making at the same time in favour of the class who have to pay it some allowance or reduction from the amount they now pay in the form of Imperial Death Duties.

For such a measure Sir William Harcourt's Budget of 1894 creates facilities which did not exist before. Under it all immovable property will be valued for the purpose of the Imperial Death Duty, and it will, therefore, only need an additional assessment on that valuation to provide an additional Death Duty for Municipal purposes.

Whether in the case of the Inhabited House Duty, or of Municipal Death Duties, the Local Authority should have any and what power of altering the duties, would be a point to be carefully considered.

One further mode of helping the present occupying ratepayer, viz., dividing the rates between him and the owner, I have considered in answering subsequent questions.

(5.) *Central Control of Local Administration.*

There is one administrative difficulty which should be noticed. Help has, as above noticed, often been given from the public purse in order to induce Local Authorities to make administrative improvement which they would not make unless their expenses, or a part of their expenses, are paid. If Local Funds are wholly separated from Imperial Funds, this form of help would cease. I am not sufficiently acquainted with the details of local administration to know how far help and interference of this kind is really necessary. On Financial grounds it seems desirable to avoid it whenever possible, since it is really a bribe to Local Authorities to do what is their duty, and is a constant temptation to them to press for a larger and a larger grant. But if it must continue, the cases in which it continues should be specified, the amount of grant and the conditions on which it is given should be fixed, and the money should be voted annually and appear in the Estimates.

It is also deserving of consideration whether, in cases where it has been the practice to bribe Local Authorities to do their duty, by paying a certain proportion of the expense out of Imperial Funds (a course obviously open to objection), it would not be better, first to see that they are provided with sufficient funds for all the duties which are required of them; then to impose those duties on them in precise terms; and finally in case of their refusing or neglecting to perform those duties, to enable the Imperial Government or some Superior Local Authority to take the discharge of the unperformed duty out of the hands of the recusant authority, and to charge the expense on the Local District.

In answering Questions 7 and 8 I have tried to indicate different ways in which Imperial Finance may be brought to the aid of local finance without confusion of accounts, and without infringing the responsibility of Local Authorities; but I am painfully aware how crude my suggestions are, and how much more labour and knowledge are necessary in order to bring them into any practical shape.

Question 9. Should local rates be divided between owners and occupiers of real property, and if so, in what proportions?

I think that they should be so divided, especially in towns, where the shifting of rates on to rent is more doubtful than in the country. The broad ground is that here is a large fund of localised property which is rapidly increasing in value; which owes its value in a very small degree to the efforts of its owners, and in a very large degree to the industry of those who live upon the property; and which contributes nothing directly and expressly towards the payment of those rates.

To any proposal to charge rates on owners the objection is sometimes made that the incidence of these rates is governed by economical causes, and that the operation of these causes cannot be altered by legislation. When analysed, this objection resolves itself into two different, and indeed, inconsistent positions. The one is to the effect that all rates and similar burdens ultimately fall upon rent; that there is, therefore, really no injustice in a system which throws them in the first instance on the occupier; and that there would be no advantage to the occupier in a change of incidence which would be merely nominal. The other is to the effect that the landowner can always exact from the occupier the extreme amount which the occupier will pay, and that, therefore, if the occupier is relieved from rates, the owner will take out the difference in increased rent, and the occupier will not benefit by the change. Which of these two theories is true, and to what extent, is one of the most perplexing questions in political economy. The ultimate incidence of rates is certainly upon the owner in agricultural districts; and it is also, I believe, as stated in my answer to Question 6, to some extent upon the owner in towns. To some extent, in towns at any rate, it is upon the occupier. But without solving this problem it is not difficult to give practical answers to the above objection.

If and so far as the burden of rates now falls on the owner, he will sustain no loss by a change which makes him pay directly what he now pays indirectly. On the contrary, he will be relieved from the invidious imputation of exceptional immunity from taxation. If, on the other hand, the occupier now pays more than he ought to pay, it is just that he should be relieved. To the argument that this cannot be done, and that the landlord will always take out in rent what he is made to pay in rates, it may be replied that if this were true, the position of the landowner must inevitably be one of great odium and even of danger; for a title to property which does not bear and cannot be made to bear its share of public burdens, is a very unsafe one. Under all circumstances it would be greatly to the security of the landlord to be made to *appear* to pay. There is, however, every reason to believe that the law can relieve the occupier. Taxes, as I have said above, have the habit of sticking where they first fall; and as a matter of fact our laws have been framed on the principle that it is possible to throw the burden of local taxation on the owner. Many of our old Rates—*e.g.*, the Sewer Rates—were known as Landlords' Rates; whilst in recent times Sir R. Peel's Income Tax has been imposed on Owners, and they are expressly prevented from contracting out of it. But the application of the principle is a matter of some difficulty.

First the relation between the occupier who pays the rates and the owner, or owners, is not a simple one, especially in London and other large towns. There is often tenancy behind tenancy, lease behind lease; and the complete ownership is made up of a series of different interests beginning with the actual occupier and ending with the freehold reversioner. This makes it necessary, in providing for the incidence of taxation to spread it as fairly as possible over all the interests concerned.

Here, however, there is one set of interests which raises a serious question; the interests, namely, of those who only retain a rentcharge without any reversion in the *corpus* of the property, or, which comes almost to the same thing, with a reversion so small as to be of little or no value. Fixed interests of this sort may be rendered more secure, but are not increased in value by the expenditure of rates, and the argument drawn from such increase fails. On the other hand, if such interests are not taxed, there will be a large and uncertain proportion of real property still remaining exempt from direct local taxation; and on this ground it will probably be desirable, at any rate in the case of future contracts, that such rents should, like other rents, be subject to deduction on account of rates. The case of such rents already reserved by existing contracts presents much greater difficulties.

Again, as regards not these cases only, but all cases there is the consideration that we have to deal not only with new contracts, but with existing contracts. In the case of existing contracts, it is true on the one hand that many, if not most, existing leases contain stipulations that the occupier shall pay the rates; and it is also true on the other, that we are certain that the incidence of new and unforeseen burdens falls on the occupier and not on the owner.

Again, the rates, the burden of which has to be distributed, differ widely in their application and in the way in which their expenditure benefits different interests in the land; but they differ in this respect in varying degrees, so that it is impossible to say that one rate ought to fall on one particular interest, whilst another ought to fall on a different interest. The effect of the expenditure of a lighting or paving rate is comparatively transitory, and that for the purpose of the Main Drainage or the Thames Embankment, is comparatively permanent; but the benefit of neither of them is co-incident with any particular interest of occupation, lease, or ownership. Moreover, besides such rates as these, there are a number of rates, *e.g.*, Poor Rates, School Rates, and Police Rates, which benefit all the successive interests in the land. This consideration makes it impossible to say that the incidence of different Rates should be distinguished, and that Rates for permanent improvements ought to be charged on the Freeholder whilst other rates are charged on the occupier.

Looking to these considerations, the following are offered as propositions that should govern the case. They were originally suggested by Lord Hobhouse and were given by me to the Town Holdings Committee:—

In the case of future Contracts—

1. Some portion of the burden of the rates should be thrown on the owners as distinct from occupiers.
2. All owners of whatever tenure, whether for years, in life or in fee, should bear their due share.
3. Each owner should be charged upon the present amount of annual benefit accruing to him from the property assessed.

4. Each owner should pay part of the rate collected from the occupier by means of a deduction of his rent according to the method used in the case of property tax.
5. Owners should contribute to the rates not only in respect of improvements, but of other purposes.
6. Owners should pay not different proportions of different rates but a fixed proportion of the whole; a fair proportion should be charged upon owners.
7. Half is suggested as a fair proportion.

In the case of existing Contracts—

8. New rates may be imposed without regard to private contracts.
9. Contracts which contain no stipulations that the occupier should pay rates need not be regarded.
10. Further contracts by lessees to pay otherwise than as the law directs should be made void.
11. Future increases of old rates may be treated as new rates.
12. Rates existing at the date of a contract should be left under the operation of the contract.
13. Rates, or increase of rates, imposed after the date of a contract and before the change of law require special treatment. Some compromise is necessary as suggested by the Committee of 1870, but it should be more speedy and wider in its operation.

To these suggestions I would add that the case of quit rents or fixed rents with no reversion, or a reversion so small as to be of no value, held under existing contracts, requires special consideration. When such rents have been bought and sold as investments returning a fixed income, there would be great and well-founded objections to any plan of making deductions from them in order to relieve persons who have acquired and hold the property which is subject to these rents.

These suggestions are probably capable of improvement. But whatever be the details of the plan, I feel sure that it is essential that a part of the burden of rates should be made to fall, and to appear to fall, on the Reversioner or Reversioners. It is a matter of great importance in the interest of the National Exchequer, as well as of Local Government, that the present system of raising money by rates should be preserved unimpaired. Rates are a form of tax which falls upon property, and which, beyond any other form of tax, provides security for good and economic administration. They ought, therefore, to be made as popular as possible, and for this purpose every injustice in levying them, whether real or apparent, should be removed. The fact that they are levied solely on the occupier, and not on the owner, is an apparent, even where it is not a real, injustice, and it ought therefore to be altered.

Question 10. Should ground values be separately rated for local purposes, and if so, on what principles?

This question it is very difficult to answer. There are very real grounds for the demand, and equally great difficulties in accomplishing it. It is clear that an alteration in the incidence of rates which are proportioned to rent will not be sufficient, without some further taxation of capital values. Rent and capital value are two different things, and rent is often no test of capital value. In the case where a lease has been paid for by a premium; in the case of land which can be, but has not been, built on; in the case of an old lease in an improving quarter; in the case of land in the neighbourhood of towns, and in all the pleasant residential parts of England; the actual rent, which is often a mere agricultural rent, bears no proportion to the real value; and if local taxes were levied upon rent, and proportioned to rent alone, there would be a large quantity of real property which would escape local taxation altogether.

But the difficulty of associating any plan of rating ground values with our present system of rating on annual value seems to me to be very great, if not insuperable. It is conceivable that in place of our present system we might have had one under which capital values, instead of rent, might have been taken as the basis, so that the annual rate might be proportional to some assumed rate of interest on that capital. The experiment seems to have been tried in the United States, and does not seem to have been successful. (See "Taxation in American States and Cities" by R. T. Ely, New York.)

But the great objection to any such plan is that there exists at present in this country an established system of valuation and rating fairly understood by the Assessment

Committees whose business it is to make the valuations. It is an assessment of annual value; it is avowedly based on rent; and has in the actual rents obtained in the market a certain basis and test. The suggestion that rates shall be based on capital values would be a complete subversion of the system which now exists, and would need a completely new process, and a very different machinery. This objection appears to me to be fatal to any plan of substituting capital value for rent as the basis of rates.

The same objection seems to me to be also fatal to a plan of taxing site values, which finds much favour in some quarters, and especially in the London County Council. The gist of the plan is, to distinguish buildings—which are the produce of human labour and capital—from the land on which they are built; and then to lay a new, separate, and heavy rate on the land, which would go in relief of existing rates. In this way it is supposed that the capital values arising out of the mere possession of improved land might be made to contribute, without taxing the industry and capital employed in building.

I doubt whether any such scheme is practicable. In the first place the land and the house have not, for purposes of valuation, any separate existence. Valuers, no doubt, say they can value them separately, and Mr. Chaplin's Agricultural Rating Act may be quoted as a precedent, if, indeed, that unfortunate Act can be quoted as a precedent for anything. Valuers will, no doubt, put a valuation on anything, whether they know anything about it or not; but the question is what real basis they have for their valuation. The only ultimate basis of a valuer's knowledge is his experience of actual market values; and as the land and the houses upon it are sold and let together, no such basis can exist for a separate value of the two things. A valuer's judgment is limited by his experience, and where there is no experience his judgment is untrustworthy. I am told, for instance, that an experienced valuer's estimate of the late site of Her Majesty's Theatre, which was, of course, an exceptional case, has proved utterly erroneous. I do not see how it is possible for any valuer to say with any approach to truth or certainty, what is the value of the estate of the Duke of Bedford or of the Duke of Westminster, apart from the buildings which stand upon them.

A second objection to this plan of taxing site values is that the question at issue is not so much a question between the owner of the house and the owner of the land, as a question between the owner and the occupier of both house and land; and as the ownership and occupation of both are divided into a great number of successive interests, and as the tax upon the site must be levied in the first instance from the original occupier, it will be necessary to have an elaborate system of deductions which each successive tenant is entitled to make from the rent paid to his immediate landlord, until we arrive at the sum to be charged on the ultimate freeholder. This process will be parallel and analogous to that which has been suggested for the case of deductions of present rates from annual rent. We should thus have two systems of valuation and of successive deductions going on, both elaborate, both difficult, alongside one another, and leading, as it seems to me, to inextricable complication and confusion.

There is a third objection which is, at any rate, good as an *argumentum ad hominem*. Those who are strong advocates of the plan of taxing "Site Values," are often also persons who believe that the present Rates in Towns fall wholly on the occupier and are not shifted on to the owner. I do not agree with them in this belief. But if they are right, what security have they that rates on Site Values will not also in the end fall on the occupier.

In the absence of any practicable scheme for the separate rating of ground values, I have suggested in my answers to Questions 6 and 7 certain alternatives in the form of Municipal Death Duties.

Before quitting the subjects of Questions 9 and 10, it may be desirable to notice the difficulty which was much discussed in former years, namely, whether it would be fair to tax owners without giving them direct representation. The principle that taxation and representation must go together have already been largely departed from; and in the present temper of public feeling about representation, I do not think that there is any prospect of giving what would be called "fancy franchises" to owners. It is also, I think, open to doubt whether such franchises would be of much service to them, and whether such franchises are necessary in order to give them their due influence on Local Bodies. The influence of ownership and property is very great indeed without any direct or any proportionate franchise, and I do not think that the experience we have had of modern local bodies with democratic constitutions shows that property has any reason to be afraid of them.

The London County Council is, perhaps, the most striking case. In that body there has been a good deal of talk of a socialistic kind; but their bark has been worse than their bite; it has alarmed the conservatism of London; it has reduced the Progressive majority; and the danger seems to be now rather that valuable reforms, which would have been welcomed 50 years ago, will be impeded and delayed, than that any revolutionary attacks will be successfully made on London property.

Question 11. Under what conditions and in what manner would the rent which could be obtained by an owner of land or rateable hereditaments be affected, if at all, by—

- (a.) *The increase of an old rate?*
- (b.) *The imposition of a new rate?*
- (c.) *The reduction or abolition of a rate?*

So far as I understand this question, I have done my best to answer it in the answers given to Questions 6 and 7. The increase of an old rate, if a settled and well-established rate, would for this purpose be much the same thing as the imposition of a new rate. Any change in rates made during the existence of a tenancy would of course affect the tenant and not the landlord. Upon the making of a new tenancy, past changes in rates, and possibly also the probability of future changes in rates, would be elements to be taken into consideration; but what specific effect they would have would depend upon the circumstances of the case.

Question 12. Under what conditions and in what manner would the rent which could be obtained by an owner of land or rateable hereditaments be affected, if at all, if an occupier by whom a rate had hitherto been paid were empowered to deduct the whole or a portion thereof from the rent in the same manner as he is now entitled to do in the case of Income Tax (Schedule A.)?

I am inclined to think that, as in the case of Income Tax, the owner would in such case really pay the part deducted, though it is impossible to speak with absolute certainty; but whether he really paid it or not, it would be a great security to his property, and a great support to the existence of the rate, that he should appear to pay it.

Question 13. What is the effect, if any, upon rent of rating property—

- (a.) *On different scales of duty according to the value of the property?*
- (b.) *On different scales of duty according to the character of the property or the purposes for which it is used?*

I am not sure that I understand this question.

As regards (a), I do not, without an example, see how it can be done, at any rate in those cases in which there are successive interests in the property. Is the value of the property to be taken as its value to the occupier, or to the owner? and is the value of property to the owner to be taken as the value of the particular property—say the house—to him? or is the value on which he is to be taxed that of all similar property which he owns in the district?

On first consideration, I do not see how it is possible to have a graduated scale of taxation for rating purposes.

As regards (b), I am in an equal difficulty, and need a specific suggestion before giving an opinion. Possibly, reference is made to the separate rating of lands and buildings under Mr. Chaplin's Agricultural Rating Act: if so, I think the whole scheme absurd. A farmhouse, a barn or a pigsty has no separate value apart from the farm with which it is connected, even though all the valuers in England have agreed to put down the values of the buildings and of the land in separate columns.

Question 14. Can you make suggestions to the Commission as to any methods of raising revenue for local purposes, otherwise than by means of rates?

I have already answered this question, so far as I am able, in answering Questions 7 and 8.

Question 15. Does any point not included under any of the foregoing questions occur to you, on which having regard to the terms of reference to the Commission, you wish to express an opinion?

I believe I have, in the answers to the previous questions, given all the information in my power. But if any further question arises upon what I have said, I shall be glad to explain. The whole subject is one of such difficulty and complexity, that it is impossible to be positive without being presumptuous, or exhaustive without being wearisome.

FARRER.

Abinger Hall,
23rd January 1898.

Addition to Lord Farrer's Answers to the Questions submitted to him by the Royal Commission on Local Taxation.

On looking over my answers to questions put by the Royal Commissioners on Local Taxation, I find two points of importance which are not sufficiently emphasized; and if it is not too late I should like to add a word or two upon them.

I. The first point is the effect of the recent immense development of grants or doles out of the public purse in relief of Rates on the balance and distribution of taxation.

These grants or doles amounted in 1896 to 10,750,000*l.*, and this is exclusive of about 2,000,000*l.* under the Agricultural Rating Act; of the grant to Ireland contemplated this Session; and of all grants under the Education Acts (*see* Sir E. W. Hamilton's Memo., p. 26). They are the growth of recent years, the amount having been only 650,000*l.* in 1843 (*ibid.*). The per-centage of local taxation contributed by the Imperial Exchequer was 5 per cent. in 1843, 13 per cent. in 1876, and by Mr. Goschen's measures of 1888-90 it was raised to 24 per cent. (*Ibid.* pp. 30-1.)

These grants are made out of a fund which in 1896, consisted of the following items. (*Ibid.* pp. 35-6):—

	<i>£</i>
1. Customs Duties - - - - -	20,965,000
2. Excise Duties - - - - -	31,595,000
3. Stamp Duties - - - - -	7,339,000
4. Income Tax - - - - -	15,983,000
5. Post Office Surplus - - - - -	2,994,000
6. Death Duties - - - - -	14,089,000
7. Land Tax - - - - -	1,021,000
8. Inhabited House Duty - - - - -	1,487,000
Total -	£95,473,000

Of these items of taxation the first five, amounting to more than three-fourths of the whole, fall chiefly on the consumption and industry of the country, whilst the last three, amounting to less than one-fourth of the whole, fall in the main on realised property. Local rates fall principally on realised property.

Consequently the grants in question, probably amounting in the whole to 15,000,000*l.* a year or upwards, are to a large extent a transfer of burden from the shoulders of property and accumulated wealth to the shoulders of poverty and industry.

The more closely Rates are analysed, the more, I believe, will this be found to be the case. In Agricultural districts the ultimate incidence of rates is upon owners and not upon occupying farmers; and in towns, even where the rates fall upon occupiers, it seems probable that comparatively wealthy occupiers bear the greatest part of the burden.

The real remedy of the town occupier, where he requires a remedy, is against the landowner, not against the general taxpayer.

This disturbance in the incidence of the National burdens is a point so obvious that I failed to describe and insist upon it in my answers as much as I ought to have done. It is of such first-rate importance that I am anxious not to be thought to have neglected it.

II. The other point to which I wish to call further attention, arises out of what I have said at page 78 about a Municipal Death Duty, and the difficulties created by Sir W. Harcourt's Budget of 1894 in devising such a duty. I wish to point out that if that Budget creates some difficulties, it also creates some facilities which did not exist before. Under it all immoveable property in towns will be valued for the purpose of this Imperial death duty, and it will, therefore, only need an additional assessment on that valuation to provide an additional Death Duty for Municipal purposes. I am anxious to call attention to this point, because the more this subject is discussed, the greater appear to be the difficulties of taxing Capital or Ground values in Towns for Municipal purposes in any other form than that of a Municipal Death Duty; whilst, on the other hand, the expediency and even the necessity of such taxation becomes more and more apparent.

FARRER.

27th March 1898.

Answers by the Right Hon. Leonard Courtney, M.P.

1. I am afraid I am wholly unable to accept the classification of Taxes contained in the paper Table D. It appears to me to proceed upon an entirely wrong method, and, whilst its analysis is laborious and painstaking, the results are, in my judgment, of little value in themselves.

The error running through the Table infects also the terms of reference to the Commission. It lies in regarding the problem as one of adjustment between things instead of between persons. We can only talk of justice between real and personal property by a strained metaphor, sure to mislead the many, and, indeed, constantly endangering the clearness of judgment of the few. The real task of the Commission is to investigate the existing system of Local Taxation in respect of individuals, and to readjust it, if necessary, so as to secure that these individuals shall be required to contribute in accordance with the principles of justice. The moment we use language which is inconsistent with this truth we are in danger of confusion of purpose, and our investigation is apt to be fumbling and stumbling in the dark after a very unsatisfactory fashion. Persons are, no doubt, taxed in relation to the possession of things and to the consumption of things, and some measure of the taxable capacity of persons may be found in the extent of these possessions and of (this consumption; but, after all, what we have to find out is not whether one thing is unfairly taxed compared with another thing, but whether the taxes as imposed take from one person, or one set of persons, more than the sums of which they should be mulcted if they are to be treated justly, as compared with other persons or sets of persons.

The inquirer into the subject of Local Taxation should, in my judgment, proceed by examining first what should be the limits of Local administration and Local expenditures, in the course of which he might distinguish between those branches of administration and expenditure which have reference to the general and indivisible service of the community: and next, those branches which deal with separate services to the individual members or families constituting the community. As an illustration of this distinction it may be suggested that if a municipality supplied gas within its limits, the service to every household or factory would be separate, while the service for lighting the streets would be indivisible.

Secondly, he should inquire into the proper basis of contribution between the members of the community towards the expenses which have to be met, discriminating again between the indivisible and separable services.

Thirdly, he should examine the existing modes of raising the Local Revenues required to meet Local expenditures, separating the revenue which does not arise directly or indirectly from the taxation of individuals, and should compare the analysis thus affected with the principles of just contribution already investigated.

Fourthly, he should inquire into the most expedient ways of bringing the existing system, as set out in the result of the third branch of the inquiry into agreement with the ideal standard, worked out in the second branch.

2. In view of the answer I have given to No. 1 no reply appears necessary to this question.

3. The net revenue of the Post Office, which strictly calculated would be less than the surplus of income over expenditure shown in the public accounts, since nothing is allowed in the latter for the interest on capital sunk in the service, is a tax primarily at least on the senders of letters. In the case of business correspondence some proportion of the cost may become a business charge, and be recouped by customers availing themselves of the services of the business.

4. Where the tax is levied to meet the cost of a separable service it would seem fair to impose it upon the individual in exact proportion to the cost of the service rendered. But this canon must be qualified by consideration of the circumstance, whether the service is rendered primarily for the sake of the individual or for the sake of the community. If the education of a child be the duty of a parent, the cost of the education should be met by the parent, nor would the obligation be different, even where the community enforces the duty; but if after taking into account the necessity of defraying the cost of education of those absolutely indigent and the economy of dispensing with separate accounts and separate returns, a community undertakes the whole charge of education within its limits, the service may be regarded as undertaken for the community rather than for the individual, and may thus become indivisible,

The question in fact turns on the determination of the limits of personal and public duty, and the burden of the taxation may be shifted with the variation of these limits. With respect to all services which are recognised as common and indivisible the apportionment of their cost must follow the principles of taxation in general. As to this the answer which has most recommended itself to me is that taxation for common purposes should be levied from each member of a community according to the law of equal sacrifice, meaning thereby that each individual should be mulcted of such a sum as would, having relation to his means, involve the same sacrifice to the common want. The suggestion which has often been made of allowing to each member of the community an irreducible minimum necessary for the maintenance of existence, before considering the taxation of the overplus, is founded on an obscure appreciation of this doctrine of sacrifice, since the sacrifice becomes infinitely greater when this minimum is trenched upon. Correlative, however, to a reservation of the minimum is the suggestion that with the extension of the overplus the proportion of the tax may be increased since the sacrifice diminishes as this extension increases. The principle of graduation of taxation thus appears to be dictated by considerations of pure justice, but it must be admitted that it is extremely difficult to apply a rule of graduation. It must be regulated by such conceptions as we may have of the tenacity of attachment of the normal man to growing possessions, and of the corresponding sacrifice involved in a tax on this tenacity. All we can hope for is some rude measure of apportionment approved by common morality. It should, however, be observed that in estimating the means of the individual, a common measure should be adopted which in strictness can only be obtained by a capitalisation of resources. The power of the citizen is not varied with variations of the form in which it may please him to invest his means. Here again we are dealing with pure theory, and in its application to ordinary life it will be sufficient, if within particular communities we can light upon some working test which may be accepted as a gauge of the relative capacities of the members of the community. I may refer to my answer to the last question (No. 15) for a suggestion of a test of this kind.

5. The best way of answering the question upon whom rests the ultimate incidence of a tax is, I think, to be found in pursuing an investigation as to who would be benefited if the tax were abolished. This method will be best seen by the illustrations in the next answer.

6.—(a.) Speaking generally, I think the Inhabited House Duty is borne by the occupier. Where there is no special advantage of site or position, the main element in determining the rent of a house is the cost of building another similar to it, that is, affording about the same accommodation. The rent cannot exceed what is sufficient to give a market return to the builder, as otherwise more houses would be built, nor except in decaying towns can it fall much below this, as otherwise the houses would soon become insufficient for would-be occupiers, and yet none would be built if the builder could not get an adequate return. If this view be correct, it would follow that the abolition of a house duty would be a relief to the occupier only, and the imposition of a house duty would be a burden on the occupier. Even if the duty had the effect of compelling the occupier to live in a house less commodious than he would otherwise obtain, the burden would still rest upon him, not by making him pay more, but giving him less for his money. Where, however, site or position forms an important part in the value of the house, the rent paid in respect of the site would not be affected by the considerations I have mentioned, and so much of the house duty as was proportionate to this rent, and, so to speak, attached to it, would be ultimately borne by the person entitled to the receipt of the rent, because this person, or class of persons, would be able in the long run to get their rent increased by the amount of the house duty taken off in respect of it. The proposition remains generally true, as far as houses occupied for domestic purposes are concerned, that Inhabited House Duty is paid by the occupier.

(b.) The reasoning in the before-going answer applies to rates levied on houses used for domestic occupation, but it must be observed that if the abolition of a house duty, or of a rate, is balanced by the imposition of some other tax—if, in fact, there is a transformation and not a cessation of burden, the problem for practical consideration would extend to an inquiry as to the incidence of the new burden. I mention this only as a matter of caution.

As regards rates on trade premises, these must ordinarily form part of trade expenditure, and be ultimately borne by the customers availing themselves of the services, or consuming the commodities the trade supplies. For if these rates were

removed, the trading profits would be *pro tanto* increased, and the competition between those engaged in the trade, and of others ready to enter into it would bring down prices so as to secure the ultimate benefit passing to the customer. This is the general view, but it must be qualified by the consideration that, where the situation of the trade premises gives it exceptional advantages, so that the occupier of them is not exposed to the effective competition we have contemplated, the owner of the position would, in the long run, be able to secure the advantage derived from the abolition of the rate. It may be noticed also, that rates on trade premises using the word trade in its amplest sense, so as to cover manufacturing establishments, often operate to favour the development of a trade in one district which is lightly rated to the exclusion of others heavily rated, and this would tell upon the persons interested in the particular districts. But this burden is of a secondary degree, and does not affect the incidence of the rates where levied, which are borne generally by the customer or consumer.

(c.) This is an illustration, in the main, of the question answered in the last, qualified by a consideration of the nature of the competition to which the agricultural trader is exposed, and of the special advantages commanded by the position of the land he occupies. In so far as the prices of agricultural produce are determined by foreign competition, a taking away of the rates on land would temporarily enable the tenant to put his produce on the market at a lower cost, and would thus temporarily increase his profits or diminish his losses. But the competition of would-be farmers at home would take away this advantage on the one hand, while the effective competition of the foreign producer would nullify it on the other. In respect of all commodities which come upon the market under conditions independent of the distance of the place of origin the consumer would almost immediately lose whatever theoretical advantage he might appear to grasp at first, whilst, as far as regards commodities, the market conditions of which do depend on the place of origin, the owner of the home property would gradually acquire the benefit of the reduction. It is easy to see that if a single farm were to be let rate free the landowner would secure a higher rent just as he would in letting a farm tithe-free. But if all farms could be let rate free, the landowner could only secure the advantage just so far as the tenant would have an advantage over outland producers, that is just as far as the produce to be marketed depended for its market value upon being produced within the distance of the farm from the market.

(d.) I do not know whether it is possible to give a single answer to this question. It would seem that the burden of the tax must depend upon the character of the property transferred. A distinction must, for instance, be drawn between property which is capable of being multiplied, and property which is pretty strictly limited. As railways are being continually extended and railway capital as continuously increased, and large classes of investors regard many railways with equal eyes, it would seem that if the taxes on the transfer of such property were abolished the result would be the division of the benefit between present holders and those who bought from them. After a time, the net result would be a fractional increase in selling values. But this increase would be kept down by the ever increasing mass of values open for sale. In the case of landed property not thus capable of continuous extension (landed must here be separated from house-property) the advantage of an abolition of transfer of taxes would be almost entirely absorbed by the owners at the time of the abolition. (These transfer duties have an important secondary effect in impeding free interchange, which however is beside the present inquiry.) As regards those cases where transfer taxes are levied in the respect of consumable commodities passing into or through a market, these must be classed as falling ultimately on the consumer of the commodities in question. Market tolls are an illustration of this class.

(e.) I do not see how it is intended to connect this question with general inquiry into local taxation. If anyone contemplated the imposition of a local tax on trading profits it must be remarked upon such a suggestion that under the present circumstances of complete freedom of internal communication by post and rail, and consequent competition between the traders of any particular spot, and those who are prepared to supply the wants of its inhabitants from outside, it would be very difficult to prevent the tax from falling on the traders in the place contemplated, with the possible result of driving some of the trade away. On the whole I scarcely think this notion can be seriously considered. On the other hand it is difficult to contemplate a universal tax on trading profits as pertinent to the inquiry. If imposed its operation would vary according to the circumstances of particular trades. Where the trade partook

of the character of a monopoly it might be possible for the trader to pass on some of the tax to his customer in the shape of diminished quantity or deteriorated quality, or even in some cases of added price with a reflex consequence of some diminution in the extent of his trade. But where nothing of the nature of a monopoly exists the main burden of the tax would apparently rest on the trader.

(f.) It is not easy to see how the deduction of a death duty can be passed on to any other person than the man who, in the absence of the duty, would have received so much additional property by transmission. This person is evidently the primary loser, be he heir, residuary legatee, or what not, and it seems that he must remain the loser. It may be suggested that a living man may provide by insurance or otherwise for the duty to be paid at his death, and if the duty is the sole cause of the provision, which would in no case have been otherwise made, then the living man may be said to have borne by anticipation the burden of the duty. But it is obvious that he might have made a similar saving from mere motives of saving, and he would have left a bigger estate to be transmitted to someone who loses the benefit of the addition because the duty takes it away.

7. Where the subject of administration is one mainly, if not exclusively, of local concern, the reasons greatly preponderate in favour of making its control local, and where the control is local the money required for the administration should be raised locally also. Independently of the great value in a political sense of engaging the inhabitants of a locality in the management of their own affairs, it must also be recognised that these inhabitants must be best acquainted with the immediate circumstances of the neighbourhood, and ought to have the best knowledge as to the means of doing what is wanted. Moreover, where those who control administration have to provide for its cost, there are the best guarantees of economy in administration. These seem to be the governing principles upon which our decision should be founded, but the degree in which they should be observed and followed must probably depend upon the different estimate we may have of the value of the several principles themselves. For my own part, I hold so highly the political importance of maintaining local administration that I would uphold it even at the risk of its not always rising to the highest standard. Much difficulty must in practice arise in defining the limits of a community in respect of any special subject, partly through the growth and variation of localities, and partly because for different subjects different areas must be adopted as limiting the community. An example of the first difficulty is frequently afforded in the expansion of towns. Examples of the second class arise in considering what limits may be best assigned to a community for educational, police, or poor law purposes. Many anomalies and defects of administration have arisen from the rigidity of Town Boundaries, and it may well be considered whether some simpler method should not be established of providing for their extension. When, however, we have defined the proper limits of a community for the several purposes of local administration there remains the question of the expediency of securing some unity of principle and of standard in different areas, thus binding them together under some higher authority, it may be of a larger provincial area, it may be of the State, and in these cases it becomes proper that some contribution should be made from the higher authority, which contribution would entail some check on expenditure, if not some participation in it on the part of the higher authority.

8. The answer to the last question indicates the conditions under which some portion of a local expenditure may properly be contributed from a larger area, of which the central Government is only the highest example. It suggests that where conditions of administration are strung up so as to secure more uniformity or a higher standard, the additional expense might fairly be imposed on the authority requiring the improvement, which authority would also have some right of intervention in respect of this contribution. The administration of the police in England is a familiar example of this process. Police administration was originally parochial work. It still remains independent within the larger towns, but, subject to this, it has become a matter of county concern, except in London, where a different system prevails. The area of the community for the purpose of police has thus been modified, but besides this the standard of police administration has been raised to meet the requirements of a central authority, and a large contribution has been made under the same authority towards the cost. In the same way, the State has developed and enforced a higher standard of primary education, and contributes towards its cost. It is unnecessary to examine the special forms of contribution which have been adopted: they should in all cases be chosen so as to secure that the money be spent on the right object, and

that it does not deprave the spirit of economy of the local administrators. In any general reorganisation of the relations between the State and local areas, whether county, town, sanitary, district, or parish, these objects should be kept in view as of paramount importance.

9. In answer to Question 6, I have given reasons for thinking that rates on the occupation of houses fall on the occupier, and rates on the occupation of agricultural land on the landowner. If this view be true, there is no great question of principle involved in the division of rates, for on the establishment of any tenancy the average amount of rates will be an element taken into consideration. But there may be important variations of rates, and even the creation of new rates during tenancies, and these possible variations have often very great effect in retarding the adoption of beneficial proposals, because they would throw expenditure upon those who did not contemplate them in their bargains. On this account I think it highly expedient that rates on real property should be divided, and there is no better division than that of equality between owner and occupier, and the smoothness of the working of such a division in Scotland supports the suggestion. It was, moreover, recommended long ago by the Richmond Commission in the case of agricultural tenancies.

10. Where the utmost use is made of a piece of land for building purposes, which is ordinarily the case where land is covered with houses of recent origin, the rent paid for the house includes the rent of the ground on which it is built, and I have given reasons in answer to Question 6 for thinking that the rates paid by occupiers of houses are borne by them, except in the case where the position of the land gives it exceptional value, so that the owner of that land would in the case of a new lease command the advantage of any remission of rate. Shortly, therefore, rates on ground values would adjust themselves at each new letting. But, as suggested in the last answer, great changes may arise during tenancies, and whilst a separate rating of ground values would not bring any new subject of valuation under rating at the time of a commencement of a tenancy, and would not alter the incidence of the rate at that time, its absence may, in the course of a tenancy, leave improved values exempt from rating, and in consequence greatly affect the real incidence of the local rates. Suppose, for example, an acre of ground occupied with inferior houses, built 60 or 70 years ago, and that in the course of those years the value of the land has enormously increased. The rates raised upon the houses are levied only in relation to their actual letting value, without reference to the improved value of the land on which they stand. The owner of the land sees his property ripening without any additional burden put upon him, though, as he would urge, without any immediate addition of income, and whilst he, with his improving property, escapes rating those who do pay the rates have so much the more to defray. This view suggests a strong argument for the separate rating of ground values, so as to secure an otherwise neglected growth, and the natural course would be to rate the ground upon an assessment, representing what might be reasonably expected to be got from it if about to be let.

A further question may be raised as to whether a different rate should be levied upon a ground value and upon a house value. If the purpose of the expenditure of the rate can be shown to have special relation to the occupiers as a class, or to the owners as a class, the amount of a rate might be especially increased in respect of one or the other, but the general case where the rate is levied to meet an indivisible charge in respect of some common want of the community requires separate examination, and this I give in the answer to Question 15, where I examine the principles of contribution as between occupiers and owners.

11. I think the answers to these questions are contained in what I have already given. If the contemplated changes (of increase, imposition, reduction, or abolition) occur during tenancy, they would, under the present law, leave the rent unaffected. On the commencement of a new tenancy or the resettlement of a tenancy, the rate, as altered, or imposed, or repealed, would become an element in the fresh bargain, and its incidence would be adjusted upon the principles already set out.

12. This question has also been dealt with in substance in previous answers. At the commencement or revision of a tenancy rents would be settled in view of the power of deduction supposed to be granted, so that the real burden of rates and the real benefit of rents would remain as before. The new power would become operative only during tenancies, when the tenant would get all the advantage its form suggested of obtaining a recoupment in whole or in part from the landlord. It may, no doubt, be urged that in such circumstances the stipulated rent on a new tenancy would be increased, so as to meet the possibility of a demand for recoupment of added rates, but I do not think

that this would be practically possible. Existing rates may be, and are, taken into account when tenancies are created, but no one can speculate, with practical effect, on the possibility of a subsequent increase or diminution of them.

13.—(a.) If this question means, as I understand it, that the occupant of a house of 500*l.* a year may be subjected to a higher rating upon his assessment than the occupier of a house of 100*l.* a year, and this latter again higher than the rate on the occupant at 20*l.* a year—if, for example, the rates in the three cases were to be two shillings, eighteen-pence, and a shilling in the pound—I do not think in the long run there would be any effect on rents. The burden would be borne by the occupier, and though occupiers might be compelled to live in smaller houses, the supply of these houses would be augmented to meet the demand, the rents being fixed by the return required by the house-builder upon his outlay. The difference of rate might shift occupiers from one class of houses to another, but the burden would still be on the occupier. If the suggestion is contemplated with regard to agricultural land the rates would fall upon the owner as in ordinary cases (see answer to Question 6), and there might be a disposition to break up large farms into smaller ones, so as to escape the loss involved through letting farms of large size.

(b.) I suppose this second part applies to a suggestion for increasing the rate where houses are used as public-houses, or perhaps on farms where farms are used as hop-gardens. Generally speaking, the effect of such an increase would be to impose an additional element of cost on the conduct of the business, be it farming or public-housekeeping, and in the case of the public-house would be ultimately borne by the customers. In the case of a farm, so far as its command of the market is limited by foreign competition, the additional burden would, like the original rate (see former answers) operate in diminution of rent.

14.—(1.) Many methods may be suggested, but few seem to deserve approval. An *octroi* furnishes a large revenue in Paris, and is a familiar incident of municipal taxation on the Continent. Examples of it, restricted to one or two commodities of general consumption, are to be found in some of our own towns. A general *octroi* involves much labour and cost of collection, is a great hindrance to trade, and, in respect of a large number of articles, the results are wholly disproportionate to the expense. A conviction of these truths led to the abolition of general *octrois* in Belgium some 30 years ago, and steps were being taken towards this same end in France before the downfall of the Second Empire. An *octroi*, limited to one or two articles, is more defensible as a means of raising an indirect tax. But it is very difficult to put such a system in operation without also impeding freedom of industry, whilst the cost of collection often tends to be excessive. In special places a revenue might be raised by taxes on the introduction of special commodities, but every suggestion of the kind requires separate examination, and the presumption must be in general against their adoption.

(2.) Special license duties, or rates at a higher degree, might be imposed in respect of particular trades operating as taxes on the persons availing themselves of the services of these trades. Where such trades refer to matters of universal consumption such indirect taxes might bring contributions to the cost of organisation of the area under contemplation from classes not easily brought under a system of direct taxation. This idea of specially taxing a special trade has for moral, rather than for financial, reasons been extended in Scandinavia to the municipalisation of public-houses with the result of securing large increase of revenue, and, it is said, reduction in the consumption of intoxicating liquors. Moral considerations are here brought in support of the financial suggestion, but with respect to the kindred proposal to tax* places of amusement the balance of moral consideration is perhaps on the whole against it.

(3.) Foreign countries afford many examples of the local imposition of taxes of the nature of assessed taxes; for example, on carriages, horses, servants, windows, &c., and there is one argument in favour of such taxes being imposed directly by a municipality as against the system of imposing them by the State, and handing over the proceeds to the municipality, namely, that the first system offers inducements to economy, inasmuch as economy might be followed by a reduction or abolition of taxes, whilst the second system provides a sum of money for local purposes, with a kind of obligation to spend it.

The taxes suggested under the above three heads are such as it might be expedient to allow local authorities to experiment upon. Such experiments, no doubt, would require to be carefully watched, especially in regard to their effect on the internal movement of persons and of commodities; and if they are to be tried they should be

instituted subject either (1) to agreement to certain conditions prescribed beforehand, or (2) in pursuance of some plan or scheme drawn up by the local authority, and submitted for approval to Parliament or some prescribed intermediate authority before being put into execution.

(4.) Funds might also be provided for local purposes by an addition to certain selected Imperial taxes of a certain per-centage, similar to the additional centimes which are raised in France. But it is at least doubtful whether this nominal appropriation of special surplus taxes for local purposes is not altogether misleading, and whether it would not be more honest as well as more simple to vote directly out of the consolidated fund grants for local purposes in accordance with some defined law of contribution. Beside the objection already noticed that supplies obtained in this fashion for local purposes inspire no feeling towards economy, it must be further observed that every system of assisting localities from Imperial funds brings its own crop of disputes over the fairness of the distribution as affecting special areas.

Before parting with this question the practice of the United States should be noticed, where funds for local purposes are raised by assessments on the members of a local community in proportion to the total valuation of the means of such members. A schedule is made of the property of every taxpayer similar to the valuation made here for purposes of probate, with the addition of (I believe) the amount of one year's income from any profession or trade in which the person may be engaged, and on the total so made up the local tax is assessed. This system has the advantage of being completely free from any connexion with or dependence upon Federal taxation, but it is believed to be so provocative of false and fraudulent returns that it cannot be suggested for adoption.

15. In answering this question I at first recall what I have already said as to the expediency, if not urgency, of establishing and maintaining the appropriate areas of local organisation. The town boundaries for example should be capable of easy if not automatic modification so that the area through which municipal jurisdiction should extend should correspond to what the town really is. Tests may be suggested such as the density of population by which such extension might be secured, but it would probably be enough if the function of adjusting town boundaries were removed from Parliament, and given in the simplest cases to some county authority, and in more important cases to that permanent tribunal to which it has often been suggested private Bill business should be relegated. Similarly the union of parishes or parts of parishes for poor law or other purposes should be favoured by the easiest procedure so as to secure appropriate areas. Having thus obtained the proper sphere within which to operate, the problem resolves itself to that of obtaining within that sphere a just method of contribution to the funds necessary for its purposes. Here I would repeat what I have said on the reasons for separating local from Imperial finance. The contributions from the central Government should be limited to direct payments in respect of particular services in the efficiency and uniformity of which the whole nation is interested, and should be so distributed as to secure, first, that these services are properly met, and next, that economy of administration on the part of the local authority is not endangered. I pass by as not requiring amplification what has been said as to *octroi* duties, tolls, and other indirect charges upon the consumers within a community, merely observing that these modes of raising revenue are often costly and are always open to the objection that their operation is obscured and rarely appreciated. There remains the question of direct taxation. In former answers I have given reasons for supposing that rates on land are ultimately born by the owner, rates assessed on the rental of houses privately occupied are borne by the occupier, except so far as this rental covers the rental of the land on which the house is built, and that rates on manufactories, shops, and business premises are charges upon the several businesses, and are ultimately borne by their customers. As such customers must often live outside the area, within which the expenditure arises for which the tax is levied, the justice of levying in this manner a contribution from outsiders is not evident, unless it can be said that the conduct of the business imposes expenditure on the community in whose area it is placed. This would happen where the cost of road making is increased through the existence of the business, but this form of justification cannot be generally advanced. Following up these remarks on existing rates, I would recall the fact that I have admitted that ground values might be separately rated, thus bringing in a subject of assessment at present neglected; and it would be strictly in agreement with the principle of such extension, to impose rates in respect of unoccupied and undeveloped land in proportion to their estimated value. Summarising direct taxation for local purposes as it exists, we have before us a levying

of rates, borne ultimately by the owners of land and occupiers of houses within the area rated, and we return to the inquiry whether both classes, owners and occupiers, should be taxed, and if so, whether on the same terms. It may be said that the occupiers form the resident community for whose use and advantage the services are maintained, the cost of which is met by rates. But it may be retorted that owners though absent in body do enjoy indirectly many of the advantages residents command, and enjoy them in a more permanent fashion. On the whole, I cannot doubt that the rating of owners can be justified as it certainly will be maintained. The question remains whether the two classes should be rated on equal terms. Here it must be remarked that whilst occupiers of houses are rated on the assessed rental of their dwellings, this is only a measure though perhaps the best measure of their taxable capacities *inter se*. But it does not exhaust these capacities, whereas the owner of land is rated *quoad* that land to the utmost measure of his capacity. Of two men, one may rent a house of 100*l.* per annum, the other may be the owner of a farm yielding 100*l.* per annum. But the disposable income of the occupier of the house may be 800*l.* or 1,000*l.* A rate, therefore, of 4*s.* in the pound would be a tax of 20 per cent. on the income of the landowner, but a tax of only 2½ per cent. or 2 per cent. on the income of the house occupier. If the problem of local taxation is to secure the same sacrifice from contributors to the cost of local administration, it is not solved by levying the same rate on owners and occupiers, and apparently the proper method would be to reduce the rate upon land to such a proportion to that upon houses as would succeed in obtaining in general what may be deemed a proper contribution from each. I refrain from naming a precise ratio.

A thought may be suggested by what has been just written on which a word may be spent. We have been talking of rates borne by owners of land and occupiers of houses; but it may be objected that owners of houses are, at least, as much interested in local administration as owners of land if not as occupiers of houses, and the question arises whether it would not be right and possible to rate house owners separately as well as house occupiers, just as we have been talking of rating separately ground values. The answer is, that any rate imposed on a house owner, unless something similar applied to all forms of ownership, would come back upon the occupier, as the owner must get his normal interest and profit on the cost of construction. But whilst this reasoning is correct, it is also true that there is a certain friction delaying and preventing the smooth and complete transmission of taxes from the person primarily paying them to the person by whom, in theory, they are ultimately borne, so that something sticks on the way; and if the occupier of a house were entitled to recover over from the owner such a proportion of rates as might be judged proper according to the principles already explained, something of this would be borne really, as well as apparently, by the owner who is thus reached.

If the views above expressed are sound, it must follow that owners of land have been disproportionately taxed to meet the cost of local administrations. The owner of land within the local area has been rated on his full income, whilst the occupier of a house has been rated according to a rental which represents a fraction of his income. This inequality has, however, existed so long that, except as regards recent additions to rates, every trace of personal hardship has disappeared from it. Owners of land have bought and sold subject to the peculiar burden attached to such ownership, and the burden is an element which comes into account in fixing rentals and therefore in fixing prices. It may be said of the traditional poor rate, that it is no more a personal charge than is the obligation to pay tithe rent. It is true that the statute of Elizabeth provided for the rating of stocks in trade according to a method which was devised to rate the incomes of traders in the same degree as the incomes of landowners, and it is sometimes urged that this liability of trade incomes is kept alive by the fact that the Act exempting them from assessment is renewed every year as a temporary measure expiring out for such renewal. This, however, is but make-believe. The rating of stock has long been impracticable, and the annually renewed suspending Act is a confession of the truth previously recognised through practical experience, and confirmed by legal decisions. However unequal the rating of landowners may have been at starting, it would be a fresh injustice to remove it altogether now. If we are to make a real settlement of the question of local rating, which cannot, in my judgment, be done without much pains, I think we should make a survey of what has in fact been contributed on the average of a sufficient number of years towards local expenditure by rates levied in respect of the occupation of agricultural land. This could, of course, be effected by commissions of inquiry, but might probably be more cheaply and expeditiously done with the aid of the statistics of rates at the command of the

Local Government Board. Anyhow the facts can be ascertained, and when we have got them, the method of subsequent action would be comparatively simple. We should have to determine what proportion the rate on the occupation of land should bear to that on the occupation of a house in order to secure justice of contribution. Suppose we determined it should be one fourth—and I name this proportion only because it is that adopted in some recent legislation—it should then be provided that three fourths of what has been ascertained to be the average rate of the past should be charged on the lands subjected to them, thus forming a permanent endowment for local purposes, whilst the rating of the future being reduced to one fourth would at the outset bring in precisely the same income as before, but would secure with respect to the future that equality of contribution of persons, which is the ideal we wish to realise. Every development of local action, every extension of local administration would then be supported by a just assessment of the persons who can be called upon to sustain the burden, whilst the revenue which has been brought in by the practice of generations, and has become a charge on land rather than a tax upon owners, would remain as a local endowment. If we had such a system established we could face changes with equanimity; we should be more at liberty to discuss proposals for a relief of those local rates which now press on manufacturing and commercial industry. If, however, further resources were desired I should regard as the best means of supplementing other revenues a transfer of the Inhabited House Duty to local authorities, making the duty so transferred a real power of taxation in their hands, which they could increase if necessary, and abate if economy made it possible. With the transfer, the form of assessing the duty should, however, be remodelled. Not merely the house, but the demesne, or policy, or whatever forms part of the amenity of the house as a residence should come into the valuation, and that process of alleviating the pressure of the duty on the occupiers of the lowest class of houses, which legislation has already sanctioned, might properly be extended to some increase of rates as valuation increased. Speaking roughly, the style of house, in its more extended definition, in which a man lives is as good a measure as can be found of his taxable capacity, and if the principle be sound in Imperial taxation that where means largely increase taxable capacity increases still more rapidly, it cannot be otherwise than sound in respect of local finance. These hints may perhaps be regarded as counsels of perfection, and, indeed, the suggestions I have made respecting our system of rating may be sufficient for the present attention of the Commission.

L. COURTNEY.

Answers by Sir Robert Giffen, K.C.B.

1. I do not think this question expresses fully what was probably meant. The question is "Is the classification of Imperial taxation indicated in the accompanying Table a *correct* classification; if not, what alterations can you suggest." But a classification of taxation may be correct, that is, the definition of the classes into which taxation is divided, may be clear and precise, without the classification itself being useful? This remark applies to the classification in the table referred to. It is clear and precise, and therefore correct, but it is not in my opinion a useful classification. It divides taxation into two classes, "taxes incidental to the ownership, occupation, or transfer of property," and "taxes not incidental to property." But of what use is such a classification intended to be even if it can be carried out in detail? Taxes "incidental" to the ownership, &c. of property may vary greatly in their incidence, and that incidence may not be on "property" at all, while if they fall on "property" and not on the individuals who are the owners of the property, they would cease to be taxes in the proper sense of the word, viz., contributions by individual members of the community to the expenses of the State.

To make my meaning plainer I should like to point out that Income Tax, speaking broadly, is a fairly equal tax upon all profits and earnings above the minimum limit of the incomes to which it is applied. Whether a man has an income from property or from other sources he pays the same Income Tax, and he cannot better himself by changing from one property to another. It is therefore a tax where the incidence is upon the individual and not upon the property. Rates on real property again are for the most part—I believe, to a very large extent indeed—burdens on the

property itself, and therefore not taxation in the proper sense of the term; in other words not contributions to the expense of the State by the individuals who bear the rates in the same way that the Income Tax is a contribution by those who bear it. To take a third illustration: Duties upon the succession to property at death are sums reserved by the State out of property which dying people leave behind them, and which are therefore not taxes upon the dying, because they are not levied till they have ceased to own the property, and not taxes upon the inheritors because they only inherit by the will and permission of the State itself. The phrase "taxes incidental to property" thus covers most various things, and the phrase is not a useful one in any question of the incidence of taxation.

The Land Tax is an Imperial tax in the nature of a rate, and is not a tax in the ordinary sense of the word.

The incidence of moderate stamps on deeds and other instruments, bills of exchange, and bankers' notes is also obviously quite different from the incidence of Income Tax, or rates, or duties on succession to property at death. These are really taxes on transactions, and their incidence is rather that of the duties which are classified as not incidental to property than that of any other part of the class to which they are assigned.

I do not suggest any alterations in the classification itself, not being aware of the precise purpose for which classification is required.

2. The second question is as to the completeness of the classification; and then, "Are the several items correctly distributed?" The answer I have given to the first question is also to a large extent the answer to the second. The completeness of the classification depends upon the objects for which it is required.

As to the distribution of the items, I do not think there can be such distribution unless "incidental to property" is accepted in the widest sense, and not even then. If we stretch the interpretation, we might even hold that a large part of the Customs and Excise Duties are incidental to property because they are paid by owners of incomes derived from property. If we narrow the interpretation, however, then almost all the taxes included in Group 4 of the table ought to go out, as they are taxes on transactions falling equally on the community as a whole, and not on the owners of property at all. Land Tax, Death Duties, and Income Tax I have already dealt with. These "taxes" are not of a common species with each other or with the other taxes incidental to property comprised in the classification.

One other tax mentioned in the Table, "House Duty," I have not yet referred to. It is all put down as a tax incidental to property—I presume because it is incidental to the occupation of property. But "House Duty," whatever it is, is clearly not paid out of property, except in the sense that Customs and Excise Duties may be paid out of property. It may be paid by people who derive incomes from property, but it may also be paid, and is paid, by many people who derive incomes from other sources than property. It is really a consumption duty, being a duty on the consumption of houses, just as Excise and Customs are duties on the consumption of spirits, tobacco, wine, beer, &c. A portion of "House Duty," like the rates, may in certain circumstances be a burden on the property affected in the nature of a rentcharge, and, therefore, not a tax at all in the proper sense of the word; but, so far as the house duty is a tax, it is a consumption tax, and nothing else.

A special remark must also be made on the last heading of all, viz.: Post Office "Excess of revenue over expenditure" classified with taxes not incidental to property. This item is wrong in respect that it does not include the gross revenue of the Post Office. The idea seems to be that up to the limit of what the Post Office expends the Post Office does a service to the community, for which it is repaid; it is only in respect of what it receives, beyond that sum that the Post Office imposes taxation. But this is incorrect in theory. The postage of letters is a tax on letters—*taxe des lettres*, it is called by French economists. The same with telegrams and the other business of the Post Office. A special service is no doubt rendered to each contributor of the tax, as well as a general service to the whole community, by means of the facilities of communication always available; but the charge is what is technically known as a tax, and the fact that a particular, as well as a general, service is rendered, does not alter the tax nature of the charge. Apart from theory it has also to be considered that the productive portion of the Post Office revenue is derived from charges where the cost is very little—from letters, for instance in the metropolitan district, or in and between great centres of population, where the cost of conveyance and delivery does not exceed, probably, one tenth of a penny per letter, and the surplus of nine tenths

is spent on other services of the Post Office on which there is a deficit. The same with telegrams. If the Government were to appropriate the surplus revenue from these productive sources to the general expenditure of the country everyone would see that real taxation is involved. The real nature of the surplus is not altered by the circumstance that it is applied specially to other Post Office expenditure (so that we never see what the surplus is), and not to the general expenditure of the State. I think, therefore, that in any statement of taxation the gross Post Office revenue ought to be included.

I am well aware of the precedent set for the present arrangement in Mr. Goschen's Report on Local Taxation in 1871, which I had some knowledge of at the time. Since that date, however, I have frequently had the matter under consideration, and I am satisfied the correct method is to classify the entire Post Office revenue as "taxation."

The items, moreover, seem to be farther defective in that miscellaneous revenue of different kinds, which is really derived from taxation, is omitted. I refer especially to the fees on legal proceedings. These fees are not merely taxes, but they are, on the whole, very bad taxes, amounting to the sale of justice by the State, and the taxes falling with unequal weight upon special classes and individuals of the community. The fees on county court proceedings are in this category. From the way the estimates and finance accounts are now framed, it would be difficult to get a complete sum of all these taxes, but an account ought certainly to be given in any complete classification of taxation. The question as to which of these taxes are incidental to property or not, would be a specially difficult one, and probably no division of the sum could be made.

This seems to be the place also to notice the distinction made in the table between rateable and non-rateable property, which is admitted to be very difficult, and which appears to me an impossible one to make. Railway stocks and debentures are personal property and non-rateable, although the *corpus* of the undertaking is partly real property and so-called rateable. How can a distinction be made between what is rateable and non-rateable here? The particular tax is "incidental" to the non-rateable part of the individual property as far as the payment of the rates is concerned, although the charge is in respect of what is called rateable. I do not see any way by which this part of the classification can be justified. There must be many similar cases.

3. This specially relates to Post Office revenue, and I have answered it in the above reply to Question 2. See also what I have said under Question 2 as to the omission of such items as "fees and stamps on legal proceedings" from the account of taxation.

4. I do not think the equity of any single tax by itself can be properly considered. It is the equity of the aggregate of taxation that should be looked at, and there can be no other test I imagine than equality of pressure by the aggregate of taxes on individual members of the community. Each person should contribute equally according to his means to the expenditure of the State. Obviously this may be arrived at by means of a tax or set of taxes pressing on some particular members and classes of the community, and other taxes and other sets pressing on other members and other classes.

The Income Tax, for instance, may be considered in idea a fair tax down to the minimum limit, but it should be compensated by taxes on the members and classes of the community whose incomes are below the Income Tax limit.

It will be found in practice, however, that there are certain sources of revenue which need not be balanced one against another. The whole of the taxes in group 4 of the classification, or nearly the whole, may be considered in this category. They are moderate taxes on transactions, and the pressure, as far as one can judge, is equal throughout; they constitute a deduction from the aggregate profits and earnings of the community, and the exact incidence need not be traced. For a different reason the same conclusion may be applied to the death duties. These duties are not properly taxes, and no individual has a right to complain of them. Could anything be more unreasonable than for a stranger in blood whose inheritance is charged 10 per cent., say, on 100,000*l.*, to complain that he pays a tax of 10,000*l.* which no one else pays? He should rather be thankful that the State permits him to inherit at all, and does not take the whole 100,000*l.* to itself. So with a tax like the Land Tax. It is in the nature of a rentcharge owned by the State, and not properly a tax in the sense that it is a contribution by the persons through whom it reaches the State towards the general expenses of government.

I am not sure but that something of the same kind could be said as to the incidence of some Customs and Excise Duties. Were these duties more general, questions would no doubt arise as to whether the real incidence was always on the consumers of the article charged—whether the effect was not sometimes to diminish the profits on business generally, and so equalise itself over the whole community. But this would involve most intricate and speculative considerations which need not be pursued farther.

I have spoken above of equal pressure upon every individual according to his means. It seems unnecessary here to raise the farther question of taxable surplus, by which a certain deduction would be made from the income of each person before the taxable surplus on which equal assessment is to be made is arrived at. It seems also unnecessary to raise the farther question of proportional taxation, according to which incomes would be taxed at a higher rate as they increase in size. The point here is merely that there is to be equality as far as individuals are concerned, however equality in detail may be considered to be established.

5. I have no special suggestions to make beyond what has already been said as implied in the above answers.

The important matter is that there is often a real incidence of taxation as distinguished from the primary incidence. This is apparent as a rule with regard to Customs and Excise Duties. The people who pay the duties to the Government are not the people who bear the burden of the tax. No such simple test can be applied, however, in the case of taxes like the Post Office Revenue or many stamp duties where the practical conclusion must be that they do not come into any balancing of taxation between different classes at all. It may also be pointed out that the mere fact that particular individuals would gain by the remission of certain taxes, such as rates, does not prove that the burden at present falls upon them.

There are also some difficult and special cases. At one time, in Italy, for instance, a tax upon milling—a grist tax as it was called—was imposed. It was assumed beforehand that such a tax would add to the price of bread to the consumer. As a matter of fact no such addition to the price of bread could be traced. What happened was that the supervision required in connexion with the levy of the tax and the additional capital required in the business had the effect of crushing out of existence the small millers, and the tax was largely, if not wholly, paid out of the profits of the big capitalists who could afford it when there was less competition. How is the real incidence of such a tax to be described?

I believe something of the same kind has been experienced in connexion with recent changes in beer and tobacco duties. Monopolists have paid the increase, or a large part of it, apparently, out of increased profits.

It is also frequently urged that generally with new or increased taxes of moderate amount, there is great friction in passing on the charge to the ultimate consumer. At first, at least, something is paid out of the profits of the trade.

Practically, the conclusion must be that, while rough approximations may be made as to the real incidence of taxation, the matter is not one for nice and exact statement in detail, when the analysis of taxation in a particular country comes to be made.

6. I have already stated my views on most of these heads. Substantially, and subject to the qualifications above stated, where they apply, my conclusions are—

- a. The Inhabited House Duty is a consumption tax like Customs and Excise Duties, and not incidental to property in the sense that it is paid out of property.
- b. Rates on house and trade premises are deductions from the property in the nature of a rentcharge; at least, old rates are; and, practically, all rates—on the assumption that local expenditure must be paid out of rates.
- c. The same as (b) with rates on agricultural land.
- d. Taxes on the transfer of property where moderate, as in England, are taxes on transactions, and are a deduction from the general profits of industry in a community. Serious taxes on the transfer of property, as in France, lower the value of all property liable to be transferred, and if new, are a charge on the owners; if old, are a deduction from the property for the benefit of the State.
- e. Taxes on trade profits, if special to a particular trade, fall upon profits generally in a country by diminishing the area of profit, and not upon the particular people in the trade. An Income Tax is different, because it falls upon everybody, whether the profits are from trade or not.
- f. Death Duties are not, strictly speaking, taxes at all, and form no part of the *equal* contribution which the inheritors should pay as members of the community towards the expenses of the State.

7. The criteria by which the purposes for which taxation should be raised locally are to be distinguished from those for which taxation should be raised by the central government appear to be two:—

- a. There should be local taxation for local improvements, such as drainage, sewerage, and embankment works, or public gardens and parks.
- b. There should be local taxation for purposes like the relief of the poor, or police or other objects of apparently State or national concern, where it is convenient and expedient that the administration should be entirely in local hands.

I believe these criteria would cover every case. Of course, there are great difficulties of application in detail. The health of a town which gains primarily by good drainage and sewerage works is indirectly the concern of the country as a whole, and so of the State. Drainage and sewerage works are thus matters for the central as well as the local government. But practically there is not much difficulty in picking out a large class of works where the locality gains primarily, and where the locality may thus properly bear the cost. Again, as regards such an object as the relief of the poor, it is easy to see that while the object is not theoretically local at all, but is the direct concern of the whole State, yet from the nature of the case the locality would not willingly part with the local administration. When this is the case the expenditure and taxation must also be local, for the simple reason that otherwise there would be no end to the expenditure.

Historically these criteria have been the criteria actually applied. Localities have taxed themselves for their own improvements because the Central Government had no money. As the improvements were much wanted, they had to be done in and by the locality, or not at all. The same with other objects more properly of national concern. Partly by the wish of the locality where the administration had to be local, and partly by pressure from the Central Government which had little money, objects of government of any kind requiring local administration were taken up by or assigned to the localities.

As time goes on one object after another ceases to be so purely local as it was, and charges are from time to time transferred from the localities to larger areas, and finally to the State, and very properly so. Provided the transfer is not too rapid, of which there may be danger, no harm is done.

8. There ought, as far as possible, to be a clear division between central and local objects of expenditure. Expenditure and taxation for local objects should *both* be local—in other words the revenue should be locally levied and locally administered. A system by which the local authority receives money in any quantity from the Central Government is full of danger. Grants from the Central Government for local purposes should be most jealously watched. The best excuse for them sometimes is that the State makes a grant in return for local conformity to some standard of excellence; but this is apt to lead to complete State management. These remarks apply to the assignment of revenues collected by the State to local authorities, as well as to grants specifically so called.

9. The division of local rates between owners and occupiers of real property is recommended for practical reasons by many authorities, but I have never been able to see the merit of it. The arrangement keeps up the illusion that the incidence of the tax is upon those who pay the money to the Government, whereas the real incidence is not affected by the question as to who pays in the first instance, owner or occupier. There may be some friction in the transfer of the burden from the occupier to the owner where the occupier pays in the first instance, but the transfer cannot but be made somehow as regards all rates existing prior to the occupancy, and, as regards rating generally, on the understanding that rating is the recognised method of defraying local expenditure. The class of occupiers count the full cost of the rates before they settle what rent they will pay to the owner.

10. The idea of the separate rating of ground values arises from a misunderstanding of the real incidence of rates. As that burden falls *ab initio* upon the ground landlord, diminishing the sum of capital or income he is able to obtain for his property, there is really no separate ground value to be assessed.

11. The increase of an old rate or the imposition of a new rate would apparently leave the owner untouched so long as a lease to an occupier who had contracted to pay all rates is in existence. But the parties who make such contracts no doubt take into account the contingency of new rates or additions to old ones, so that these are also a burden upon the property. There would be nothing inequitable in this, provided the objects of local expenditure were always such as ought fairly to be made local

according to the principles above explained. (See answer to question 7.) In the same way the reduction or abolition of a rate would make the property more valuable.

12. An occupier could not be empowered to deduct the whole or portion of a rate he has hitherto paid under agreement or custom from the owner without injustice. Contracts must in all cases be kept. If it is thought desirable for any reason to make such an arrangement regarding rates, the only equitable method of carrying it out as regards existing rates would be to add the amount of the deduction in the first instance to the rent.

A rate is not on all fours with the Income Tax, as the Income Tax is not a burden on the property, while the rates are.

13. The effect of rating property on different scales according to the value of the property would clearly be to relieve some property at the expense of others. It could have no other effect. What would be the object of such an arrangement I do not understand. The size of properties in a particular place is a mere accident. What reason can be suggested then why a particular property should pay more or less in proportion to its size I do not see. The idea seems to be borrowed by suggestion from the idea of taxing large incomes of individuals at a higher rate than small incomes, but what may be applicable to individuals with the object of arriving at equality of taxation is obviously not applicable to properties. A small property in a particular place may, in fact, be owned by someone who is a great owner of property generally and *vice versa*.

The effect of rating property on different scales of duty according to the character of the property or the purposes for which it is used would also be, of course, to subject the property not favoured to a higher charge than would otherwise fall upon it. This has been fully shown by the experience of the last Agricultural Ratings Act, but experience is not required. It is a mere question of arithmetic. If a given sum has to be raised from rateable property in a particular locality, then if certain kinds of rateable property pay less the other kinds must pay more.

I can see no grounds for distinguishing between property and property for the purposes of rating if any property is to be rated at all. What can be rated, I believe, is real property only; and all that can be done by law is to define such property precisely. All those questions as to the rating of machinery fixed and not fixed and the like which have given so much trouble to the Law Courts should be avoided by clear definition. Nothing should be rated in the nature of stock-in-trade, or anything which is not, in the strictest meaning of the word, real property.

14. I do not think very much turns on this head as all local taxes, I believe, must ultimately fall on real property. The burden of the local government of a community, if it could be placed on the individual members of the community, would lead immediately to a movement for an equivalent reduction of rent so as to place the individuals upon an equality with residents in another locality. In this way the *octroi* of a city like Paris depresses *pro tanto* the rent of the City which would be increased if there were no *octroi*.

Keeping this principle in view I should be inclined to suggest as a possible means of taxation, though it is against many ideas and prepossessions in this country, a Customs Duty or *octroi* on the admission of articles of general consumption into a locality. Such articles as coal and raw materials used in manufacture must be exempted, though even as regards these the duties, if very small, would probably add little to the cost of manufacturing, and would fall on real property in the long run. Apart from raw materials, however, articles of general consumption might well bear a small local duty in lieu of rates on real property. The incidence, for the reason already stated, would ultimately be the same; but the *octroi* would be the more easily collected.

15. No. Perhaps I should add that I disagree with the terms of the reference itself, viz., to report whether all kinds of real and personal property contribute equitably to local taxation, and if not, what alterations in the law are desirable in order to secure that result. The result is one that ought not to be aimed at. It is essential that taxation for local objects should be locally levied and administered; and as all local taxes must, in the nature of things, and as long experience has proved fall ultimately on real property, the question of taxing such property equitably or equally with personal property does not come in. The notion of taxing personal property must in fact be given up in any proper scheme of local taxation. The burden of local government must be a burden on real property; and the real

problem of local government is how to give the owners of such property adequate control of the administration without destroying the efficiency of local government itself.

POSTSCRIPT.

Since writing the above answers, I have had the opportunity of perusing Sir Edward Hamilton's able and instructive memorandum on the history of local taxation, and the proposals for dealing with it in the last fifty years, with special reference to the question of Imperial relief of local burdens. I see no necessity, however, for modifying the answers. The memorandum rather confirms my views generally. It may be useful, perhaps, to state that I had the honour of assisting Mr. Goschen in the preparation of the tables for his Report on Local Taxation in 1871, and consequently that I have been conversant for a long time with many of the problems discussed by Sir Edward Hamilton, though I have given less attention to them of late years than I did at one time. It might be useful to the Commission, I believe, to have before them a long paper in the *Economist* (8th April 1871) devoted to the discussion of Mr. Goschen's Report, which appeared shortly after that report was issued. This paper was written by Mr. Bagehot, whose authority as an economist is well known, and in it there is the best exposition I know of the nature of the hereditary burden of rates.

I have to express my full agreement with Sir Edward Hamilton in the opinion that all old taxation tends to become equally diffused over the whole community. The case of old rates, which tend to become a rentcharge on the property affected, is, however, a very special case.

R. G.

Answers by Professor Sidgwick.

Questions 1 and 2.—The classification of taxes is a question on which there is considerable difference of opinion among experts; and I agree with Sir E. Hamilton in holding that a classification appropriate to one purpose may be inappropriate to another. I propose, therefore, to consider the classification presented to me only in relation to the matter on which this Commission has to report, which I understand to be the extent to which equity is realised in our present system of local taxation, so far as property is the object taxed, and the changes (if any) desirable for the better realisation of equity.

The first question that arises is, How far and in what way is an inquiry into Imperial or national* taxation relevant? To this there seem to be three answers, one obvious and hardly controvertible, the other two more doubtful and needing some discussion.

I.—Manifestly, we ought to adopt the same general view of equity in dealing with both kinds of taxation. There is considerable diversity of opinion as to the true definition of equity in this matter; but to adopt principles for local taxation, inconsistent with those adopted for national taxation, would be palpably indefensible. If, therefore, in contemplating our system of national taxation, it clearly appears to be based on a certain view of equity, I presume that the Commission will, speaking broadly, adopt that view in considering the equity of local taxation.

II.—This connexion in respect of principles appears to me, as I have said, almost indisputable. But assuming the principles determined, is there any further connexion between their applications to the two kinds of taxation respectively?

Primâ facie, it would seem that there is not; for since local taxation varies, and ought to vary, from district to district, we obviously cannot satisfactorily compensate for the overburdening of any class in the system of local taxation by lightening the burden on the same class in the national system. That is, only the *quantum* of burden common to all districts would admit of this kind of compensation; the *quantum* of burden falling only on some districts and not on others would not admit of it. We must, it would seem, treat local and national taxation as separate systems, and endeavour to make each equitable independently of the other.

But though this view seems to me incontrovertible if we are considering ideal equity, I do not think it would be practically wise to adopt it. For if we find—as

* The term "Imperial" seems to me not happily chosen to denote the taxation of the United Kingdom, in view of the current use of the term "British Empire." I have, therefore, used "National" in this sense.

I think we shall find—that either system of taxation is such as only allows at best a very rough approximation to justice, it is possible that the highest attainable degree of equity in both systems taken together will require us to compensate an inequality in the one by an opposite inequality in the other, in spite of the manifest imperfection of this mode of compensation.

I think, therefore, that it is the duty of the Commission, on both the above grounds, to form a judgment as to the equity of our system of national taxation; and that the propriety of the classification presented should accordingly be considered from this point of view.

III.—I gather it to be Sir E. Hamilton's view that there is a third kind of connexion between local and national systems of taxation, in the funds annually raised by the State for local purposes. On this point I should be inclined to take a somewhat different view; I should consider the connexion here to be primarily rather between local and national *finance*, than between local and national *taxation*.

There appear to be two distinguishable cases:—

- (a.) If the proceeds of a national tax are handed over in their entirety to be spent by local authorities, the tax must be regarded as transferred to the local system, and its burden must be taken into account, as much as the burden of any local rate, in considering the equity of the local system as a whole. The State in this case merely furnishes the machinery of collection. On the other hand—
- (b.) If a grant is made from national funds in aid of local expenditure, in view of the national interest in such expenditure, it should, I think, be considered as a contribution from the nation at large, and the equitable distribution of the taxation which it involves should be considered in relation to national as distinct from local taxation.

The two most characteristic features of the classification presented are—

- (1.) the distinction between taxes (a) incidental to ownership, occupation and transfer of property, and taxes (b) not incidental to property; and
- (2.) the further distinction under head (a) between "rateable" and "non-rateable" property.

These distinctions, carefully worked out as they are by Sir A. Milner, are certainly of value; but as they neglect the fundamentally important question as to the *shifting* of incidence, they can only aid us in the first stage of the inquiry; an entirely different division is needed before we can arrive at any conclusion on the question of equity. I need not labour this point, as it is fully admitted in Sir E. Hamilton's Memorandum. Even if we contemplate the primary incidence alone, it would seem that the "occupier" of a dwelling-house, who purchases the commodity of house accommodation for an annual rent, is in a position more analogous to that of the consumer of certain kinds of "moveable" commodities than to that of the owner of "immoveables."

Indeed the term "property" seems used rather arbitrarily, when a tax on the occupiers of dwelling houses is taken as "incidental to property" and a tax on persons keeping private carriages is not so taken.

(Some further criticism will be most conveniently given under later heads.)

Question 3.—I am quite willing to follow Sir E. Hamilton, and take net revenue as the only estimate practically available of the tax imposed through the Post Office monopoly. I do not, indeed, think that it is strictly speaking the right estimate. In estimating how much Englishmen are taxed through their payments for postal services, we ought strictly to consider not how much they pay beyond what these services cost, but how much they pay beyond what they would have to pay if the Government gave up its monopoly. That this latter principle is the right one appears, perhaps, more clearly when we consider how the burden of the tax is distributed. For there can be no doubt that it is not spread equally throughout the country; it falls on the urban element, speaking broadly, as distinct from the rural. The inhabitants of towns would get their internal correspondence done more cheaply if the monopoly were abolished. How much they would gain we can only conjecture; but it seems clear that that hypothetical gain, whatever it may amount to, corresponds to the real burden of the tax imposed through the existing governmental monopoly.

Question 4.—There cannot be said to be any universally accepted view as to the principles of equitable taxation.

I.—The principle that at first sight appears most obviously just is that each individual should pay in proportion to the services rendered to him by Government: *i.e.*, in proportion either to the *utility* to him or the *cost* to Government of the services in

question, or perhaps in accordance with some compromise between utility and cost, if the two measurements diverge. And most persons, I suppose, would accept this principle as equitable in the case of payment for services which the payer is left free to take or to leave. But then we do not call these payments "taxes," except so far as their amount is increased through the governmental monopoly, as in the case of postal services. The principle, however, seems theoretically applicable to services compulsorily received, so far as we can clearly distinguish and estimate the different amounts of service—whether measured by utility or cost—that Government renders to different individuals or classes. And some political economists have held that all taxes ought to be regarded as payments for services received, and the equity of taxation entirely determined on this principle. I think however, that it is practically inapplicable—or only applicable to a very slight extent—in the case of all the most financially important services of national government, because they cannot be thus individualised. Thus it would be hopeless to try to portion out among different classes of the community the cost of the army and navy, or of the interest on national debts incurred for warlike purposes, on the principle of payment in proportion to services rendered. And the same may be said, in the main, of the expense of the administration of justice and the police,—since Bentham's remark, that those who are under the necessity of going to law are those who benefit *least* not *most* by the administration of the law, appears to be sound. Perhaps stamp duties on instruments of transfer of property may be to some small extent regarded as a special contribution from the propertied classes to the cost of the civil administration of justice, which is preponderantly concerned with their affairs. But at any rate, for determining the equitable distribution of the burden of the main part of national taxation some other principle must be found.

II.—So far as apportionment in the ratio of service rendered is impracticable, the right principle—from the point of view of equitable distribution—seems to be that of equalising, as far as possible, the burden or sacrifice that taxation imposes on different individuals. It is sometimes thought that taxation proportioned to income would attain this result; but it can only attain it very roughly, owing partly to the great difference in the needs of different classes of persons with equal incomes,—*e.g.*, fathers of families as compared with bachelors—partly to the much greater severity of the sacrifice imposed by taxation, so far as it involves a reduction of expenditure below the standard required for health or efficiency. This leads us to the view that taxation should be proportioned not on incomes as wholes, but to superfluous incomes, *i.e.*, those portions of incomes that are not required for such expenditure as is necessary for the health or efficiency of the taxpayer himself and those dependent on him,—including needful savings. But owing to the difficulty of defining necessities—especially as both health and efficiency admit of indefinite degrees—and the complicated differences in the needs of different persons, it would be practically impossible to carry out this principle by any system of direct taxation. This leads to the plan actually adopted in England, so far as national finance is concerned, of taxing small incomes only indirectly, by taxation of consumable articles not necessary for health or efficiency. But if this plan is adopted, we cannot hope for more than a very rough approximation to equity in the distribution of the burden of taxation,—especially if, as is actually the case, the commodities selected for taxation are luxuries like alcoholic liquors and tobacco, which largely tend to be consumed in excess of what is salutary. There is an obvious expediency in selecting such commodities; but it cannot be realised without a sacrifice of equity, since persons may—and largely do—abstain from alcohol or tobacco out of regard for health or merely from taste, and not in consequence of pecuniary needs; and there is no ground for supposing that the amounts consumed by different consumers correspond at all closely to the amounts of their superfluous incomes. Indeed it is certain that the normal expenditure on such commodities absorbs an increasing amount of the consumer's income as we descend in the scale of wealth; so that the taxation of such commodities requires to be supplemented, as it is in our system, by other taxes falling exclusively on the wealthier classes, in order to attain equity as far as possible as between class and class.

And here we come to the most practically important question of principle, which has to be settled before any detailed discussion of the equity of our system of national taxation can be profitable. Are we, in balancing the over-taxation of the lower income classes through customs and excise by taxes—such as income-tax, death duties, stamp duties, &c.—which fall exclusively or more heavily on the richer classes, to aim at proportioning the total taxation to the total incomes, or to what I have called the

superfluous incomes of the different income-classes? Only a rough approximation is possible, whichever standard we take; but what should the ideal be? My own view is that the end of equalizing burdens or sacrifices would be best attained by taxation proportioned to *superfluous* income—*i.e.*, income in excess of expenditure required for health or economic efficiency—if only this standard could be made definite. But, considering all the difficulties in the way of doing this, I think that practically the best course is as follows:—

- (1) To treat death-duties as *sui generis*, and regard them as a special contribution from the wealthy and moderately well-to-do classes; and
- (2) As regards the rest of the burden of national taxation—except the unredeemed Land Tax, for reasons to be presently explained—to aim at an approximate apportionment of the contributions of different income classes to their total incomes; provided that all direct taxation of the poor, and all taxation of necessaries, are carefully excluded.

I treat death-duties as *sui generis*, in view of the peculiarities of their incidence, and especially of the fact that the amount of the tax rightly varies with the relationship of the deceased person to those who benefit by his death.

The unredeemed Land Tax—being the remains of a special tax on land, that has been for a century redeemable—is, I think, on the whole most fairly regarded not as a tax properly speaking, but a portion of rent reserved to the State; which cannot be taken into account in considering the equitable distribution of the burden of taxation. It is true that, so far as the land burdened with this payment has passed from hand to hand by inheritance alone, the existing owners probably still bear the burden of it in most cases, as they would probably have inherited the same land without this or any corresponding burden if the tax had not been imposed. But this statement applies equally to the heirs of those who have redeemed the tax, and, to a great extent, to the heirs of previous owners who have sold the land; so that we cannot practically take this effect into account.

Turning now to the equity of local taxation, we find that the principle of proportioning taxation to the utility or cost of governmental services—which was easily seen to be, in the main, practically inapplicable to national taxation—holds here an important place, and requires to be carefully examined. The whole theory of local taxation rests on the assumption that the inhabitants of one district have special needs of governmental expenditure distinguishable from those of the inhabitants of another; and it is possible to contend that special benefits result from such expenditure to certain classes in the district, especially if we extend the notion of “benefit” to include the performance by Government of duties held to be incumbent on these classes; indeed, *primâ facie*, this contention would seem to be required to justify the existing system. But before we can decide how far it is well-founded, it is necessary to examine more closely the incidence of taxation.

(I have accordingly deferred till the concluding answer the statement of my views on the equity of local taxation.)

Question 5.—A treatise might be written—treatises have been written—on the incidence of taxation. My limits only allow me to make a few general remarks before passing to the examples specially selected.

I.—The difference between “real” and “apparent” incidence does not affect the main part of national taxation to any considerable extent,—assuming it to be “apparent” that the customs and excise duties fall on the consumers of the commodities taxed. These taxes may, indeed, be avoided by abstinence from alcohol, tobacco, &c., in which case the burden imposed by the tax consists in the inconvenience (if any) suffered by abstinence; but there is no important tendency for the burden to be transferred from those who do consume the commodities—since no important diminution in the numbers of the poorest class, through emigration, abstinence from marriage, or death of children, is to be expected in consequence of the high prices that they have to pay for alcohol, tobacco, and tea. No doubt, so far as the rise in price restricts the consumption of alcoholic liquors, it tends to cause some loss to the owners of agricultural land, which ought not to be overlooked in considering broadly the burdens laid on agriculture; but we cannot infer from this that the consumer is not burdened to the full amount of the tax, as taxes on commodities ordinarily cost the consumers more than they bring in to the State. Again, an income tax laid equally on incomes from different sources, with exemptions and reductions for smaller incomes, has no tendency to be transferred. The same may be said, speaking broadly, of the present system of death duties, except so far as they may tend to

diminish the accumulation of capital, and so cause a rise—or prevent a fall—in the rate of interest.

But of these duties, as well as the Inhabited House Duty and the Stamp Duties, I shall have to speak in answering Question 6.

II.—The incidence of a tax imposed on a particular class of persons (including owners of a particular kind of property) cannot be properly considered out of relation to the whole system of taxation, as it will be entirely different according as the tax in question is or is not compensated by other taxes imposed on other classes. Thus, a tax on farmers' profits, if it stood alone, would tend to be transferred through industrial competition to other classes of the community; but standing as a part of a fairly adjusted general income tax, it has no such tendency.

III.—There is in most cases some difference between the incidence of a tax when first laid on and its incidence at a later period; but the amount of difference varies very much in different cases. Thus a tax on any kind of consumable commodity, when first laid on, falls to some extent on the sellers and producers of the commodity, so far as the rise in price causes a contraction of the demand; but the amount of this effect varies greatly with the commodity selected, owing to the great difference in the extensibility of the demands for different commodities.

IV.—Speaking generally the burden of any *uncompensated* tax imposed upon a particular class of producers tends ultimately, through industrial competition, to be no longer borne by this class,—assuming the class to continue to exist. But it does not necessarily tend to be transferred wholly or even mainly to the consumers of the products in question. The effect of the tax will be to diminish, rapidly or slowly, the amount of capital employed in this branch of production, and therefore the amount of products; but if similar products, or satisfactory substitutes for them, can be obtained from other sources, the rise in price resulting from the diminution of the supply may be small compared with the tax. In this case the ultimate effect of the tax will be largely to cut off the portion of the production carried on under least favourable conditions,—a process usually involving the destruction or depreciation of a certain amount of the capital invested in the business, and tending to cause some loss to the owners of land, mines, &c., so far as the demand for their products is thereby diminished.

V.—It is convenient to follow the Germans in distinguishing between “forward-shifting” of the incidence of taxation from seller to buyer and “backward-shifting” from buyer to seller. “Forward-shifting” is sometimes—as in the case of customs and excise duties—clearly designed when the tax is imposed; and I have accordingly taken it to be “apparent” in this case. Of “backward-shifting” I do not think that this can ever be said.

Question 6.—PRELIMINARY REMARK.

In the following discussion I shall use the word “old” tax to mean “a tax that has lasted for a period sufficiently long for the cessation of the effects of its first imposition, so far as industrial competition tends to do away with those effects.”

(a.)—*Inhabited House Tax.*

A *new* tax on inhabited houses, proportioned to their annual value, tends to cause men to be content with less house accommodation; and so far as this cause operates, a part of the burden of the tax must fall on the owners of houses, and some part also on house builders, for whose services the demand is reduced; moreover, as the reduction in the demand for building diminishes the demand for land suitable for building, a slight share of the loss will be handed on to the owners of such land.

When the tax has become *old*, it may be assumed that no part of it is borne by builders as such, or by the owners of houses so far as they are products of the building industry. The rent paid for a house must be sufficient, speaking broadly, to allow the builder of new houses as much profit as he would have had if the tax had not been imposed; and this rise in the value of new houses must be accompanied by a corresponding rise in the value of old houses, at any rate in all localities in which there is effective competition going on between new houses and old. In localities where the demand for houses is so slack that it is not worth while to build, the burden of the tax will remain partly on the owners of houses so far as the demand for them is strictly local.

Putting aside this exceptional case, we may conclude that the portion of the tax that corresponds to the value of the house as a product of industry must be paid by the

consumer *i.e.*, occupier, (except so far as he is a producer who can shift it forward, a point to be hereafter considered). And in rural districts, where the value of the ground for house building does not materially exceed its value for agricultural purposes, this statement applies to the whole tax. But so far as the ground value exceeds the value of agricultural land, the portion of the tax corresponding to this excess of ground value will fall on the owner of the ground,—assuming for simplicity that the house is not held on lease, but on yearly tenure. He has no means of escaping it by raising his rent, so far as this is competitively determined, since it must be assumed to be already as high as the demand for houses will allow, and the tax can have no tendency to increase the demand. Nay, further, as the tax must be assumed permanently to reduce in some degree the demand for houses, the owners of urban land as a class must even lose a little more than the portion of the tax corresponding to the excess of the ground values over agricultural values, since they lose the additional rise in ground values that would have taken place if the demand for houses had not been reduced. But this loss we may neglect.

It remains to consider how far the occupier can shift his burden forward as producer, trader, or professional man, on to the consumers of his products or services. This, however, will be more conveniently considered under head (e), since that part of the tax which corresponds to the value of the portion of the house needed for productive purposes may be taken to fall primarily on producers' profits. So far as the occupier is the ultimate consumer, no such shifting is possible; the portion of the tax falling on him must be regarded as paid out of his income.

So far I have ignored, for simplicity, the case of leasehold tenure. But the complication introduced by a lease presents no real difficulty. If the lease is more recent than the tax, it does not affect the normal incidence of the latter, as the occupier must be assumed to have taken it into account in making his bargain with the landlord; if, on the other hand, a tax (unforeseen) is imposed after the lease has been taken, the portion of it that would otherwise have fallen on the owner of the ground will be borne by the holder of the lease until its termination.

(b.) The case of a rate or local tax, proportioned to the annual value* of an inhabited house, would be obviously similar to that of a national tax on inhabited houses, if it were uniform over the whole country. The special question, therefore, to be considered under this head is the real incidence of the *differential* element of the higher rates levied in certain localities. I will for simplicity first assume that the rate is *old*, and consider only its incidence in the case of houses of which the letting is more recent than the rate, so that the rate may be assumed to have been known to the occupier when he took the house. In this case it seems clear that the whole burden of the differential rate, so far as it is onerous, must fall on the owner of the ground value, provided that in spite of this burden the land remains still more valuable for the purpose of house building than for any other purpose. I say, "so far as it is *onerous*," because so far as its proceeds are expended in increasing the utility and value of the house the payment of it need not be regarded as a burden at all, unless it is imposed on persons who do not enjoy the resulting advantages, or do not enjoy them to an adequate extent. But so far as the differential rate is really onerous, its imposition cannot in any way increase the demand for the house, and therefore cannot enable the owner to exact a higher rent than he would have exacted if it had not been imposed. The differential rate is in short to be simply subtracted from the price of the differential advantages of situation for which the tenant pays; the owner must be assumed in any case to make the most of these advantages in fixing the rent, so that if the differential rate were removed, as the advantages would remain unaltered, he would simply increase the rent to a corresponding extent.

Of course the case is different with a new rate, which, so far as it affects the occupiers of houses held on lease, obviously cannot be shifted back on to the owners of the land until the termination of the lease. In fact the leaseholder may be regarded as having purchased the annual value of the ground for a certain time at a certain price, and therefore must, of course, bear during this period the burden of a new tax falling on ground values. Even when the tenure is only from year to year, it is not unlikely that a differential rate or increment of rate imposed since the occupation commenced may be borne by the occupier, from a dislike of the trouble and expense of moving, although the owner would not have attempted to raise the rent if the rate had not been imposed; but so far as we suppose both parties to act with alert regard to their interest, a house let after a differential rate has been imposed must be assumed

* I omit for simplicity any consideration of the difference of assessment in the case of the house tax and the local rates respectively.

to be let on terms which throw the whole burden of the rate on the owner of the ground value.

Hence the prevalent belief, that the extra burden of the high rates of London and other towns really falls in the main on the occupiers of houses as such, would seem to be not well-founded, except on the supposition that the persons in question do not adequately look after their pecuniary interest. I am not acquainted with the evidence on which this supposition is based.

(Some further discussion of this question will be given in answering question 9.)

(c.) I shall assume the principle, that a tax laid on a special class of producers will in the long run be shifted from them by industrial competition, to be applicable to agriculture. No doubt here the stability of rural habits of thought and economic action is likely to prolong the process of shifting, and the period required for a tax to become "old" in the sense before defined. Still, it may be assumed, that the burden of a rate sufficiently old on agricultural land is not borne by the farmers. It must, therefore, be borne by the owners of land,—at least if we assume for simplicity that the land has not been exchanged for non-rateable property during the period in question*—except so far as any restriction of the area of cultivation that the rate has caused may have thrown some part of the burden on the purchasers of agricultural products by raising their price. The restriction may take place either through the abandonment of the cultivation of land previously cultivated, or through the non-extension of cultivation to land that would otherwise have been cultivated. It is obvious that a smaller burden of taxation will be required to produce the latter effect; but in the depressed condition in which agriculture has been in England for twenty years, it is the former effect that has chiefly to be considered. In any case the effect on price of the restriction of area thus caused cannot be considerable in the present state of trade, so that the main burden of an old rate may be assumed to rest on the owners of land.

It is assumed in the above argument that the rents paid by farmers are competition rents. I believe this assumption to be near the truth in England at the present time.

(d.) Taxes on transfer of property are, in respect of their incidence, chiefly of two kinds. So far as the transfers taxed are normal incidents in the management of accumulated wealth or income, the burden of them remains on the owners of property, so long as they do not fall with serious inequality on different kinds of property, and are kept so low as not materially to impede the transfers in question. If they are so high as to impede transfer, they tend to cause some diffused loss to the community at large by preventing productive wealth from getting into the hands best qualified to use it. Otherwise any such tax may be regarded as a kind of supplementary income tax weighting the burden thrown on the higher income-classes. On the other hand, so far as these taxes fall on particular classes of traders, such as bankers, specially concerned in the movement of property, the burden of them, as of other taxes on special branches of industry, tends to be shifted forward by industrial competition, through the supply of the services of the traders in question being rendered less abundant and cheap.

(e.) Taxation of trade profits has no tendency to be shifted so far as it is merely a part of an equably distributed taxation of incomes; but the burden of any special taxation of traders, not balanced by a corresponding taxation of other classes, tends when the taxation is old to be partially diffused through the community, through the effect of this industrial disadvantage in diminishing the abundance and cheapness of traders' services. And some effect of this kind must be assumed to be produced by the tax on shops, &c., included in the Inhabited House Duty, the degree in which it is produced varying with the proportion borne by the tax to the whole expenses and profits of the business. But owing to the large range of business on which the tax falls, its effect cannot be expected to be distinctly traceable.

(f.) Death duties are a quite unique case in the theory of the incidence of taxation no less than in the theory of its equity. For in this case even the primary incidence is not clear. When property is taken in *transitu* from the dead to the living, the burden of loss may be borne according to circumstances (1) by the heirs or legatees who receive the remainder; or (2) by persons who do not receive legacies which would otherwise have been left them; or (3) it may have been borne by the deceased proprietors, who may have been induced to earn or save more than they would otherwise have done, in order that the benefit enjoyed by their heirs or legatees may not be diminished by the tax. We have no means of ascertaining the precise proportion

* The effect of such exchanges will be considered in my concluding remarks.

in which these three effects are produced ; but, considering the ordinary balance of human motives, and the normal transit of property from parents to children, we may assume that by far the larger part of the loss falls on the recipients of the property.

In any case, this taxation falls on owners of capital as a class, and can only be "shifted" from this class so far as it causes a diminution of the supply of capital tending to compensate the class of capital-owners through a rise in the rate of interest.

Here, again, we have to consider the effect of the prospect of the duties on the actions of the deceased proprietors during life, as well as the effect of the actual taxation on the recipients of the property. As regards the former, I think that any definite estimate would require a greater knowledge than we possess of the relative force of different motives that prompt men to save, especially as saving largely depends on varying habits and customs of expenditure and of provision for children. But as regards the effect on the recipients, it can hardly be doubted that, if the 14,000,000*l.* taken annually by the State through death duties had been allowed to pass to heirs and legatees, by far the larger part of it would have been treated as capital ; while if any other 14,000,000*l.* of taxation were remitted, there is no reason to think that the part of this that would be saved would bear a much larger ratio to the whole than the aggregate annual savings of Englishmen actually bear to their aggregate incomes. I conclude, therefore, that a diminution in the capital annually saved does tend to result from these duties ; and that in consequence a slight tendency to raise the rate of interest, and thereby compensate for a portion of the burden laid by the duties on the owners of capital, may reasonably be assumed ; but I do not consider this effect practically important, in view of the total amount of capital annually accumulated.

Questions 7 and 8.—The primary reason for local taxation is that the needs of certain kinds of governmental action involving considerable expenditure vary considerably, both in nature and extent, in different districts, and that consequently the benefits derived from the expenditure in question accrue mainly to the inhabitants of these districts. I say "mainly" and not "exclusively," because the separation of interests is never complete. Thus, the cost of paving and lighting the streets of a town mainly benefits the inhabitants of the town, but also in a minor degree other persons who visit it as travellers or reside in it temporarily. Similarly, the sanitary state of any district is a matter of serious concern to its neighbours, owing to the tendency of many diseases to spread ; but it is, of course, of much more importance to the group of persons inhabiting the district than to other persons. In either of these cases the preponderance of local interest is so decisive that no objection on the score of equity can be brought against the localisation of cost, especially as the prevention of the diffused mischief caused to outsiders by becoming a focus of infectious disease may be fairly regarded as a part of the general negative duty of not harming others, which every individual or group of individuals owes to other individuals and groups.

But in other cases the separation of interests is far more doubtful and varying, and the consideration of the benefits accruing from the action of Government points rather to the division of cost between central and local taxation. Before entering on these, I should point out that the questions of local taxation and local administration are closely connected—if we assume the general acceptance of the principle of modern responsible government, that governmental work will be better performed if the persons whom it is designed to benefit, and who have to pay for it, are allowed effective control over it, through periodical election of the governing body. This connexion is important in the case of the police, where the distinction of local and national interests is peculiarly difficult to apply. The persons residing in any district have obviously a special interest in the repression and detection of crime within the district : still, it is also a matter of great concern to the whole community that no district should harbour law-breakers or allow facilities for their operations. And since the laws enforced by the police are in the main laid down by the central legislature, a purely local organisation of the police involves a danger that some locally unpopular law may be inadequately enforced. This constitutes a reason, political rather than economical, why a large part of the cost of the police should be paid from national funds, in order that the central government may more easily assume control of it in case of necessity.

In the matter of poor relief again, the principle we are applying leads to a mixed and dubious result. 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. Again, it is sometimes contended, in defence of rates on agricultural land, that every industry ought to support its workers, and that if any industry affords such low wages that

the workers cannot provide by saving for old age and infirmity, the burden of such provision, or at any rate a special share of it, may properly be borne by the landowners and capitalists engaged in the industry. But this view of social duty leads rather to some form of compulsory insurance than to the English system of poor relief; and, at any rate, the principle cannot be fairly applied to agriculture alone: nor could it be made to cover the whole case. It is obviously inapplicable to the pauperism that arises from want of employment, and to the provision for imbeciles and lunatics. Again, if as a substitute for, or supplement to, this contention, the simple tie of neighbourhood is urged, it may fairly be replied that, considering the actual mobility of labour and the present state of law and practice as regards the removal of paupers, this argument is now to an important extent no longer applicable. On the whole, equity seems clearly in favour of the division of the cost of poor relief between local and national funds, in such a country as England,—especially as the administration in this department is properly shared between local and central authorities.

A similar conclusion might be similarly defended in the case of elementary education, only here the question is complicated by denominational considerations.

The form of the contribution of the central government, supposing it to contribute, presents some difficulty. Thus, in the case of poor relief, a simple grant in aid proportioned to expenditure is objectionable on economic grounds, since experience shows that there is a tendency for local authorities to be over lavish, at any rate as regards out relief, and this would be increased if a portion of every increment of expenditure were borne by the nation. This objection is avoided if the grant is proportioned to the population or to the average of past expenditure; but either proportionment may differ materially from proportionment to needs. The best course, so far as it is applicable, is to take special departments of poor relief, in which the economic advantages of local administration are not material—such as the provision for lunatics and idiots—and defray the whole expense from national funds.

Questions 9 and 10.—On the view that I have given in answer 6 of the incidence of rates, the shifting of their primary incidence from occupier to owner would not produce economic effects of great importance on the whole,* except on the assumption that owners are decidedly more, or decidedly less, alert and keen than occupiers, in looking after their economic interests. For, as we saw, an old differential rate must, if both owner and occupier look after their respective interests with equal keenness and foresight, cause a corresponding reduction in rent, at any rate so far as it is a really onerous rate, whether it is actually paid by owner or occupier. And this is also the case with a new rate of the same kind, so far as we suppose it capable of being foreseen equally by both. At the same time, if we assume, as appears to be widely assumed, that there is a prospect of a future increase of onerous rates, similar to what has occurred in the recent past, at once sufficiently definite to be made a ground of legislative action and yet not definite enough to be taken into account in private bargaining, and if we are prepared to acquiesce in this increase, there are undoubtedly reasons for imposing a portion of this increment of taxation upon owners of ground values, so far as this can be done without serious disturbance of existing contracts.

(Question 9.)—In the case of a rate clearly “beneficial” to the occupiers of houses or farms, the considerations are different. So far as the proceeds of the rate are used to defray current expenditure of a kind immediately beneficial, the occupier simply pays for value received, and the result is approximately the same even when the rate has to be paid before the benefit, so long as it is not materially altered from year to year, since the benefit derived from antecedent expenditure roughly balances the rate paid for subsequent benefit. But when a temporary rise in the rate occurs, from the need of outlay of which the benefit will last beyond the period during which the extra taxation is paid, it is no doubt possible for the occupier to pay for a benefit from which the owner will gain in the form of increased rent. Especially in towns this is liable to occur in important cases, and it is most likely that this effect will be believed to occur much more widely than it does occur. Apart, therefore, from political objections it would, I think, be advantageous—to some extent for the sake of justice but more to prevent discontent—that any future increase in the beneficial part of the rate, so far as it cannot be provided against by special assessments, should be divided between owner and occupier in the manner suggested by Mr. Goschen in 1870. But if this were done, justice would require us to give owners as such representation on local taxing

* Of course owners would lose something; as in all cases of non-payment or deferred payment of rent, they would lose by the addition of the rate to the rent. This is specially important in the case of low-priced tenements; but so far as these are concerned, it is already provided for in arrangements for compounding.

bodies, and this would introduce what I suppose would now be an unpopular complication into the machinery of local government.

I think, however, that the end in view would be better attained by the method of taxing ground values, supposing the technical difficulties in the way of carrying this out justly were overcome.

(Question 10.)—Taxation of ground values might be used, like the division of rates between owner and occupier, to prevent the burden of an increase of rates caused by improvements from falling on persons who do not receive the benefits. It might, I think, be applied with advantage in the special case of new loans for urban improvements; it would tend to secure an equal division of the cost of the improvements between ground landlord and leaseholder, and would prevent any transient burdening of what I may call the “occupiers pure and simple”—the occupiers on a yearly or shorter tenure—through their ignorance, or dislike of the trouble and expense of removal. In order to be just, this method, like the simpler and ruder plan of division between occupier and owner, would require a representation of ground landlords on the administrative body that decided on the improvement. It would not, of course, realise anything like ideal justice, even if supplemented by special assessments or “betterment,” owing to the indefinitely varying degrees of benefit that different landowners (or leaseholders) would derive from any particular improvement; but it would, I think, be more equitable than the existing system, and would tend to allay discontent.

The case is not so clear as regards any increase in the rates that are merely onerous to the owners of houses or lands. On the one hand, the “unearned increment” of urban values seems to me a proper object of special taxation, so far as this taxation is traditional and established. On the other hand, it would be obviously inequitable to tax the owner of ground values, for the purpose of poor relief or education, more highly than the owner of any other kind of property, in districts or parts of districts in which these values are stationary or diminishing.

But the question ought not, in my opinion, to be a practical one; since I think that we ought to prevent any such increase by throwing some part of the burden of poor relief on the national budget. No doubt the advantage of this change, if effected, would partly accrue to the ground landlord; but I think that if the burden of new improvements were partly thrown on him, as above proposed, the gain through diminution in onerous rates would be a not inequitable compensation to him, while both changes alike would tend to allay the discontent now felt by ratepaying occupiers.

I will only add that any taxation of ground values, as such, beyond what is above proposed, appears to me to involve a too violent interference with the effects of contracts freely made between leaseholder and ground landlord.

Question 11.—This has, perhaps, been sufficiently answered under Question 6; since the effects of the reduction or abolition of a rate are, speaking broadly, similar in nature and opposite in direction to the effects of the imposition of new rate, or new increment of rate.

Question 12.—Of course if the occupier, being a leaseholder, had undertaken to pay the rate, and were allowed to deduct it from the rent, which the landlord was not allowed to increase, he would gain the whole rate during the period of the lease. But this cannot be contemplated. On the other hand, if the land or house is let from year to year, I do not see how the occupier can gain by the power of deduction,—except on the assumption that by a strange want of foresight he does not adequately take the rate into account in bargaining about the rent,—unless the rate varies materially from year to year. So far as it varies in a manner unforeseen, the economic occupier will gain by the power of deduction when the rate is higher than was foreseen and lose when it is lower. If custom prevents the rent from being annually changed, he will gain if the rate is on the average higher than was foreseen during the time for which the rent remains unchanged, and lose if it is on the average lower. A similar result will obviously take place in the case of leases made after the empowering Act is passed.

Question 13.—(a) There would be no effect produced on rent by a graduated scale of rating, graduated according to value, provided it could be proportioned to what is sometimes called “pure economic” or “Ricardian” rent; *i.e.*, provided that the element of value due to the investment by the landlord of capital in the land, or in any way that increases the utility of the land, could be exempted from its operations. In the case of land in towns, this separation of elements would be adequately attained by a well adjusted taxation of ground values; and in this case taxation of ground values on a graduated scale would have no tendency *in itself* to affect the rent; *i.e.*, it would simply take for public purposes the portion of the rent designed to be taken and leave the rest unaltered.

But in the case of agricultural land this separation would be practically impossible; and if it were not attempted the graduated scale of rating would increase the effect, which the rate in any case has, of diminishing the inducement to invest capital in land; and this would indirectly affect both the amount of rent in the ordinary sense and "pure economic" rent.

(b.) In considering the effect upon rent of a scale of rates varying with the character of the property or the purpose for which it is used, I presume that the "character" in question is to be supposed capable of being attached to or withdrawn from property to a material extent by human labour; *i.e.*, it is exemplified by the difference between dwelling houses and shops, or farms and pleasure grounds, and not by the difference between hills and valleys.

If so, we have to distinguish two cases.

(1) So far as the character or purpose is not changed in consequence of the unequal rating, this tends to affect the rent of different kinds of property unequally, to an extent corresponding to the inequality of the rate.

But (2) the inequality must be assumed to have some tendency—which may, of course, in particular cases be practically insignificant—to change the relative amounts of the unequally rated kinds of property, increasing the under-rated, and decreasing the over-rated, and so far as this change takes place, the first-mentioned effect on rents will be partly counteracted.

Question 14.—The chief suggestion that appears to me acceptable is one that is already familiar to all who have studied the question, *viz.*, to hand over the Inhabited House Duty to local purposes, supplying its place by an addition to the income tax. It is a drawback of our system of local taxation, that it tends to raise the price of house accommodation; and if this drawback has—as I think—to be endured owing to the difficulty of finding taxes suitable for local purposes, it is undesirable that there should be any tax on houses in the system of national taxation. Moreover, the Inhabited House Duty as at present adjusted is well adapted by its exemptions to reductions to compensate somewhat for the inequality with which the rate falling on houses presses on the poorer classes, who spend on the average a larger proportion of their income on house accommodation than the higher income classes do;—supposing that such compensation is judged to be equitable, when everything is taken into account.

For the reason given in my answer to Question 10 I should propose to accompany this by direct taxation of ground values to meet expenditure on improvements.

It also seems to me incontrovertible that the principle of "special assessments" or "betterment" should be applied in the case of improvements, with reasonable safeguards.

Concluding remarks.—I will now return to the question (4), as to the equities of local taxation. I shall confine my remarks to considerations of equity; but it should be observed that, in considering the economic effects of taxes, we have to allow weight to *productional* as well as *distributional* consequences, and sometimes to allow more weight to the former.

For clearness, it is convenient to treat separately the cases of (1) urban and (2) rural rates, and also to distinguish, as far as is possible, (a) beneficial from (b) onerous rates.

(1a.) Taxation imposed to meet expenditure that makes houses healthier, streets more fit for their use, and generally residence in the town more agreeable, seems to be properly thrown entirely on owners or occupiers of the buildings in the town. So far as the taxation is required to meet current expenditure, it is properly imposed on the occupiers; so far as it is required for improvements (including sanitary improvements) of a durable kind, in which a considerable outlay is required for utilities lasting through a long subsequent period, I think that the best approximation to equity would be attained by direct taxation of ground values. I think, however, that this principle should be only applied to new improvements; and I consider that its practical importance relates chiefly to the division of cost between leaseholders and ground landlords, and only in a slight degree to the division as between owners of ground values and occupiers as such; since I hold, as before explained, that the excess of urban over rural rates in any case falls in the main on owners of ground values.

The proportionment of the beneficial rates to the annual value of the house seems to me tolerably equitable so far as owners of ground values are concerned. The question is more difficult so far as occupiers are concerned. As I have said, the portion of the rate that corresponds to the value of the building falls more heavily on the poor in proportion to their income, as house accommodation forms a larger share of their expenditure; on the other hand, the poor man derives advantages either proportional to

his payments or in a higher ratio, from an important part of the expenditure in question (*e.g.*, sanitation, public lighting, burial grounds, open spaces). Further, in considering the matter for practical purposes we have to take into account the benefits accruing to the poor from local taxation that is merely onerous to the rich.

(1*b.*) 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—so far at least as the higher income classes are concerned. Of the two former kinds of expenditure it may no doubt be said that, though onerous to the rich, they are clearly beneficial to the poor. But it would be altogether contrary to the design of the English Poor Law that the self supporting poor should pay more highly than the richer classes for the relief of indigence. And a similar view is now generally accepted as regards elementary education so far as its expense is defrayed from national funds; that is, it is regarded as expenditure for the benefit of society as a whole, of which the burden should be equitably distributed without regard to benefit. I do not, however, think that the same view ought therefore to be taken in dealing with local taxation, since it is implied in the general idea of this taxation that special contributions may properly be exacted from sections of the community, to meet expenditure for their sectional benefit; and the principle of proportionment of payment to benefit is usually taken as a matter of course in dealing with expenditure for the benefit of owners or occupiers of houses and lands as such. I conclude, therefore, that in considering the equitable distribution of the burden of urban taxation, we may reasonably take into account the special benefit accruing to the poor from the expenditure on elementary education.

But in entering upon this consideration, we are met with a question which attracted only slight attention in dealing with national taxation, because it was then only of minor importance and not difficult to answer;—the question how far payments exacted from owners of ground values should be regarded as strictly taxation, and not rather as a portion of rent reserved for public use, which is not to be taken into account in arranging the equitable distribution of the burden of taxation proper. It seemed to me that this was the right view to take of the unredeemed Land Tax; but the case of rates is different, since the amount of the rate is not fixed and there has been no redemption. Still, considering the antiquity of this burden, the number of sales and purchases of land that have taken place since it was imposed, and the fact that, speaking broadly, urban ground values have increased *pari passu* with the increase in urban rates and from the same causes, I think that there is no reason to relieve the owners of urban ground values from the share that they have hitherto borne in providing for local public expenditure of an onerous kind. I shall therefore leave this share out of account in considering the equitable distribution of the remaining burden.

If the view that I have taken (in the answer to Question 4) of the equities of national taxation be applied to local taxation, we should endeavour to proportion this burden as far as possible to income;—except that, in the national system the death duties, varying on a quite peculiar ground, were treated as a special extra contribution from the wealthier classes. However, the contribution from the owners of ground values occupies a similar position, though financially more important, in the local system, which leaves us with the simple principle of "taxation proportioned to income" for the remaining burden of onerous rates. In the national system, however, this principle is only accepted with the important proviso that taxation is not to be thrown on necessaries of life. It is impossible, I think, to apply this proviso to local taxation, so far as it falls on dwelling-houses*, and this seems to me an equitable ground for lightening the burden of onerous rates on the poor in the local system. In considering this burden, we have to take into account not only that part of the onerous rate that falls on the occupiers of dwelling-houses, but also the burden of the excise licences handed over to the local system in 1888; and in both cases the burden practically falls more heavily on the incomes of the poor, although in the case of the excise licences it is an avoidable burden. If, however, we take beneficial as well as onerous rates into account, and allow for the special benefit derived by the poor from certain parts of the expenditure, of which the educational expenditure is the most important item, it is not clear to me that the poor actually bear an undue share of the burden of urban

* So far as the rate is charged on buildings that are used solely for industrial purposes, or buildings larger and more costly because they are in part so used, its burden tends, as has been explained, to be more or less vaguely diffused through the community.

taxation, according to the principles above adopted. But I have not the data for anything like an accurate estimate of the proportion paid by them; and in any case, from the nature of the considerations involved, only a very rough approximation to ideal equity would in this matter be possible.

There remains an inequality as between the large incomes and the moderate incomes among urban occupiers of houses; since house rent, speaking broadly, absorbs a larger proportion of the latter than of the former. This is roughly compensated, so far as a portion of the proceeds of the death duties which press with unequal weight on the larger incomes is handed over to the local system, in accordance with the principle adopted in 1888.

(2.) Much of what has been above said of urban rates obviously applies to rural rates also, so far as they fall on dwelling houses and gardens cultivated for pleasure, only that the considerations which have to be estimated in any attempt to equalize the burden of rates as between different income classes are different in the country. For, on the one hand, elementary education is mostly provided by religious denominations; on the other hand, the price at which house accommodation is provided for the poor is largely determined on strictly economic grounds. But the most important question that meets us when we turn from urban to rural rates relates to the burden that falls on agricultural land. If the view that I have taken in answering Question (6) is sound, we may, without material error, regard the burden of an *old* rate on agricultural land as actually falling on the owners of the land—apart from the question of exchanges between rateable and non-rateable property.

We have to ask, then, Is this incidence of the burden in accordance with equity? *Prima facie*, it is certainly not so. No one would think of imposing the whole of this special burden on land, if it were a question of new taxation at the present time. Some part of the expenditure on highways and police might in this case be properly thrown on agricultural land; but with important parts of the “beneficial” expenditure—*e.g.*, all that is spent on sanitation—agricultural land has no concern. As regards poor relief, granting that there is something to be said for throwing on the capitalists concerned in any branch of industry a part of the burden of poor relief required for workers in that branch, it is not equitable to apply this principle to agriculture alone; and, as I have before said, there is an important part of necessary poor relief which this principle cannot fairly be stretched to cover.

I conclude, therefore, that the existing burdens on agricultural land can only be defended on a ground that I have so far excluded from consideration: *viz.*, on the view that the antiquity of the burden, and the number of transfers that have taken place since it was imposed, renders it reasonable now to regard it—like the unredeemed Land Tax—rather as a portion of rent reserved for public purposes than as a tax, strictly speaking.

I myself think that this view might reasonably be taken, if the system of local taxation could be properly considered apart from the system of national taxation; or if in the latter the balance had been kept even between the taxation of land and the taxation of other property, during the long period through which a special burden has been laid on land in the local system. For then it might be fairly argued that during this long period many landed estates have been purchased by persons who have accumulated wealth in trade and manufacture: that in any such purchase the special taxation imposed on land must have been taken into account: that, therefore, after any such exchange has taken place, the burden of the special taxation is not really borne by the owner who has acquired it through purchase, although he pays the rate. It is, in fact, borne by the seller who has got a smaller price for the land than he would otherwise have got: for the new owner the rate is merely a portion of the annual value of the land that he is required to pay over for purposes of local government, a portion for which he has never paid, and to which, therefore he has no equitable claim.

This reasoning appears to me sound, on the assumptions above stated, although it might still be argued that this special burden on agricultural land is inexpedient from its depressing effect on agricultural industry; and that the recent fall in the annual value of land, consequent on the cheapness of agricultural products caused by free importation, affords a good opportunity for at least reducing the burden. But the assumptions required for the validity of the argument above given are really unwarrantable. For the purchaser contemplated in this argument cannot be supposed to have fixed his attention exclusively on the *local* burdens on land, as if this were the only effect on the value of land due to the action of Government; he must be supposed, in estimating the value of the commodity, to have taken into account any exemptions that it enjoyed in the system of national taxation, and any advantages accruing to it

from the established principles of our national policy. Now, during the most important part of the period that we have to consider down to 1846, the owners of agricultural land had the advantage of protective duties on agricultural products; and it was certainly as much a settled principle of our policy to prohibit or impede the importation of grain when the price was below a certain figure as it was to throw the burdens of local taxation on real property. I think that the abandonment of this principle in 1846 gave the owners of agricultural land an equitable claim to be relieved from such part of the special burden of local taxation as it would have been inequitable to impose on them if the system of local taxation had then been arranged *de novo*; and that the interval of time that has elapsed since 1846 is not sufficient to impair materially the force of this claim, especially since the tendency of free trade to lower the value of agricultural land has only been gradually realised.

We have also to take note of the advantage attached to the possession of real property in the way of exemption from death duties up to 1853, and, in a less degree, up to 1894. This was not indeed peculiar to agricultural land, but it comes into consideration as balancing, to some extent, the special burdens thrown on real property in the system of local taxation.

I conclude, therefore, that the principle on which partial relief from rates was granted to the owners of agricultural land in 1896 is sound from the point of view of equity. This conclusion is independent of the economic objection to special onerous rates on agricultural land, as discouraging the investment of capital in agriculture. The force of this objection would remain unaltered, even if the question of equity were otherwise decided.

Answers by Professor Marshall.

I have found it difficult to answer satisfactorily within a moderate compass the questions proposed by the Commission, so I have thought it best to answer a few somewhat fully, and merely to indicate my opinion as to the rest.

I., II.—1. I hold that taxes are paid by persons, not things. Things are the channels through which many taxes strike persons; and in considering the incidence of taxes on persons and the equity of that incidence, we have to take account of all the circumstances of those persons as owners, users, sellers, purchasers, &c. of those things. I submit that the present inquiry must be taken to relate not to the distribution of the burden of taxation between different kinds of property, but to the distribution of the burden between different classes of persons with special reference to their interests in different kinds of property.

2. Further, when we say that a thing is the channel through which a tax strikes persons, we must be sure that the thing is self-contained. If it is only one part of a group of things which cannot be easily separated—this particular thing being taken by the tax gatherer as representative of that group for convenience—then we get into hopeless confusion if we treat the tax as impinging on that representative thing alone and not the group. For instance, in old times the windows of a house were taken as representative of the house, and were taxed heavily. But the tax did not strike, and was not intended to strike, persons as owners and users of windows only; it was intended to strike them, and did strike them, as owners and users of houses. Now, just as the window is a more or less good representative of the house; so the house is a representative, perhaps a better representative, of a certain scale and style of household expenditure in general; and when houses are taxed, the tax is, and is intended to be, a tax upon the ownership and use of the means of living in certain general conditions of comfort and social position. If part of the tax assessed on houses were removed, and the deficit made up by taxes assessed on furniture and indoor servants, the true incidence of the taxes would be nearly the same as now, but the indications of Table D. would be much changed.

3. I am aware that tables similar to Table D. have been approved by high authorities, academic as well as practical, and it is therefore with great diffidence that I express the opinion that, when taken as a basis for a scheme of finance, they suggest wrong inferences. For instance, Table D. corresponds in some respects to Sir Alfred Milner's Table I. on page 582 of Vol. IV. of the Report of the recent Royal Commission on Agriculture, and suggests a second table corresponding to Table II.

on page 583 of that volume; which shows £m.3,000 of rateable property bearing about £m.10 of taxation, *i.e.*, at the rate of $\cdot 79d.$ in the £ on capital value; and £m.6,000 of non-rateable property bearing about £m.14 of taxation, *i.e.*, at the rate of $\cdot 54d.$ in the £. But this result implies that furniture, &c. estimated at £m.1,000 escape taxation altogether. That, I submit, is as wrong in principle as it would have been if, when windows were taken by the tax-gatherer as representative of houses, a table had been made out in which the capital value of the windows had been estimated separately, and entered as the basis of the whole window tax; while the capital value of the whole of the rest of the house had been entered in another column as escaping taxation altogether. If the furniture, &c. were reckoned with the houses, this change alone would materially alter the general effect of Sir A. Milner's results. Where he now gets $\cdot 79d.$ he would get $\cdot 6d.$, where he now gets $\cdot 54d.$ he would get $\cdot 64d.$ And when corresponding changes had been made for the equipments of factories, shops, mines, railways, &c., the general purport of his conclusions would be inverted. I do not, however, suggest that a table so modified would be of good service. It would, for instance, still fail to take account of the fact that a considerable part of the tax assessed on large houses is really a tax on the habit of employing many indoor servants. Again, it would not indicate how taxes levied through the channel of immovable and other tangible property bear on creditors and the owners of the machinery of credit (*see VI.-e, 3*). Another weakness of the method is shown in its treatment of railways under classes 2 and 7.

4. The old window tax was bad; because, though intended to be a tax upon houses and not upon windows, its pressure was so intense on the point on which it impinged, that many people diminished their windows to the injury of happiness and health. And in like manner it may be argued that, though taxes which impinge on houses do really rest on general expenditure, yet their pressure at their point of impact is so intense as to cause people to seek by preference modes of expenditure which require but little houseroom. The question whether this is so is important, but the figures in Table D. throw little light upon it.

5. Similarly, it may be contended that when heavy new taxes are imposed upon buildings used for trade purposes, the pressure at their point of impact on those trades which happen to require large buildings in proportion to their net returns is unjust or impolitic; but in such matters also the table affords no guidance.

III.—So long as the net revenue of the Post Office is reaped, not solely by rendering services to the public, but in part by prohibiting other people from rendering similar services, it must, I think, be entered in a general list of taxes, but in a separate class.

IV.—1. Equity assumes definite rights; it is equitable that every shareholder in a company should pay calls in proportion to his holdings. But, save in such exceptional cases, there is no definite basis for equity. For while one function of the State is to create, maintain, and regulate rights; its second, and scarcely less important function, is to give expression and effect to the public conscience. Accordingly, I think that the so-called canons of equity in taxation are not in general canons of equity pure and simple: they are canons of equity combined with and modified by obligations of duty. It is in this broader use of the term that I propose to discuss the "equity" of taxation. I use here the term "tax" to include licenses, rates, &c.

2. When a special tax is levied for a particular purpose and the case is not one for any interference by public authority with existing rights of ownership—as, for instance, where an arterial system of land drainage is created—the owners of the properties to be benefited may fitly be assessed on the "joint stock principle," according to which calls are made from shareholders in proportion to their stake in the common venture. Such taxes are strictly "remunerative" and stand in contrast to those "onerous" taxes which supply the means of discharging public duties, of paying interest on the national debt, of supporting the general expenses of government, &c.

3. Onerous taxes, Imperial and Local, must be treated as a whole. Almost every onerous tax taken by itself presses with undue weight on some class or other; but this is of no moment if the inequalities of each are compensated by those of others, and variations in the several parts synchronize. If that difficult condition is satisfied, the system may be equitable, though any one part of it regarded alone would be inequitable.

4. A non-remunerative tax assessed on anything is *prima facie* onerous to its owner unless and until he can shift the burden elsewhere; but it does not follow that, in considering the equity of a system of taxation, the continuation of this same tax should

be regarded as onerous to a new holder into whose hands the thing has come either by purchase or inheritance. The new holder has, no doubt, acquired a property of less value than if there had been no such charge upon it. But the question whether this charge is one to be henceforth counted as entitling him to some exemption from other taxation cannot be solved without inquiry as to the conditions, implicit and explicit, under which the original title to the thing was obtained. Such inquiries are of importance chiefly in relation to rights in land and to durable monopolies, whether complete or partial.

5. It used to be held that all persons should contribute to the system of onerous taxes in proportion to their net incomes. But now the opinion seems to be gaining ground that the poorer classes should contribute a smaller percentage of their revenues than the middle classes; and these, again, a smaller than the richer classes. This arrangement seems to me to be "equitable" in the broader sense of the word.

6. It is true that so long as a person retains the right of voting on the levying and expenditure of taxes, it is not safe that he should wholly escape onerous taxes. But it may be safe and reasonable to return to him or his children the equivalent of his payments in such benefits as will increase physical and mental health and vigour, and will not tend towards political corruption.

7. I take net income to be gross income after deducting for wear and tear, and for replacement of capital. These deductions are large in the case of income derived from perishable property, and incomes derived from personal exertion.

8. Income, so defined, seems, on the whole, the best basis of a system of taxation; but it has many deficiencies. It presses unduly on those who do not spend the whole of their income, but save some of it: they are taxed on their savings, and they are taxed again on the revenue derived from their savings.

9. Taxes on expenditure evade this difficulty, but have others of their own. Expenditure in general cannot be defined, still less can it be assessed. Nearly all taxes on particular forms of expenditure have technical faults, which make them productive of great harm to the community in proportion to the funds which they yield. The chief exceptions are taxes (and rates) on houses and stimulants: for they can be kept at a high level without much economic waste; but at present they press with disproportionate weight on the poorer classes. Assessed taxes on male servants, horses, carriages, and dogs were once "progressive" in England; perhaps they should be so now.

10. Perhaps also it may be possible to partially exempt savings from taxation for a limited number of years, so as to avoid the injustice of charging twice the income from which they are saved. Any such plan must necessarily proceed on broad lines, and ignore the lighter considerations of equity when seeking to adjust the weightier; and it would need to be introduced gradually and tentatively. I am inclined to think it might with advantage be at once tried experimentally on a small scale as regards investments at home in immovable property, with special reference to local taxation.

11. But even if the total burden of a system of taxation could be adjusted progressively to expenditure, there would still remain a fundamental inequity. For such taxes would not strike at indulgence in easy-going habits of life. If, of two persons with equal capacity, one works twice as hard as the other, taxes adjusted to expenditure will strike him more heavily than the other, though he has deserved better of the State. Some account might conceivably be taken of this consideration in adjusting taxation between different parts of the same country where different habits of activity prevail; as, *e.g.*, between the north and south of Italy, or of France, or, again, between England and Ireland. But even that is doubtful; and, as between individuals, no account at all can be taken of it. On the whole I conclude that no near approach to equity in taxation is attainable.

12. In recent discussions on taxation, and especially local taxation, there has, perhaps, been some tendency on the part of reformers to assume that if an existing arrangement can be shown to be at all inequitable it should be changed: while those who would retain things as they are have, perhaps, been too ready to assume that a new scheme has been put out of court as soon as it has been shown to work inequitably in some respects. In opposition to such tendencies, I venture to suggest that, even in the interests of equity, canons based on mere considerations of equity are often of but secondary importance in practice. Speaking generally, those systems of finance have caused the least injustice and hardship which have most favoured the development of the energies and inventiveness of the people; which have hindered them the least in the selection of those routes for the satisfaction of their wants; which, partly in pursuance of this end, have given a preference to taxes which were productive

and elastic, in proportion to the army of officials needed to levy them; which have avoided vexatious meddlings, and which have been most definite and certain, and free from surprises and from opportunities of corruption. The body politic has a great power of so adjusting itself to the pressure of taxation as gradually to diminish the inequities which are inherent in every imposition or remission of taxation when new. In the interest of equity itself, these and other more or less technical considerations should, I submit, be allowed a large and often a predominating influence.

V.—1. The greater part of economic science is occupied with the diffusion throughout the community of economic changes which primarily affect some particular branch of production or consumption; and there is scarcely any economic principle which cannot be aptly illustrated by a discussion of the shifting of the effects of some tax “forwards,” *i.e.*, towards the ultimate consumer, and away from the producer of raw material and implements of production; or else in the opposite direction, “backwards.”

2. It is a general principle that if a tax impinges on anything used by one set of persons in the production of goods or services to be disposed of to other persons, the tax tends to check production. This tends to shift a large part of the burden of the tax “forwards” on to consumers and a small part “backwards” on to those who supply the requirements of this set of producers. Similarly, a tax on the consumption of anything is shifted in greater or less degree “backwards” on to its producer. Thus nearly all taxes are shifted in some degree.

3. A tax upon a pure monopoly cannot be shifted; provided it is assessed either upon the monopoly as a unit, or on the net profits of the monopoly. In neither of these cases does it affect the calculations of the monopolist as to the price which will give him the greatest aggregate excess of receipts over outgoings. But it will be shifted, more or less, if it is assessed on his gross receipts; or according to any other plan which causes it to increase with the amount of services he renders to the public, for then the tax will make it worth his while to diminish the amount of his services, and thus raise their price.

4. In whatever way the tax is assessed, the monopolist may raise his price if he thinks that, by making the consumers believe that the tax is paid by them, he can induce them to agitate for its repeal. Action of this kind has done much to confuse the public mind as to the true incidence of taxes.

5. The ownership of land is not a monopoly. But much that is true of a tax on monopolies is true also, though for different reasons, of a tax on that part of the value of land which is not due to recent investments of labour or capital in it by its owner. Any tax which is so levied as to discourage the cultivation of land or the erection of buildings on it, tends to be shifted forward on to the consumers of the produce of land or the users of buildings; and, if the buildings are used for the purposes of any trade, then further forward still on to the consumers of the products of that trade. But a tax on that part of the (annual) value of land, which arises from its position, its extension, its yearly income of sunlight and heat and rain and air, cannot settle anywhere except on the landlord; a lessee being, of course, landlord for the time. This (annual) value of the land is sometimes called its “inherent value”; but much of that value is the result of the action of men, though not of its individual holders; and therefore it is perhaps more correct to call this part of the annual value of land its “public value;” while that part of its value which can be traced to the work and outlay of its individual holders may be called its “private value.” Speaking generally, a tax on the “public value” of lands does not diminish the inducements of cultivators to cultivate it highly, nor of builders to erect expensive buildings on it. Such a tax therefore does not, in general, diminish the supply of agricultural produce or of houses offered on the market, any more than a tax on the net profits of a monopoly does. It therefore is not shifted away from the owners of land.

6. Taxes on buildings and on that part of the value of land, urban or rural, which results directly from investments of capital by its owners have peculiarities of their own which will be discussed under Question VI. *a-c*. In general they tend to be shifted in the same way as, though more slowly and irregularly than, taxes on movable goods. We may, then, illustrate the general process of shifting by the typical case of a tax upon the product of a staple trade.

7. An unexpected and heavy tax upon (say) printing would strike hard upon those engaged in the trade, for if they attempted to raise prices much, demand would fall off quickly; but the blow would bear unevenly on various classes engaged

in the trade. As printing machines and compositors cannot easily find employment out of the trade, the prices of printing machines and wages of compositors would be kept low for some time. On the other hand, the buildings and steam engines, the porters, engineers, and clerks would not wait for their numbers to be adjusted by the slow process of natural decay to the diminished demand; some of them would be quickly at work in other trades, and very little of the burden would stay long on those of them who remained in the trade. Part of the burden, again, would fall on subsidiary industries, such as those engaged in making paper and type, and a part of it would be borne by authors, publishers, booksellers, &c.

8. This case illustrates well the contrast between the incidence of Imperial and of local taxation, for if the tax were only local, the compositors would migrate beyond its reach; and the owners of printing houses might bear a larger and not a smaller proportionate share of the burden than those whose resources were more specialised but more mobile. If the local tax were uncompensated by any effect which tended to attract population, part of the burden would be thrown on local bakers, grocers, &c., who would meet with diminished custom.

9. So far I have avoided technical phrases. But the kernel of the problem can, perhaps, be brought out better by a free use of them. The income derived from "land" in the narrower use of the term—that is, from the "public value" of land—is a "Rent" in this strict sense that its amount is governed by the general market relations of demand for, and supply of, the commodities which it produces, and not by the exertion or sacrifice of its owner. A tax upon this rent does not therefore alter the action of the owner; for he takes none in order to earn this rent: it does not "enter into the cost of production" of the commodities raised on the land. A tax on it does not alter that cost; does not restrict the supply of the commodities; does not raise their value; is not shifted forwards; and, of course, cannot be shifted backwards.

10. Income derived from durable improvements in land is popularly called rent. A tax upon it would diminish the inducement to make similar improvements and prevent some old improvements from being renewed, and thus, in the very "long run," it would increase that "cost of production" which has to be covered to make production profitable, and would ultimately stint production. Most of it would, therefore, ultimately be shifted forwards on to consumers, though, perhaps, a small part might be shifted backwards on to those who supplied the appliances needed for making the improvements. In the very long run, therefore, the income derived from these improvements has to be regarded as profits on investment.

11. But yet popular usage is right in treating this income as a rent rather than as profits for most purposes. For the tax could not for a long time produce an appreciable effect on the amount of such improvements, nor therefore on the supply of the commodity, nor therefore on the price which the consumers paid for it. Meanwhile, the income derived from the improvements would be governed practically in the same way as the rent of land; that is, by the general market relations of demand for, and supply of, the commodities, and not by the slackening or increasing exertions or sacrifices of the owner of the improved land. In short, the income would be a "Quasi-rent," partaking partly of the nature of rent, and partly of the nature of profits; but being more akin to a rent than to profits for the purpose of discussions as to the incidence of taxes for a long time, perhaps a whole generation. But it would be more akin to profits than to rent for discussions as to their ultimate incidence.

12. In the case of less durable improvements, we should have similar results but for shorter periods. For the tax would quickly affect the supply of such improvements, and, therefore, of the commodities raised from the land; and would, therefore, raise their price.

13. More generally, the shorter the time required for altering the stock of appliances for production, the shorter is the time during which the income derived from them is to be regarded as a quasi-rent—that is, as an income, a tax on which must be borne by the owner of the appliances, and cannot be shifted by them appreciably, either forwards or backwards; or, in other words, the shorter is the time required for the tax to act on the income as though the income were profits from fluid applications of capital.

14. All skilled workers, whether employers, employed, or professional men, are in the possession of specialised appliances for production, the stock of which cannot be very quickly altered. Part of their income is the earnings of effort, and a tax on this part would immediately stint effort, and would, therefore, be immediately shifted more or less from the workers on to the community. But part of their income is of the

nature of returns on investments in specialised appliances of such a nature that their stock cannot be increased or diminished quickly, and this part of their income is for the time a quasi-rent; a tax upon it will, for a considerable time, remain on the workers and not be shifted.

15. If any land, whether improved or not, or any machinery or industrial skill, or any other thing, can be easily and immediately applied to more than one branch of production, then the income derived from it is always to be regarded as profits or earnings, rather than as rent or quasi-rent, in any question that exclusively concerns any one of those branches. A special tax on the thing in that use alone would cause it to be turned quickly to other uses, and the tax would be shifted at once on to the consumers of the things produced by it in that use.

VI-a. 1. It will be convenient first to discuss an Imperial tax on buildings in general.

2. In English urban tenures there are commonly three distinct interests. First are those of the "ultimate" owner, popularly but incorrectly called the "ground owner;" he has an annuity secured on both building and land for the present, and will be owner of both when the building lease falls in. Secondly are those of the "interim owner," sometimes called "the building owner;" he owns both building and land to the end of his lease, unless he has himself leased them out. In that case, he has a secured annuity on them during the lease granted by himself, with a reversion of both building and land from the end of that lease to the end of the first lease; there may thus be a series of interim owners. Lastly, there is the tenant, who may hold on lease.

3. The building has practically no value apart from the land, but that value which the land would have if cleared of buildings has been called the "site value" of the property. It is convertible with the "public value" of the land (*see* V-5), provided it be so reckoned as to exclude the value of improvements made below the surface by the owner or his predecessors.

4. If a uniform Imperial tax be levied on the annual value of all land and buildings, the building part of it tends to settle on the occupier; or on his customers, if he uses the building for trade purposes: but the site part of it tends to settle on the owner for the time being, that is, on the interim owner, in so far as it is imposed during his lease; and on the ultimate owner when he comes into possession. If, however, agricultural land is exempt from the tax, then the tenant escapes only that part of the site tax which is assessed on the excess of the value of the land for building uses over its value for agriculture. This is of little importance practically, except when a large garden attached to a house is taxed at the value of urban land.

5. Passing to the Inhabited House Duty, we find trade premises and very small houses exempted from that. In consequence, tenants of large houses cannot make the owners bear the whole tax on the site value. For the owners will not erect large houses till there is already such a scarcity of them that they give to the owners as good a return as could be obtained by an equal outlay in building trade premises, &c. Houses of a medium size and premises used for trade and dwelling combined are partially exempted from the Inhabited House Duty, and their case is probably about the same as it would be if there were no exemptions at all.

6. These are tendencies, not actual results. But the differences between the two are not very great now, so far as the Inhabited House Duty is concerned, for that has altered its form but little of late years. The various causes by which such tendencies are retarded will be discussed in relation to rates, which change rapidly.

7. The tax has been assumed to be "onerous." But if it be so expended as to confer direct benefit on owners or tenant, the results will be different. This consideration, also, may be neglected in considering the Inhabited House Duty; it is of first rate importance in regard to rates.

VI-b (also XI., XII. and XIII.). 1. The Inhabited House Duty, being onerous, tends to check building. But many rates are so expended as to provide the householder with necessaries, comforts, and luxuries on cheaper terms than he could provide them for himself. An increase of such expenditure may attract tenants instead of driving them away, may increase local building instead of checking it, and may raise the ground rents at which land can be let on building leases. The ultimate effects of such rates can be ascertained fairly well by discovering the effects of onerous rates, and then reversing those. Other rates, *e.g.*, school rates, are onerous to some classes of society, and beneficial to others. Rates devoted to improved school buildings tend to attract artisans, but slightly to repel well-to-do residents for the time being;

though in the course of a generation they may so much improve the character of the neighbourhood as to raise the value of the land for building expensive houses, as well as for other purposes.

2. Such considerations show that any general statement as to the incidence of rates must be incorrect. But fairly definite conclusions may be reached as to the incidence, immediate and ultimate, of onerous rates, that is, of rates, the burden of which is not compensated by any equivalent local gain. And thence the incidence of other rates can be inferred more or less, when account has been taken of their special circumstances.

3. If onerous rates are approximately uniform all over the country, then their incidence resembles that of similar Imperial taxes; the fact that they are levied and spent by local authorities does not materially affect the distribution of the burden imposed by them between ultimate owner, immediate owner, and tenant.

4. Next, as to the distinction between rates on site and on building values. It is true that the tenant does not distinguish between them. But anyone, whether ultimate owner or not, who is thinking of erecting buildings on the land, will reflect that expensive buildings would be subject to heavy rates. If in doubt between putting expensive and inexpensive buildings on any site he has chosen, he will be turned towards the inexpensive by the expectation of a rise in the rates, in so far as they are assessed on building values. But his decision will not be affected by that part of the rates which is assessed on site values; though, of course, before deciding whether to erect any buildings at all, he will have had to consider whether the site value would escape rates if kept vacant. Thus the site value and the building value parts of exceptionally heavy onerous rates press temporarily with almost equal weight on the owners; but ultimately the building value part alone presses upon the tenant: it alone tends to drive away population and trade.

5. These are general tendencies; the causes which prevent them from being applied in prediction resemble those which prevent the mathematical reasonings from being applied to the course of a ball on the deck of a ship that is rolling and pitching in cross seas. If the ship would but stay at one inclination, the movement of the ball could be calculated. But before any one tendency has had time to produce much result it will have ceased to exist, and its successor cannot be predicted. Just so, though economists settled once for all, nearly a century ago, the general tendencies of the shifting of taxation; yet the relative weight of onerous rates in different places often changes so rapidly that a tendency may make but little headway before it is stopped off, or even reversed, by changes which cannot be predicted. We here need a study of the past and present distribution of onerous rates, with an inquiry as to its causes: its general drift is to some extent indicated in Mr. Cannan's article in Vol. V. of the "Economic Journal."

6. Partly in accordance with his suggestions it may, perhaps, be surmised that: (i.) Those rates which are truly onerous are less in amount, and vary less from place to place than is commonly supposed. (ii.) A place which has incurred a large debt for enterprises that have been unfortunate or wastefully managed may expect a large share of onerous taxes for a long while, but such cases are not numerous. (iii.) A place which has a large pauper population and offers no great attractions for industry or residence, has a prospect of long continued high poor relief rates; and such cases are considerable, even when allowance has been made for future widening of rating areas so as to make rich districts bear a larger share of the burden of the neighbouring poor. Inequalities of school rates come partly under this head. (iv.) Subject to the two last exceptions, exceptionally onerous rates are chiefly due to transitional causes. One possible cause is present bad management, but that is likely to work its own cure. A more frequent cause is a recent wakening of the district to a sense of responsibility in sanitation and other matters: such of the consequent expenditure as is necessitated by natural defects of the situation may be permanent; but even this, if wisely conducted, diminishes the relative disadvantages of the district and increases its attractions to builders.

7. In short, it seems probable that the cases are somewhat rare, in which the truly onerous rates of a district are fairly certain to last for a considerable part of the life of a house or the duration of a building lease. That is, it may be surmised, that there are not very many cases in which a builder, after taking account of the direct and indirect local benefits which are obtained at the expense of high rates, will be repelled by the fear of rates from building in a place which he would otherwise have selected without hesitation.

8. [Mr. Cannan has observed that there is no obvious connexion between the numbers of the population of the different towns of England and Wales and their rates. To this may be added that there is no very palpable connexion between their rates of growth and their rates. Nearly all those large towns which increased fast (more than 20 per cent.) between the census years 1881 and 1891 had, in 1891-2, medium rates (between 3*s.* 6*d.* and 4*s.*); and all those which in 1891-2 had very high rates (above 5*s.*) increased at a medium pace in the preceding ten years, the lowest percentage of increase of population among them being that of London (10·6) and the highest that of Leeds (18·9).]

9. If these surmises be correct, it follows that the total pressure of onerous rates on the enterprise of building speculators and other interim owners is not very great; and that many rates which have appeared to be onerous have really enriched them. But vicissitudes of the rates increase slightly the great risks of the building trade, and inevitably the community pays for such risks more than their actuarial equivalent. And, since uncertainty causes speculators to fortify themselves against onerous rates even in places where, in fact, rates have not been specially onerous; tenants and ultimate owners in these favoured districts gain less by that good fortune than appeared from the broad reasonings with which we started (VI-b, 4).

10. Here, perhaps, is the right place for discussing a suggestion that has been made, that an equalisation of rates would relieve owners, and especially ultimate owners, at the expense of tenants. It is argued that the building owner deducts from the ground rent, which he offers for a particular site, any onerous rates on building value (as well as on site value) which he anticipates as exceptional, and which he believes he could avoid by building elsewhere; and that he does so because the future tenant from whom the rates are deducted will make a similar deduction from the rent he offers. It is argued that the tenant will perforce pay those rates which he cannot escape by moving elsewhere; and that the builder, knowing he will be recouped, will not deduct them from the ground rent which he offers. This is plausible, but apparently invalid.

11. It is true that an equalisation of rates would raise the aggregate of site values, if it removed rates from the best sites and increased rates on the inferior sites. But the equalisation is at least as likely to transfer part of the burden of rates from the inferior sites to the better sites, and, if it did that, it would lessen the aggregate of site rents. This is, indeed, a new version of an old paradox. Improvements in agriculture, specially applicable to rich and well-situated land, would raise aggregate farm rents very much. But improvements which brought up the least favoured land, account being taken of situation as well as fertility, to the same level with the most favoured would destroy agricultural rents altogether in a country that had more land than it needed. Similarly, if we could conceive rates so adjusted as to make all building sites equally advantageous, no site would have more than mere agricultural value.

12. A tax on one site has thus the effect of a betterment on a rival site which escapes the tax. It has been observed that if two similar premises are adjacent, but the boundary between high and low rates comes between them, so that they share equally the benefits of rates to which they contribute unequally; then their rents vary inversely as the rates. Such facts have been quoted as inconsistent with the general principle that the greater part of rates are borne by the occupier, but they appear to be quite consistent with it.

13. Here may come the answer to Question XIII. Differential rates, which favour any special use of land, will raise or lower aggregate rents, according as the places which they specially favour are, or are not, those which already have special advantages for that use. If applied over the whole country, or in places chosen at random, they will slightly lower aggregate rents.

14. Similarly, the under assessment of the older and more highly-rented parts of a town, which is said still to be not very uncommon, tends to raise rents. If carried very far it might lead people to prefer small sites in the central area to large sites outside, and in the result aggregate rents might conceivably be higher than if there had been no rates at all. This, again, is akin to an old paradox, viz., that a tax of so much per acre, or any other tax which differentiated against poor soils, might conceivably raise aggregate rents.

15. The migration of tenants, in order to escape high rates, is hindered less, perhaps, than is commonly supposed by ignorance and indifference. But it is much hindered by the special requirements of each individual. Low rates in Devonshire will not draw there people who prefer London life, and manufacturers who must live in or

near a district where they can obtain the special things and services needed in their trade. The tenant is further hindered by the expense and trouble of moving; that may be the equivalent of two years' rent; and, if so, he will lose by moving unless the differential advantage which he secures in rates amounts to 2s. in the £ sustained for 30 years.

16. The mobility of the working classes is, in some respects, greater than that of the well-to-do; but, when rates are compounded, friction sometimes acts on the side of the tenant. The manufacturer is often affected as much by the rates on his workmen's dwellings as by those on his own premises; and though high rates may be among the causes which have driven some manufacturers out of large towns, it is doubtful whether a curtailment of expenditure from the rates would have much lessened this centrifugal force. For most new expenditure from the rates materially increases local comforts or lessens local discomforts from the point of view either of the manufacturer or his workpeople.

17. The case of the shopkeeper is the most urgent. His rates are large relatively to his income, and many of them are distinctly onerous from this point of view. His work belongs to that group in which economic progress is raising supply relatively to demand; a little while ago its remuneration was artificially high, at the expense of society. Now, his remuneration is falling to a lower and perhaps more equitable level, and he is slow to recognise the new conditions. His mind fastens on the injustice which he suffers when rates are suddenly raised much, and he attributes to that some of the pressure on him which is really due to deeper causes. His sense of injustice is sharpened by the fact that he does not always bargain on quite even terms with his landlord; for, to say nothing of the cost of fixtures and the general expense of moving, he might lose a great part of his custom by moving to equally good premises even a little way off.

18. But shopkeepers are constantly rising and falling, coming and going. Their minds are alert, and they take full account of the rates; and thus, after a few years, they shift the burden of onerous rates on to the owners and customers more fully than almost any other class does. Hotel and lodging-house keepers may rank here with shopkeepers.

19. To sum up: rates, the current expenditure of which gives full value to the occupier, remain with him, as they should. Other rates are borne by the occupier to a rather greater extent, and for a rather longer time, than they would be if he were allowed to deduct them from his rent as he does Income Tax, Schedule A. He, however, transfers most of them rather quickly to his immediate landlord; unless he is known to be unwilling to move, and his landlord takes advantage of that. Interim owners, as a class, have a great power of self-defence; they are in a position to check the supply of buildings, and they do it until nearly the same net return as before can be got from new building. By that time much capital expenditure from the rates, which was at first of small benefit to the tenants, bears fruit; and those rates, so far as building value goes, are put back again upon the tenants, but are not a net burden to them. Meanwhile, that part of the rates on building values which is exceptionally onerous, will have driven away population and trade and will have inflicted a small burden on those who, for personal and other reasons, must continue to live, or work, or trade or hold property there. Among these will be the ultimate owner; and that is why the occupier will not pay quite the whole of the exceptionally onerous rates, even in so far as they are assessed on building values. The ultimate owner will bear a little even of this part of the onerous rates, and he will pay the whole of all onerous rates, whether exceptional or not, which are assessed on site rents.

20. Heavy onerous rates in one place act as a betterment to rival places which escape similar rates. It is, therefore, not true that an equalisation of onerous rates would enrich site owners at the expense of occupiers. An equalisation of remunerative rates, while their expenditure was unequal, would be, generally speaking, unjustifiable.

21. A small increase in rates is apt to escape the attention of well-to-do residents, but it presses perceptibly on shopkeepers, lodging-house keepers, &c., and it influences their action; but, though thus a disproportionately great evil to them at first, an increase ceases to be any burden at all to them ere many years are past: unfortunately, they do not always recognise that this is so.

22. The incidence of a long-established rate is little affected by its being collected from the tenant, and not from the owners, but it is vitally affected by the proportions in which the rate is assessed on site and building values respectively; the main part of the former settles on the owners, and of the latter on the tenants. On the other hand, the incidence for the first few years of an increase in onerous rates is much

affected by the mode of collection. The occupier bears more of the burden than he would if part of the rates were collected from the owners, or he were allowed to deduct a part of them from his rent.

23. The removal of onerous rates yields a passing benefit to the tenant, but the greater part of the gain goes to the interim and afterwards to the ultimate owners. If these owners have acquired the property since the rate was imposed, the remission of the rate is a present to them of so much public property. As regards those rates which fall on trade premises, and especially shops, the case is still stronger. When a new rate is imposed, they bear for a time a burden out of proportion to their resources; and so, when the rate has well settled in, and they have thrown on their customers that part which cannot be shifted on to the owners and which the tenant of a dwelling-house would, therefore, continue to bear for himself, then the sudden remission of the rate enables them to retain themselves for some time a double share of public property.

24. The above remarks apply only to neighbourhoods that are making progress. Where the population is receding, and building has ceased, onerous rates tend to press upon owners. But in such places economic friction is generally strong.

VI-c. 1. My opinion as to the incidence of rates on agricultural land has already been indicated. In so far as the rates are remunerative in the immediate present they stay with the farmer, but are no net burden to him. Rural populations probably bear less onerous rates than is commonly supposed. They have gained by improved police service and the abolition of turnpikes, and they have increasing access to advantages purchased by high rates in the neighbouring towns, to which they do not contribute.

2. A considerable part of those rural rates which are really onerous is fairly uniform all over the country, and its incidence is like that of an Imperial tax on rent. A tax on that part of rent which results from the "original and indestructible powers of the soil" must settle on the owner of the soil. But the farmer "always has a lease, even when he has none," and a new tax collected from the farmer would be likely to remain for some time on him, unless there were other causes at the time tending to readjust his relations with his landlord.

3. A tax on that part of a landlord's income, which, though called rent, is really the return to capital applied to the land by him or his immediate predecessors in title, stands on a different footing. If a tax be levied on that, and not on the income derived from capital applied to other uses, then the tax discourages cultivation and tends to raise the price of produce. If the country cannot import food, the consequent rise of price may be such as nearly to recoup the farmer soon, and therefore the landlord ultimately. [If the tax had been on all agricultural produce, and the whole of that produce had been strictly necessary, then, according to a third old paradox, it would have raised the value of produce in the same ratio as it lowered produce-rents; it would, therefore, have left real rents unaltered.] As it is, such a tax would press at first on farmers in their capacity of implicit lessees, and afterwards on landlords; and it would diminish a little the employment of farmers and labourers in making improvements for the landlord. But the tax would not bear on the returns to the farmer's own capital, and it would therefore afford a slight stimulus to modes of cultivation that did not require additional landlord's capital.

4. If the onerous tax were local only, its incidence on consumers through prices would be still smaller. But local production would be checked more rapidly, and meanwhile the local farmer would be in a rather better position for transferring to the landlord that part of the tax which fell on the returns to (the quasi rent of) landlord's capital sunk in the soil.

5. Such taxes on agricultural land as have been imposed for a long time are no direct burden on present landowners, farmers, or labourers; though they may give to present owners in certain cases some indirect claim to consideration. Speaking generally, any remission of such taxes would be a present of public property to the owners, a small part being caught by the farmers on the way. Any relief as regards old rates should therefore apply only to new buildings and other fresh investments of capital. That would stimulate agricultural activity, give new employment to farmers and labourers, help to keep the profit on the land, and diminish our dependence on foreign imports of food.

6. It must be remembered that land may be for a time yielding very little net rent, that is, very little money income in excess of what is needed to remunerate landlords' capital; and yet be a valuable property. It may have possibilities as urban land, or it

may contain minerals; and, in any case, its ownership is likely to yield an income of satisfaction outside of the money rent received for it. In so far as this is the case, land is apt to be under-assessed even when rated at its full rental value. Properly, it should be assessed at a percentage on its capital value.

7. For reasons which are partly economic, partly traditional, the owner of a farm has something more of partnership with his tenant than has the urban landlord; there are traces of *métayage* even in tenures which are thoroughly "English." When seasons and markets are favourable to the farmer, he pays his full rent and avoids making demands on the landlord that might set him thinking whether the rent ought not to be raised. When things go badly, the landlord, partly from sympathy and partly as a matter of business, makes temporary remissions of rent, and bears the expense of repairs, &c., which he would otherwise have left for the farmer. There may thus be much give and take between landlord and tenant without any change of nominal rent. Such adjustments obscure the incidence of agricultural rates, as the eddies of wind rushing past a house will often carry snowflakes upwards, overbearing, but not destroying, the tendency of gravitation. The tendencies of the incidence of rates may even become wholly obscured for a time if the rating question happens to have been made a political issue. For all men are apt to believe and to prove temporarily that changes, which they are advocating, will benefit others more than themselves. (See V. 4.)

VI-d. 1. If A has a thing which has a less money value to him than it has to B, they will probably trade, unless there is a tax on the transfer. If there is, they will not trade until A's need for it, measured in money, has diminished relatively to B's by the amount of the tax. But no one can say whether this will be effected chiefly by a rise in the net price which B will give for the thing, or by a fall in the net price which A will take. On the average, however, A will be the weaker party, and the delay will throw more of the burden on him than on B.

2. The tax is bad, even when it impinges only on commodities for immediate use. But in fact it impinges chiefly upon instruments of production, and thus it is very bad. For it hinders their adjustment to the needs of the community. A heavy tax on the transfer of land and buildings assists the laws of entail in keeping property in the hands of landlords who cannot do their duty by their tenants. These taxes resemble taxes on underfed labourers; they are collected barely once, but they are paid several times.

3. Taxes on the transfer of any kind of property slightly lower its value even to a willing purchaser; for the same reason that, of two stock exchange securities on the same basis, that one will sell for the higher proportionate value which belongs to the larger issue.

VI-e. 1. Profits, in my opinion, are not an economic entity. They include some interest on capital, some earnings of ability and work, and, often, some insurance against risk. But there is no uniformity of practice in the business world, and no common agreement among economists as to how much of the earnings of work and ability shall be reckoned as profits in any particular case.

2. If this difficulty could be overcome, there would remain a more serious one, which would by itself prevent the adaptation of the old broad doctrines about taxes on profits to the more refined results of modern analysis. The elements of which profits are composed obey different laws, and they enter in different proportions (whatever definition of "profits" be taken) in different industries, in the same industry in different places, and in large and small businesses even in the same industry and in the same place. It would, for instance, be necessary to discuss on different plans the profits of a large joint stock company, where salaries of a thousand a year are not reckoned with profits; and those of a small tradesman whose profits include the earnings of much manual labour. Some taxes on profits would increase the influx into the learned professions, and tend to lower the earnings of medical men. Others would increase the pressure of candidates for apprenticeship to the bricklaying trade. All taxes on profits would tend to check the growth of capital and to increase its emigration; some of them would tend perceptibly to increase the emigration of persons and so on.

3. Generally speaking, the incidence of taxes on profits is widely and evenly diffused; they run over rapidly from one part of a trade to another and from one trade to other trades. And this is one reason why there are very few incomes from movable or personal property in England which have not helped to bear the burden of rates. The case of income derived from property abroad is different.

VI-f. 1. The old objection to taxes on inheritance that they are paid out of capital, and that the heir is apt to live up to the full income which he has inherited, seems to me to have great force still. No doubt this question, as well as the allied question whether much war expenditure may safely be defrayed by loans, has changed its position during the century with the growth of wealth and the development of international markets for capital. But the very fact that death duties seem less inequitable, and to press less hardly on any one, than other taxes of equal intensity, suggests that they may still affect savings much as our forefathers thought they did. On the whole I think no one generation should very much increase them; experience alone can show whether we have outgrown the stage in which the incidence of such taxes lies heavily on the springs of prosperity.

2. Special death duties on any one kind of property are duties on its compulsory transfer and lower its value. Such duties, if assessed on the "public" value of land, would not affect production; if assessed also on farm buildings, &c., they would be a discriminating duty against a special form of investment of capital, and would diminish production and be partly incident on the community.

VII., VIII. 1. It is with the utmost diffidence that I hazard opinions on these large questions.

2. The scope of local government has changed, is changing, and is likely to change faster than ever. Our duty at present is to experiment freely, but to move cautiously; to abstain equally from any formal recognition of existing customs which might tend to stereotype them, and from any organic alteration which might claim to govern future development. We should aim rather at handing down to the coming generation some serviceable experience, together with freedom in dealing with the problems which have just risen above the horizon, and others that have not yet risen.

3. For, indeed, it is possible that the recent changes in the general relations of "central" and "local" government will be carried much further. The government of a Swiss canton or an American State seems to belong to an intermediate class which may be called "provincial" standing between the central authority and the local authorities properly so called. It seems possible that the London and other County Councils may grow in importance and responsibility; and that the term "local" will be generally applied to minor authorities, subordinate to these provincial authorities. I therefore deprecate any attempt to delimit the functions of local government just now.

4. If much freedom is allowed to first class local authorities, some are sure to pioneer new paths, which the whole country is not yet ready to tread. They will have more initiative, more invention, more willingness to take trouble for the public good than is always found in the officials of a large central department. But other local authorities will lag behind. The chief work of the central authority should, perhaps be, on the one hand, to help the most enlightened local authorities in comparing, criticising, and profiting by the experiences of one another; and, on the other hand, to put pressure on the more backward to work up to a high level.

5. This requires some approach to uniformity in local work, partly for statistical purposes. But all power of variation, that is consistent with order and economy of administration, is an almost unmixed good. The prospects of progress are increased by the multiplicity of parallel experiments, and the inter-communion of ideas between many people, each of whom has some opportunity of testing practically the value of his own suggestions.

6. The constructive work of government, and especially of local government, is life itself in one of its highest forms. Taxation is but a means; and in a country which has rid herself, as England has now, of all taxes which are in themselves mischievous, the reform of taxation should be subordinated to the development of the constructive work of government.

7. I am opposed to the allocation of central taxes to local purposes. I prefer frank contributions from the Exchequer, given in aid of local services, and on the conditions of their being efficiently performed. Of course, they should not be given in aid of remunerative rates; but onerous rates are generally devoted to purposes of national as well as local importance, e.g., poor relief, asylums, police, education. When the appropriate department at Westminster had satisfied itself that local authorities were performing any of these duties with vigour and intelligence, it should abstain from interference except for urgent cause. But when they are laggard, or behind the general progress of the country, the department should threaten the withdrawal

or diminution of the grant, should specify the faults which had to be removed, and should revert temporarily to methods of detailed supervision.

8. Each first class local authority should have considerable freedom of experiment as to methods of raising revenue. It should, however, be prohibited from taxing persons on account of property which they own, or income which they earn, outside of its area. And since new taxes, and especially new local taxes are apt to be much more vexatious, burdensome, and unjust than the same taxes would be if they had time to diffuse themselves and settle, every proposed change in the scheme of taxation should be submitted to the central government. Great and sudden changes should be discouraged, and especially such as might press with exceptional weight on any one class.

9. The central government should remain the guardian of the ratepayer of the future against debts incurred for extravagant expenditure in the present; especially because the growth of migratory habits among the people increases the chance that those who have voted for new ventures, partly because they will give additional employment to labour, will not stay in the locality to bear their share of the rates involved. It should prohibit wasteful tolls, octroi duties, &c. : but it should recognise as *prima facie* reasonable a claim of a local authority to assess outlying districts to special rates, the expenditure of which will benefit those districts; and it should adjudicate on such claims: or perhaps it should set up gradually more and more powerful and extensive provincial authorities for dealing with them.

10. As regards the supply of water, local interests cannot be isolated. The chief sources of water supply should therefore be declared national property; and, after compensation to private owners, they should be leased, subject to conditions, to local authorities.

11. The same is true of fresh air. The central government should see to it that towns and industrial districts do not continue to increase without ample provision for that fresh air and wholesome play which are required to maintain the vigour of the people and their place among nations; this is, perhaps, the most important public financial responsibility which has not yet been faced. We need not only to widen our streets and increase the playgrounds in the midst of our towns. We need also to prevent one town from growing into another, or into a neighbouring village; we need to keep intermediate stretches of country in dairy farms, &c., as well as public pleasure grounds.

IX., X., XI., XIV., XV. 1. I have even greater diffidence in offering suggestions as to the practical results to which these principles point, than in submitting the principles themselves. My knowledge and experience in these matters are small; and I have not even been able to consider the particular questions proposed by the Commission with the care they require. But by answering them as best I can, I may, perhaps, clear up ambiguities in my earlier answers.

2. As regards rural land, the change most needed in the interest of the community is to diminish the burden of those rates which press differentially against the application of capital to agriculture (*see VI.c. 5.*). Some wish that this should be effected chiefly by a large subvention, in some form or other, from the Imperial Exchequer, laying stress on the repeal of the corn laws and the recent increase in the death duties on land.

3. Others regard these as the withdrawal of special privileges rather than the imposition of special burdens; they dwell on the facts that the English law knows nothing of "landowners," and that "landholding" has never been divorced from special obligations to the poor, with the consent of those immediately concerned, and the approval of economists generally. Resting on these broad facts, more than on details in the history of the Poor Law and the Land Tax, they wish the burden of the rates to be transferred from man's action in improving and developing the land to his privileges in holding for private use a part of Nature's free gifts: they do not wish much of it transferred to the public exchequer, where it would be borne, in a more or less disguised form, chiefly by industry.

4. I do not wish to urge either of these views, though I incline to the latter. But I assume (*see VII., VIII., 7*) that there be contributions from the national exchequer towards the Poor Rate and some other rates, which may be large or small; I myself wish them to be rather small. And I propose that a preliminary rate for the purpose of poor relief be made of the public value of agricultural land, that is, of its value as it stands after deducting for any buildings on it, and any distinct improvements made in it at private expense during, say, the preceding twenty years. This rate might

be large or small. I should prefer it to be considerable, say a penny in the pound on the capital value of the land, *per se*. I regard this as practically public income reserved to the State rather than as a tax.

5. As regards land which has a special site value, of which the test might generally be that its capital value is more than (say) 300*l.* per acre, my opinions are more decided. I think that its site value should be assessed to a rather heavier preliminary poor rate than I have suggested for rural land; and in addition to a "fresh air rate" to be spent by local authority under full central control for the purposes indicated above (VII., VIII., 11). This fresh air rate would not be really a heavy burden on owners, most of it would be returned to them in the form of higher values for those building sites which remained. There may be great difficulty in allocating the betterments due to any particular improvement. But, as it is, the expenditure of such private societies as the Metropolitan Public Gardens Association, and much of the rates raised on building values for public improvements, is really a free gift of wealth to owners who are already fortunate.

6. For rural and urban districts alike, after allowing for this preliminary poor rate and the contributions from the Imperial Exchequer towards those local services which are of national concern, the remainder of the necessary funds should be obtained by rates on immovable property, supplemented by some minor local taxes at the discretion of the local authorities. These main rates should be graduated somewhat after the fashion of the Inhabited House Duty, which should be suppressed; but the graduation should proceed gently at first, and should not cease at 60*l.*, as that for the Inhabited House Duty does. Those who live in expensive houses are just those who now pay less than their fair share to the general expenses of the country; and very high rates on their houses would not inflict on them a heavier burden than would be inflicted by any other methods that have been proposed for extracting from them their fair share. [The standard unit of rating might be at houses rented at 40*l.* for urban districts, and 30*l.* for rural. Suppose the rates on those houses in any place were at 4*s.*; then 4*s.* should be the rate for all trade premises of not less than 40*l.* in urban, or 30*l.* in rural districts. There should be lower rates for less valuable houses and trade premises, and the only higher rates should be those levied on larger houses. For them the rate might rise gradually from the standard rate of 4*s.* to, say, 8*s.* for 200*l.* houses, and 10*s.* for the largest houses. Special regulations would be needed for expensive lodgings and hotels. Such parks and grounds attached to large houses as were open to the public under reasonable conditions might be wholly or partially exempted from rates.]

7. The tenant of a farm or any other premises should be at liberty to deduct a portion of the rates from his rent in the same way as he deducts Income Tax, Schedule A. Perhaps this portion should be a half in every case, except that of large houses (see VIa. 5). The tenant of a large house should deduct only what would be half his rates, if he were rated at the standard level. [That is, where 4*s.* was the standard rate; if a 90*l.* house were rated at 6*s.*, the tenant should deduct 9*l.*, not 13*l.* 10*s.*] The immediate landlord should deduct in proportion from his payments to the superior holder next to him, and so on.

8. The plan of dividing the rates between tenant and owner is simple, and is supported by very high authority. It would diminish the injustice which a sudden increase of rates inflicts on farmers, shopkeepers, and other traders: and the modification now proposed would further diminish that injustice. It is true that this division of the rates is to some extent illusory when a rate has been long unchanged. For then nearly the whole of that part which is assessed on public or site value of land will be borne by owners; and nearly all the remainder of it will be borne by tenants or their customers; and this result will not be materially affected by a law allowing the tenant to deduct a half or even the whole of his rates from his rent. I propose to attain equity so far as old rates are concerned, not by this division, but by the special assessment of public or site values.

The alternative plan of allowing the tenant to deduct all the rates assessed on land values, and only (say) a third or a quarter of those assessed on the remaining value of the premises, would have some advantages; but would be more strange.

9. Taxes on immovable property have their faults; but so have all taxes. And theirs are perhaps less than those of any, except the alcohol taxes, the death duties, and the income tax. And these are, perhaps, pressed as far as they ought to be pressed in time of peace. They are all essentially war taxes. On the whole, therefore, I think that the taxes on immovable property ought not to be diminished, and that if the local taxes on it were diminished, Imperial taxes on it ought to be increased. I am,

therefore, not anxious to suggest substitutes. I think it better to try to remove such evils as there are in local rating, to aid by contributions from the Exchequer, and perhaps to make a little more room for rates by withdrawing the Inhabited House Duty, or to use that duty as a fund for the assistance of specially poor districts.

10. But I see no objection to local authorities having the whole responsibility, subject only to general control from Westminster, of the beer and spirit licenses and some others; nor to their defraying the expenses of the roads by taxes on all vehicles and horses, with partial exemption for those belonging to farms. Local taxes on servants and on carriages and pleasure horses would be often of least use where they are most wanted; and perhaps the same may be said of taxes on advertisements, &c.

11. With the great increase in the facilities of locomotion which electricity seems to promise in the next few years, the geographical separation of rich and poor may become even more marked; it may become even more true than now that local rates are sometimes least productive where they are most wanted. Possibly we should look for a remedy, not so much to increased aid and control from the Imperial Government, as to the development of three orders of government—Imperial, Provincial, and Local in the narrower sense; each provincial government having large responsibilities and powers over an area wide enough to include rich and poor in fair proportions.

ALFRED MARSHALL.

Answers by Professor Edgeworth.

1. A classification may be incorrect in two ways. It may violate the rules of formal or those of material logic. For instance, suppose taxes divided into indirect, and those which are on commodities; or taxpayers divided into those who are at least six foot high, and those who are under six foot. The first classification is incorrect because the classes formed are not mutually exclusive: the second classification is incorrect because it subserves no purpose of art or science.

The proposed classification, properly interpreted, is not incorrect in either sense. If the terms "incidental to . . . property" and "in respect of commodities" are defined so as not to overlap, then the classification may subserve the purpose of enabling the various items of the national Budget to be held together in thought.

The classification might be considered incorrect, if it was designed to indicate the incidence of taxation. For, certainly, it does not fulfil that purpose, as appears from the cross-questioning to which the author of the classification was subjected by Sir Robert Giffen.* But the classification was not designed to fulfil this purpose, as appears from the answers given on the occasion referred to.†

I cannot suggest, I do not recommend, any alteration of the proposed classification. The object of such an emendation would be, apparently, to render the classification a better exponent of the real incidence. But it may be doubted whether a classification which fulfils the first purpose—to afford a comprehensive view of the receipts of the Exchequer—admits of being amended so as to fulfil the second purpose—to indicate the real incidence of taxation. It must be recognised that the points of primary percussión and final incidence are not coincident. There is the sort of difference which exists between an ordinary map divided into provinces and counties, and a map of which the divisions are designed to exhibit the variety of geological formations. There is, doubtless, a certain correspondence between the two charts, and it is not only in Greece that mountains are associated with boundaries. But query if it would be worth while to alter familiar demarcations—subtracting a district from one county, and adding it to another—in order to construct a sort of mongrel map, which should subserve at once the purposes of ordinary geography and scientific geology.

2. The questions may be understood to mean: (1) Do the items enumerated in the proposed Table together make up the total taxation raised by Parliament? (2) Is each item placed in the compartment to which it properly belongs?

(1.) To the first question there can be only one answer. The only qualification to the obvious affirmative is the caution that the amount raised by taxation is not an accurate measure of the real burden. As Mill says of a tax on newspapers, it is

* Agricultural Commission, Q. 63,235, and context.

† *Ibid.*, Q. 63,253; 63,266.

“objectionable, not so much where it does fall, as where it does not.” The principle has been generalised by Professor Marshall in his theory of “consumers’ rent.” For example, if the duties on some consumable articles were raised, the burden of taxation would certainly be increased, but the ordinary pecuniary measure of that burden might quite possibly be reduced.

(2.) The arrangement of the items appears to me correct enough. I should add that it might have been widely different, without appearing to me incorrect. For the term “incidental to” signifying simply “with respect to”—and divorced, as I contend that it should be, from its association with *incidence*—is so vague and elastic that the compartments which it defines may be made to include more or less, at pleasure. Thus several of the items under Head 4, *e.g.*, bills of exchange and promissory notes, might as well have been, where Sir Alfred Milner was at first disposed to place them,* in the category of taxes not incidental to property, as where they are now. Distinctions which turn upon such differences seem hardly worth contending for.

3. What is the best definition of a tax is an interminable inquiry. There is a whole literature on the subject on the Continent. It may be true, as a French writer has observed, that all this dialectic never brought an additional franc into the Treasury. Yet the discussion exercises speculative faculties which are demanded by some problems in taxation. It will not be expected, however, that this academic exercise should be performed here.

For the present purpose we may accept Professor Bastable’s definition of a tax, and understand with him that “when ordinary profit is exceeded, the monopoly possessed “by the [public] office is employed for taxation.”† Or, in Professor Sidgwick’s words, “Government avoids interfering with distribution”—whether in the way of tax or bounty—“if it sells the commodity at the price at which it would be sold if “provided by private industry.”‡ But “we can only conjecture roughly” what that price would have been.§ We do not know to what extent the service would be monopolised in the absence of Governmental interference. The calculation is further complicated by the possibility that, whether in a *régime* of perfect competition, or more or less imperfect monopoly, there might be different prices, varying with the cost of service in different localities. It has further to be considered that the burden imposed on the public by the Government monopoly of the post is not to be measured simply by the rise in price which it may occasion. Professor Marshall, in a letter to “The Times,” of April 6th, 1891, estimated the loss to the public in the way of “consumers’ rent,” consequent on the prohibition of private enterprise in postal services, as amounting to some four and a half million pounds sterling annually. It seems to follow that the “net revenue of the Post Office” is a very inaccurate measure of the fiscal burden imposed by the Government monopoly.

4. The equity of any particular tax must be judged by reference to the system of which it forms part. That the same tax may or may not be inequitable, according as the payer is or is not otherwise burdened, is an acknowledged principle.|| We may go on then to consider the equity of a system of taxation. The following is a summary of views expressed fully in the “Economic Journal” for December 1897.¶

In considering the equity of any political system, the test which should be applied is the greatest happiness principle.** From this principle it follows that *ceteris paribus* the sum of privation or sacrifice caused by taxation should be a *minimum*. Therefore, if a certain amount of taxation has to be raised (for purposes of which the benefit cannot be allocated to particular persons), the *prima facie* best distribution is that the whole amount should be paid by the wealthiest citizens. The incomes above a certain level should all be reduced to that level; the incomes below that level should be untaxed, the level being determined by the amount which it is required to raise.††

This levelling principle requires to be corrected by several prudential considerations.‡‡ There is the danger of driving the rich, or at least their riches, from the country, and checking accumulation; there is the danger of awakening the predatory instinct of the poor, and precipitating revolution. When tempered by ordinary prudence, the

* Memorandum, p. 64.

† “Public Finance,” Book II., Ch. I., sec. 4.

‡ “Political Economy,” Book III., Ch. VIII.

§ Note to 1st Ed., *loc. cit.*

|| See Fawcett, “Manual of Political Economy,” Book IV. Ch. I. Bastable, “Public Finance,” 2nd Ed., p. 300 and p. 555, note 1. Seligman, “Progressive Taxation” (on the principle of *compensation*).

¶ “Pure Theory of Taxation,” No. III., Economic Journal, Vol. VII. (1897).

** *Loc. cit.*, p. 550.

†† *Loc. cit.*, p. 553.

‡‡ *Loc. cit.*, pp. 554-6.

suggested rules of equity deduced from the principle of *least* sacrifice are not, in practice, very different from the received rules which are deduced from the principle of *equal* sacrifice. But there is an important theoretical difference between the two first principles.

I maintain that the principle of equal sacrifice derives its acceptance from its similarity in conception and dictates to the principle of least sacrifice: that the former has no authority independent of the latter. J. S. Mill, the leading authority on the subject, confuses the two principles. In the same breath he enounces the principle of equal sacrifice and identifies it with that of least sacrifice. "Whatever sacrifices it [Government] requires of them [persons or classes] should be made to bear as nearly as possible with the same pressure upon all, which, it must be observed, is the mode by which least sacrifice is occasioned on the whole."* The association in Mill's thought between *equal* sacrifice and equality—an inference from *least* sacrifice is apparent in his method of advocating the limitation of inheritances,† and in the juxtaposition noted by Professor Sidgwick,‡ between the first clause above quoted and the dictum in the same section that "the true idea of distributive justice consists . . . in redressing the inequalities . . . of nature."

Many distinguished foreign authorities also seem to hover between the two principles, having "equal sacrifice" on their lips, but using arguments which are germane to "least sacrifice."

The principle of equal sacrifice has sometimes been clearly distinguished from that of utilitarianism pure and simple, and preferred to it as being free from the dangers which, as above admitted, attend the working of the latter principle. But in order to deduce any rule of distribution from the principle of equal sacrifice, there is needed some assumption as to the degree of slowness with which utility tends to increase with the increase of means. Upon a very probable assumption as to that slowness, the principle of equal sacrifice would lead to a progressive taxation almost as drastic as that which has been above described. This is admitted by Professor Sidgwick when he says, "If equalisation of burden were the sole consideration, the equity of a graduated rate of taxation, rapidly increasing as incomes rise, could hardly be denied."§

It should seem therefore that, as a working principle, equal sacrifice has no great advantage over least sacrifice.

For further defence and qualification of the views propounded the reader is referred to the article already cited. The main result of that investigation is somewhat to weaken the prepossession in favour of taxation proportional to incomes (above a certain minimum), and somewhat to strengthen the arguments in favour of progressive taxation. It may be added that there does not seem to be much weight in the common objection to progressive taxation: that if the proportion payable continually increases, it must ultimately reach 100 per cent., or at least a ratio such that the taxpayer would have no interest in increasing his income. For, first, the point at which these consummations would be attained may well be far above the highest existing incomes, as happens in the case of some progressive systems in Switzerland. And secondly, the dictates of the least sacrifice principle might be approximately satisfied by a law of progression which ultimately, for high incomes, converged to a simply proportional rate of taxation. If the ultimate ratio was very high, the initial ratio might be very low.

5. I have elsewhere|| suggested four distinctions which may be of assistance in determining the real incidence of taxation.

There is first the distinction between a *régime* of monopoly and one of competition. The laws of incidence are not the same for these two cases. Thus it is rightly argued that rates in respect of railways and canals fall upon the shareholders who own the property, while rates in respect of mines and quarries fall upon the consumers of the products¶; it being understood that monopoly prevails in the former case, competition in the latter. A less familiar inference is that, even if a canal or quarry is monopolised, a rate would not fall entirely upon the monopolist, but partly on the consumer; supposing, as is usual, I believe, that the rate is proportioned to the output.**

* "Political Economy," Book V. Ch. II, sec. 2.

† "Economic Journal," *loc cit.*, p. 565.

‡ "Political Economy," Book III, Ch. VIII., par. 7, 1st. Ed.

§ "Politics," p. 182. Cp. "Political Economy," Book III., Ch. VIII., par. 7, sub.

|| "Economic Journal," Vol. VII. (1897) p. 46.

¶ See Memorandum by Sir Edward Hamilton, p. 47.

** See Marshall, "Principles of Economics," p. 462, and "Economic Journal," Vol. VII., p. 227.

The second distinction is between products which obey the law of "diminishing returns" and those which do not. This distinction is relevant to the weight rather than the point of incidence. The burden of a tax on products obeying the law of "increasing returns" is apt to be greater. It may be observed that the articles with which the commission is specially concerned, lands and houses,* seem mostly to belong to the category of diminishing returns.

The third distinction is between cases where there exists mobility between different industries and cases where this mobility does not exist. One important case of immobility is that of capital fixed during a "short period"† as distinguished from "the long run." Thus there is an essential difference between the incidence of a new house rate, according as it affects the owner of a house already built, or as it enters into the calculation of an intending builder.

The fourth distinction is between a tax which varies with the amount of article (including money) produced or dealt in, and one which is irrespective of that amount. A specific and an *ad valorem* tax belong to the former category; to the latter, a poll tax and a payment for a licence. Consider, for example, different modes which might be imagined of taxing the production of barley—I say barley, not corn, to avoid the complication attending the taxation of labourers' necessities.‡ Mobility between the farming and other industries being supposed, a tax proportioned to the amount of output falls upon the consumer; since before, as after, the impost the "final" increment of product must just repay the producer.§ By a parity of reasoning a tax under the form of a licence to grow barley will presumably fall on the landlord; supposing that he has no mobility and must either let his land for the cultivation of barley or not at all. It must be supposed also that he can bear it, that his rent, *minus* the licence, is a positive quantity. Theoretically it would seem that, in general and when the demand for the commodity is not perfectly inelastic, the consumer would, in the long run, only be affected when the licence exceeds the rent. Nor even then is the operation of the licence quite so simple as it is sometimes taken for granted in the books.|| More practical exemplifications of these theories will be given in subsequent answers.

6. In the answers which follow relating to imposts on houses I shall suppose, when the contrary is not expressed, that the so-called "London leasehold system"¶ prevails. Statements made with special reference to that system can easily be adapted to other circumstances.

(a.) To determine the incidence of the Inhabited House Duty is a problem so complicated that it is expedient to break it up by first considering an ideally simplified case, then introducing one by one the concrete complications.

(1.) First let us suppose the inhabitants of a town to deal with the owners of houses already built, abstracting the competitive influence exercised by new houses and other towns. For periods and circumstances which permit this supposition a tax such as the Inhabited House Duty will, theoretically, fall entirely on the owners on the expiry of each occupant's lease (that is, on an average, in less than three-and-a-half years after the imposition of the tax, supposing that the term of the occupation-lease is sometimes seven years and sometimes three). For, the supply of houses being perfectly inelastic, the owners have no choice but to throw these their wares upon the market without a reserve price; they must accept that price which just carries off the supply. Since the imposition of the duty does not increase the demand of the occupants, the payment per house which they can be got to make will not be increased. The payment now made by the occupant, consisting of rent *plus* tax, will be the

* As to lands, see Mill's "Political Economy" *passim*; as to houses, Marshall's "Principles of Economics," *sub voce* "Margin of building."

† Professor Marshall's useful phrase.

‡ In this hypothetical analogy the effect of foreign trade on price may be left out of sight as an incident not relevant to the building industry.

§ In the case of agricultural produce, as Mill points out (Book V. Ch. IV. sec. 3, par. 1), if the tax diminishes consumption, "it to that extent contributes to throw back agriculture upon more fertile lands or less costly processes and to lower the value and price of corn; which therefore ultimately settles at a price increased not by the whole amount of the tax, but by only a part of its amount." There is, theoretically, an analogous diminution of the expenses, with the rise of the "margin," of building (the law of diminishing returns prevailing); but it may be doubted whether this effect is considerable.

|| See "Economic Journal," Vol. VII. p. 59.

¶ There is a good description of the system in the final report (1892) of the Select Committee on Town Holdings, p. vi.

same as the payment made before by him, consisting of rent alone. The payment received by the owner will be less than before by the full extent of the tax.*

(2.) Now, let us take into account the circumstance that houses are not eternal. First, let us suppose the town, or other circumscribed region, to be renewed without being enlarged, new houses from time to time being built on old sites, but not on new sites. If the average duration of a house is 50 or 100, or generally n years, then an n^{th} part of the total number of houses in the town will be yearly produced, and offered for occupation by building *entrepreneurs*. These *entrepreneurs*, being free to apply their capital otherwise than in building, will require as good profits in that industry as in any other not subject to a special tax. Whence it follows, by familiar reasoning, that the duty, being an *ad valorem* tax on the price paid for a consumable article, falls entirely on the consumer—the occupant. The occupants of new houses then pay the entire duty. But it is not theoretically possible that, in the same market, similar articles should be obtained for different prices: old houses for the same rent as before the imposition of the tax, new houses for that rent *plus* the tax. If, as a first approximation, we ignore the difference in the demand for new and for old houses, the pressure exercised by the builders of new houses will, in the course of less than seven years, result in imposing the tax† on the occupants of the old as well as the new houses.

(3.) A similar conclusion is obtained when we take into account the circumstance that where the population is increasing new houses will be required on new sites as well as old ones; still assuming that new and old houses are exactly similar articles. But, of course, this is a very inexact assumption. New and old houses are not interchangeable like sovereigns of different dates; urban and suburban residences are not identical articles, but more or less perfect *substitutes* for each other.

(4.) Account being taken of this relation between new and old houses, we shall find that the effect exercised by the new buildings upon the house-market is similar in kind, but not in general equal in quantity, to that which was described under heading (2). In the limiting case, when the rivalry between the new and old houses is null, the whole tax falls on the owner, as in case (1). In general it may be supposed that the case lies between (1) and (2); that the occupier of an old house pays a part, but not the whole, of the tax. But this natural supposition is not quite correct. The extra payment imposed on the occupants of old houses in consequence of the tax is not limited to the extent of the tax. Zero is, indeed, an inferior limit, but there is no definite superior limit. The imposition of the tax may so disturb the delicate balance of demand for the rival articles, central and suburban—or, more generally, old and new—houses, that in the new equilibrium the occupants of old houses pay a rent increased by more than the tax, the owners of old houses positively gain by the tax.‡ This *curiosum* in the theory of value seems only to be of importance as it tends to confirm the conclusion that the occupier will bear a considerable portion of the tax.§

(5.) There is next to be introduced the competition between different towns. Residences in different places constituting rival commodities, we may see, by an extension of the analysis above employed, that a uniform tax may so disturb the balance of complex demand as to cause a certain rush of inhabitants to one town from another. The owners of houses already built may gain more rent by the increase of demand consequent on such disturbance than they lose through that more immediate action of the tax which was indicated under the preceding head. Conversely, they may

* The matter is put more technically in my study on the Pure Theory of Taxation ("Economic Journal," Vol. VII., p. 50).

† The whole tax, if we admit what may be called the classical assumption that the expenses of building are not sensibly altered by the diminution of demand for houses which may be caused by the rise of the price paid by the consumer—the occupier. (See the penultimate note to Q. 5.)

‡ "Economic Journal," *loc. cit.*, p. 63, note.

§ The eminent Mr. N. G. Pierson, of Holland, in his noteworthy discussion of this subject (in the second edition of his *Leerboek der Staathuishoudkunde, eerste deel*, p. 166, *et seq.*) has come to a different conclusion, namely, that the occupier of a house with a high ground rent, as in a central region, will, at most, pay only as much tax as what is paid by the occupier of an exactly similar house with [little or] no ground rent, as in a suburban periphery. Mr. Pierson deduces this conclusion from the assumption that the difference between the rents of the two houses may be expected to be the same after and before the imposition of the tax (or, at least, not greater after than before). This assumption would be appropriate if two similar houses dissimilarly situated [*"twee huizen van ongelijke ligging en alleen daarom in huurwaarde verschillend," loc. cit.*, p. 178; *"twee gelijksortige perceelen," p. 171*] could be regarded as two units of the same commodity, analogous to two quarters of barley grown on a highly rented site and at the margin of cultivation respectively. But I submit that the two houses ought rather to be regarded as *different quantities of commodity*, analogous to the quantities of barley produced by the outlay of the same capital at the margin and on a highly rented site. There is no "anomaly" (*loc. cit.*, p. 179) in the supposition that the difference between the prices paid for those two quantities of produce should be increased by a tax. It is the received theory, as stated, *e.g.*, by Mill (Book V., Ch. IV., sec. 3, pars. 2, 3, 4).

lose rent through the competitive action referred to under the present head. As regards the distribution of the burden between owner and occupier, the competition between towns does not tend, on the whole, to alter the proportions.

(G.) Lastly, account is to be taken of "friction." With respect to the distribution of the burden between owner and occupier, friction acts in two opposite ways. It obstructs that transference of the tax from the occupier to the owner which was indicated under head (1), and that transference from the owner to the occupier which was indicated under heads (2), (3), and (4).

In the first case, the process by which the burden tends to be shifted from the occupiers to the owners is as follows.—If, before the imposition of the rate, each occupier had as much house accommodation as he wanted at the old price (the rent of occupation), thereafter he will have more house accommodation than he demands at the new price (the rent *plus* the rate). Accordingly, he will seek to disembarass himself of this superfluous housing by moving, or threatening to move, to less extensive premises. But this action is much clogged by friction. The gain in utility (or "consumers' rent") which is effected by taking just as much as he wants at the new price may well be overbalanced by the expense and trouble of moving.

Case (2), at first sight, does not seem to admit of as much friction. As the owner of a new house will not pay the rate, the occupier must undertake to pay it; but he will not do so while equally good old houses are obtainable at the same rent and less rates. As Mr. Cannan says: "Who will stand up and confess that he took 76 — Street at 100*l.* a year, and subject to 20*l.* of rates, when an exactly similar house "next door was to let at 100*l.* a year, and only 12*l.* of rates?"* However, in the case before us, it may well be that the paucity of new houses is a circumstance favourable to friction. That *n*th† part of the town or region which is yearly renewed may not be sufficient, so to speak, to leaven the whole region with the effect of the tax. It is, perhaps, significant of the preponderance of friction—the impotence of what may be called the normal forces—in this case, that Mr. Pierson, in his discussion of a rate on houses in a circumscribed region, such as *The City* in London,‡ considered as unaffected by the competition of extra-urban houses, has taken no account of the competitive influence exercised by *new houses within the region*. The action of friction in favour of the occupier in case (2) may be enhanced by the characteristic of case (4), the imperfect capacity of new houses to act as substitute for old ones.

Case (3) is affected less by the circumstance of paucity, and more by the circumstance of imperfect substitution.

The principal forces, normal and frictional, which are at work have now been analysed. But I have not sufficiently accurate knowledge of the facts to determine in concrete cases the resultant of all the forces. Doubtless, in virtue of friction, it may be expected that more or less of the tax will stick where it hits. But whether this expectation is greater when the tax is imposed on the occupier than when it is imposed on the owner, I am unable to say.

So far as to the incidence of the Inhabited House Duty on occupiers and owners. There is still to be considered its incidence on the ground landlord. This action is, of course, very slow, making itself felt immediately with respect only to the small proportion of sites for which new leases are being created at any time, with respect to the average of sites not until after many years—perhaps 40 or 50.§

Theoretically, a house being regarded as a sort of product grown upon the land,|| a house tax paid by the occupier tends to diminish the ground rent through the diminution of the demand on the part of building *entrepreneurs* for sites. The limiting case is when the demand for houses is quite inelastic. Then the same amount of house accommodation is demanded before as after the imposition of the tax. The occupier pays the same rent as before *plus* the duty; the builder obtains the same profits; the ground landlord the same rent. In general, the imposition of the tax causes a diminution of demand for house accommodation; intending builders divert their enterprise to other investments; the ground landlord suffers through slackened demand for sites. But what the Exchequer loses through the diminished use of houses is not, in general, equal to what the ground landlords lose through the diminution of demand for sites.¶ Nor would the equality be of any fiscal significance, since what is

* History of Local Taxation, p. 135.

† Above, p. 130.

‡ *Loc. cit.*, p. 178.

§ Supposing the average term of a building lease to be 80 or 100 years.

|| See answer to Question 5, last paragraph. Compare Mr. Goschen ("Local Taxation," p. 164):—"The inhabitant of the house is, in reality, the consumer of the commodity produced by the builder."

¶ Compare the formulæ given by the present writer in the Article No. 1 on the Pure Theory of Monopoly in the "Giornale degli Economisti" for 1897.

lost by the ground landlords is not gained by the Exchequer. Indeed, the question has been raised whether an effect of this sort—detrimental to a certain class, without any corresponding benefit to the Exchequer—can properly be described as the *incidence* of a tax.*

(b)—(1.) The principal difference, with respect to incidence, between the Inhabited House Duty and house rates is that the former is uniform, the latter may vary† from place to place. So far as such variation does not occur, the preceding analysis holds good of house rates. Where one locality is more heavily rated than another, the excess of rates may or may not correspond to extra advantages offered to occupants. For instance, a municipality may give more service in the way of lighting and cleansing than others in return for an equivalently heavy rate, or it may give the same service, *e.g.*, in the way of drainage, at a heavier rate corresponding to disadvantages of situation.‡

To begin with the second case, the differential rates will tend to divert demand from the locality, with the following results to occupiers and superior interests. The occupiers who are not driven away suffer the aggravation of rates; the occupiers who are driven away suffer a loss of *utility* (or “consumer’s rent”). The owners during the remainder of their terms, and the ground landlords ultimately, suffer a loss of rent consequent on the slackened demand for houses in the locality.

These results are counteracted when the extra rates correspond to extra benefit. If that benefit is immediate, none of the parties need suffer. Demand is not slackened; rents do not fall. If the benefit is a future result of present outlay, both occupiers and owners will suffer temporarily in the ways above described. It is not true of differential rates that the occupier bears all the cost of improvements by which the owner is ultimately benefited.

(2.) As pointed out by numerous authorities,§ a rate on trade premises falls partly on the customer, partly on the trader, partly on the owner, in proportions difficult to determine: *ceteris paribus*, more upon the customer the greater his preference for dealing in the particular locality; on the trader the greater the loss incurred by him in moving to another place (or business); on the owner the longer his term. The only remark not quite familiar which occurs to me is that the owner of old premises is not quite so defenceless as might be supposed, since he benefits by the competitive action which is propagated from new premises in the manner indicated under head (a) 2.

(c.) According to Ricardo, “a tax on rent” [in the proper sense of the term] . . . “would fall wholly on landlords.” But “a tax on rent, as rent is constituted” [*i.e.*, true rent *plus* “quasi-rent,” as we might now say] . . . “would be a tax on the “profits of the landlord.” “The capital expended on these buildings, &c. [‘the “buildings and the improvements which are made by the landlord’s stock”] “must “afford the usual profit of stock; but it would cease to afford this profit on the “land last cultivated, if the expenses of these buildings, etc. did not fall on the tenant, “and if they did, the tenant would then cease to make his usual profits of stock, “unless he could charge them on the consumer.”

This general theory must be applied with caution to the present circumstances. It may be doubted whether English landlords expect their outlay on their estates to afford “the usual profit of stock”; the supply of such expenditure follows a special law, not that of the general investment-market. Moreover, with respect to produce for which there is a world market, such as wheat, the effect of agricultural rating in one country upon the price must be insensible. From the first incident it is deducible, I think, that the landlord will bear some part of the tax on the quasi-rent; from the second incident, that he will bear the greater part. On the other hand, as Mr. Blunden has ingeniously observed,|| the farmer will not be able to shift on to the landlord any burden which is common to other industries, in particular that part of the rate which falls on his dwelling-house, say 5 per cent. of the total agricultural rate. Altogether, theory leads to the conclusion that the greater part of an agricultural rate falls on the landlord.

* A dictum carrying the combined weight of Ricardo’s and Adam Smith’s authority can be quoted on the affirmative side of this verbal question. “The payment of this tax, then, would ultimately fall on the occupier and ground landlord, but ‘in what proportion this final payment would be divided between ‘them,’ says Adam Smith, ‘it is not, perhaps, very easy to ascertain.’”—Ricardo, “Political Economy,” Ch. XIV. (Taxes on Houses).

† Dudley Baxter has pointed out this difference very clearly.—“Taxation of the United Kingdom,” p. 65.

‡ Compare Mr. Cannan’s valuable analysis of the causes of inequality in local rates.—“Economic Journal,” Vol. V., p. 31.

§ *E.g.*, Professor Sidgwick, “Political Economy,” 2nd Ed., p. 575, note; Professor Bastable, “Public Finance,” 2nd Ed., p. 421; Mr. Blunden, “Local Taxation,” p. 55.

|| Local Taxation, p. 41.

These theoretical tendencies are masked by friction, the action of which seems to vary with the conditions of supply and demand. Under the conditions which prevailed when Mr. Goschen wrote his classical report on local taxation, it may have been true that a farmer could not insist on his landlord's reducing the rent in consequence of the imposition of a rate. Dudley Baxter may have been right when he wrote: "On all the evidence that I can collect, I have little doubt that, although in theory the rates are paid by the landlord, yet in practice and on the average of tenancies, a portion of the rates does fall upon the tenant."* This portion was estimated by him as one-fourth. But under the present conditions, the "pull of the market" being against the landlord, "friction" seems to favour the tenant. I know of a case in which a set of agricultural tenants, threatened with a school board rate, declined to trouble themselves about the matter, averring their confidence that the whole rate would virtually have to be borne by the landlord. I know of many cases in which the tithe rentcharge was transferred from the tenant to the landlord, according to the Act of 1891, without any concomitant increase of the rent. Friction, as well as theory, seems now to make against the landlord.

(d.) Taxes on the transfer of property fall indifferently on both parties, now on the buyer more, now on the seller.† Adam Smith's *dictum* that "taxes upon the sale of land fall altogether upon the seller," for that "the seller is almost always under the necessity of selling," cannot be predicted generally of the sale of land including hereditaments.‡ But it is true wherever the proprietor has no use for the property except to sell it. One important application of this theorem is that a tax on the sale of urban sites, like a tax on ground rent, falls altogether on the ground landlord.

(e.) As to the incidence of a tax on trade profits, I have only one remark to add to the received theories on the subject. The difficulties which I have elsewhere raised§ as to the mode in which a tax on the profits of a particular trade is compensated by a rise in price seem to strengthen the probability of the tax acting as a preventive to improvements of production which would otherwise have been adopted.||

(f.) Adam Smith's *dictum* that taxes on inheritance "fall finally as well as immediately on the persons to whom the property is transferred" is substantially incontrovertible. But there is much to be said for the view¶ that in propriety of speech such taxes fall immediately on the persons *from* whom the property is transferred. It is they who have the power of evading the tax (by donation to the living); it is they who bear the burden of that evasion when they forego the luxury of bequest. Nor is Adam Smith's "finally" to be interpreted so strictly, but that this tax, like all taxes, will have diffused effects upon accumulation and production.**

7 & 8. *Primâ facie* some purposes may be distinguished as purposes for which taxation should be raised locally, namely, those of which the benefit accrues to the inhabitants of the locality exclusively; for instance, amenities which conduce to pleasure rather than efficiency. Conversely the taxation should be raised by the central Government for certain other purposes, such as national defence. But there is a large intermediate class where the benefit cannot be altogether allocated either to the part or the whole, *e.g.*, local police and education.

The criterion thus afforded by the proportion in which the benefit is divided between the locality and the nation does not suffice to determine the proportions in which the expenditure should be borne. Where indeed the benefit accrues wholly to the locality, perhaps the expenditure should be wholly borne by the locality. But the converse does not hold, for it seems to be requisite for the sake of economical administration that some expenditure which is chiefly in the interest of the general public—for instance, the maintenance of the poor—should be largely borne by particular localities. *A fortiori*, the criterion is not available where the proportions in which the benefit is divided cannot be ascertained.

As Mr. Cannan says, "the expenditure does not fall into two clearly defined classes, and even if it did, the most consummate statesmanship would find it difficult always

* Taxation of the United Kingdom, p. 62.

† Cf. Professor Bastable, "Public Finance," p. 547, and the present writer, "Economic Journal," Vol. VII., p. 49, par. 2.

‡ Cf. Mill, "Political Economy," Book V., Ch. V., par. 1, note.

§ "Economic Journal," Vol. VII., p. 59.

|| This preventive action is indicated by J. S. Mill, "Political Economy," Book V., Ch. IV., par. 2, *sub finem*.

¶ As suggested by Sir Robert Giffen in Q. 63,281 of the Royal Commission on Agricultural Depression.

** See Professor Bastable, "Public Finance," Book IV., Ch. IX., par. 9; and compare the present writer, "Economic Journal," Vol. VII., p. 57, par. 2.

“to reconcile the extension of the area of chargeability with economy in administration.”* I am prepared to think that here, as in some other subjects, no principle is available except the general one which justifies the method of comparing, and in some sort, averaging the unanalysable judgments given by competent authorities conversant with the circumstances of each case.

9. It is convenient to answer this question after Question 10, and along with Question 12.

10. Ground rents should be specially rated, when newly created, in localities where an “unearned increment” has accrued to landlords. A contribution may thus be obtained from a source which would not otherwise be tapped.

This conclusion is at variance with reasoning which many experts have put before the Town Holdings Committees.† It has been argued that as a rate on the occupier’s rent ultimately burdens the ground landlord, so a rate on the ground rent ultimately burdens the occupier. This reasoning seems to be incorrect in that it ignores what may be called the *marginal* character of economic transactions. If to each site there corresponded a building of a certain invariable cost, then it might be true that, if the rate is added to the occupier’s payment, an equal amount must be subtracted from the ground landlord’s receipts; and, if the rate is subtracted from the ground landlord’s receipts, an equal amount must be added to the occupier’s payment—the builder’s profits being constant. But, theoretically, in general the cost of the building on each site is not to be considered as fixed before hand. The builder will push his expenditure up to the point at which his last or “marginal” increment of outlay is likely to be only just compensated by the increase in the rent which he is to receive from the occupier. Accordingly, where there is a virtually *ad valorem* rate, the addition to the rate due to the last increment of value added to the house must be paid entirely by the occupier. Therefore, if we may treat house accommodation as a commodity sold in a market,‡ the rate, not only on the marginal increment but on the whole value of the building, will be paid by the occupier.

It may be objected that if the rate on the ground rent is applied to relieve the occupier, then the demand for houses being thereby increased, occupier’s rents and ultimately ground rents will go up; the last state will be no better than the first.

This objection would have weight if it were proposed to apply the rate on each site to relieve the occupiers of that site. This proposal will be considered below as a case of division between the occupier and superior interests (*see* answer to question 12). But here we are entitled to assume that the proposed ground rate is applied to the relief of occupiers generally, or, what comes to the same, to the execution of improvements for which otherwise additional rates would have been imposed on the occupiers. No doubt the improvements tend to increase demand for residences, and this increased demand will tend to increase the occupiers’ rents. But this tendency would equally have operated if the improvements had been executed at the occupier’s expense, and the occupiers are gainers, by having them executed at the expense of the ground landlords. No doubt the increased demand for residences will tend to increase ground rent; but the occupiers will gain by having these fresh accretions of ground rent in part applied to further improvements.§ It would be a strange complaint against a newly discovered source that, after it had been tapped, it was apt to be replenished.

* History of Local Rates, last page.

† *See* Evidence, 1887, Qs. 3,360 and 11,285; 1888, Qs. 2736, 2837, 3188, 4442, 9355; 1891, Q. 1969 *et seq.* (particularly lucid); *see also* Mr. Sargant’s evidence before the Town Holdings Committee and his “Urban Rating,” pp. 45–52.

‡ Compare Marshall, “Principles of Economics,” 3rd Ed., App. Note XIV.

§ The theory, as here stated, is not touched by the examples which Mr. Sargant has adduced in his “Urban Rating” (p. 47 *et seq.*) to prove that rates fall upon ground rent. His arguments are, perhaps, not aimed at, at any rate they do not hit, the position here taken up; that a special rate on the ground rent falls altogether on the ground landlord.

A case which has been confidently appealed to (by the writer of the *Digest of Evidence*, given before the Town Holdings Select Committee, Vol. II., p. 200), is adduced by Colonel Sackville West, agent for Lord Penrhyn, in his evidence before the Town Holdings Commission (1888, Q. 11,560, *et seq.*). Of two parishes in the neighbourhood of the Penrhyn quarries, the rates of cottages were paid in Llandegai parish by the lessor, Lord Penrhyn; in Llandechid parish by the lessees, his workmen; and the ground rent per house in Llandegai was greater than the ground rent in Llandechid by almost exactly the amount of the rate per house, viz., 9s. This case is somewhat peculiar, in that the ground landlord appears to have been virtually a monopolist. However, the general principle that taxes on rent are borne by the landlord does not entirely fail on that account. If the authorities had seen fit to impose a special rate on the ground rent in these parishes, the landlord would probably have had to pay it all in Llandechid. (Theoretically, indeed, he could shift a part of it by restricting the amount of land offered.) In Llandegai, he would certainly have the resource of putting the ground rent on the same footing as that in Llandechid. But where the interests are divided by competition there could be nothing analogous to this latter adjustment.

While thus holding that the proposal to rate ground rents is theoretically sound, I hesitate in such a matter to follow pure theory very far without the support of specific experience. Possibly a rate of so much per cent. on ground rents generally—or on any other scale that could practically be employed—would prove *differential* in the sense which has just been explained.* Perhaps the market for house accommodation is not so perfect as the theory requires. Probably there are serious technical difficulties in the way of applying the theory. It may be difficult to distinguish true ground rent, which is the object of the proposed rating, from returns which the landlord may receive for the execution of improvements preliminary to building—for instance, drainage or road-making. It may be difficult to prevent the ground landlord from evading the proposed rate—for instance, by accepting a fine from the building lessee in lieu of a portion of the ground rent. It may be difficult to define the region in which ground rents, having received an “unearned increment,” are a fit object of special taxation. Moreover, the immediate relief to be obtained from this new source of contribution is small; since ground rents form only a fraction of occupation rents, and new ground rents are created infrequently in the situations where the higher ground rents mostly occur, that is, on sites which have already been built on. However, the source is likely to become more considerable with the growth of population.

It will be remarked that the special rating of ground values is here based solely on the presumption that an unearned increment has accrued to the landlord. The proposal is not applied to “improvements” in the ground rent due to the landlord’s outlay. It is not applied to ground rents already created. As pointed out by numerous expert witnesses before the Town Holdings Committee, such ground rents are fixed charges, which have not experienced any unearned increment.† They have been largely bought by insurance companies and other prudent investors as specially safe securities; and they would seem to be very unsuitable objects for special taxation.

11. The laws which have been enunciated in Answer 6, for the imposition of a new rate, apply equally to the increase of an old rate. The laws for the reduction or abolition of a rate are given as the negative case of the former. The chief difference—beyond the change of *sign*—between the positive and negative case is due to friction. There is some reason for believing that friction resists an increase less than a reduction of rates. For one of the chief processes by which a change of rate is propagated is the competition between new and old houses, described in sections (2) and (3) of heading (a.) in Answer (6). In the case of a new rate being imposed, intending occupiers of new houses bid against actual occupiers of old houses whose leases are expiring. In case of a rate being reduced, actual occupiers of old houses whose leases are expiring bid against intending occupiers of new. The competition is naturally keener in the former case. A slight difference of rate may decide an intending owner to apply for an old rather than a new house. But a considerable difference of rate may be required to determine an actual occupier to incur the trouble and expense of a move.

12. Division of rates between owner and occupier, whether by deduction or otherwise, profits little theoretically. If there is a perfect market in any commodity—it may be house accommodation, or it may be tea—the imposition of an ordinary tax (or rate), disturbing the balance of demand and supply, results in a rise of the price paid by the consumer. But it makes no difference to the result, theoretically, whether the tax collector takes his share of the price from the hands of the buyer or those of the seller.

The exceptions to this general proposition are principally due to friction. But there are some exceptions valid even in theory. A tax by way of licence to produce is, under certain circumstances, borne entirely by the producer, as pointed out in the answer to Question 5. If, then, a tax of this sort is commuted in part for an ordinary tax on the consumer, the producer will, theoretically gain by the division. A consumer’s

* Cf. Answer 12.

† I should be prepared to modify this statement upon obtaining evidence that the capital value of such fixed charges is generally and materially raised by an increase in the value of the houses on which the ground rent is charged. I am assuming (1) that, as Mr. Sargant says (*Urban Rating*, p. 101), “if it [the charge] is well secured, the addition can be but trifling,” and (2) that it generally is well secured.

licence presents a similar incident. "In Holland," says Adam Smith, "people pay so much a head for a licence to drink tea." If the licence was so much, irrespective of the quantity of tea drunk, and not large enough to deter many from becoming tea-drinkers, then, the "final utility" of tea not being sensibly affected, the tax would be borne altogether by the consumers. Accordingly, they would be permanently gainers by the division of the impost with the producers.

I do not know that this theory has much bearing on house rates in this country. Abroad, perhaps, some exemplifications could be found. In Austria the "house-class" tax is proportioned to the number of habitable dwelling-rooms irrespectively of the style of architecture. "The wealthy owner pays no higher rate of taxation on a marble edifice . . . than the owner of a common brick tenement with the same number of rooms."* If this tax was not large enough to cause a material reduction of the number of rooms inhabited, the burden would stick where it hit; a division of the tax between owners and occupiers would be effectual.

The following theory is more germane to the purpose in hand. If the occupier of a new house be entitled to deduct a portion of his rates from the ground rent, then, for reasons above assigned,† the ground landlord will be unable to shift this charge. Thus the occupier of a new house will experience a real relief which will be propagated, by the influence of competition, to old houses in the neighbourhood. The rents of those old houses will be reduced, the rates remaining the same; so that, even without division, the burden would, *pro tanto*, be shifted to the owners. Division, thus fortified, would be even theoretically effectual.

The buttress thus afforded to the project of division is itself liable to give way. It is threatened by the competition with houses on cheaper sites. The ground rents in such situations will not be large enough to afford substantial relief to the occupiers. Intending occupiers of such houses will therefore, according to the theory stated in Answer 6 (a) (3), press in and compete against the occupiers who are obtaining substantial relief by the deduction of ground rents. The advantage promised by reduction to the occupiers of houses with expensive sites will thus be shifted back to the owners and, ultimately, the ground landlords. Things will come round again, after much wasted trouble, to the *status in quo ante*.‡

However, it is a tenable supposition that residences in neighbourhoods where the ground rent of new houses is high and those in which it is low are very imperfect substitutes for each other; that, even in the absence of friction, competition between them is feeble. Accordingly, the relief of occupiers by a certain percentage, say, 30 per cent. of the ground rent, though it would amount to different percentages of the occupiers' rent in different localities, say 12 per cent. in central and 6 per cent. in peripheral neighbourhoods, yet would fail to disturb the balance of demand for houses in those respective situations. On this supposition the division of rates between owner and occupier, buttressed by deduction from the ground rent in new houses with newly created ground rents, might stand. As conducive to the working of this arrangement the deduction of a moderate proportion only, say a third, of the occupier's rent may be recommended. Presumably this proportion should be deducted from the owner in the case of old houses, in the case of new houses with newly created ground rents from the ground landlord up to a certain proportion of the ground rent, say a third, and the remainder from the owner.

It will be remarked that in this reasoning, as throughout the answers, it is presumed that in the case of a new house the owner does not pay the rate, since he expects the ordinary profits on his investment—a circumstance which removes the case from the analogy of the income tax (referred to in Question 12), since the income tax, not being special to investment in building, cannot be shifted by the building owner.

Apart from the special arrangement which is here propounded as even theoretically defensible, I think it probable that in virtue of *friction*, if an occupier by whom a rate had hitherto been paid (Question 12) were empowered to deduct part of the rent from the owner, part of the burden would be thrown on the owner.

Altogether I am disposed to recommend that "local rates should be divided between owners and occupiers" (Question 9) as a means to that end; which appears to me desirable so far as owners are, or are about to be, in the enjoyment of unearned increment.§ But, before pressing this recommendation, I should require to be satisfied that the principle of taxing unearned increment would be fairly applied. Perhaps some sort of court to make allowance for hard cases would be required. It should be observed that exemptions granted to individual owners would be

* O'Meara, *Municipal Taxation*.

† Compare Answer 10, p. 134.

‡ See Answer 10.

§ Cf. above, p. 135.

ineffectual, since no individual could stand out for better terms than would be current in the neighbourhood. Exemptions could only be granted in favour of (the owners in) regions or zones practically isolated from external competition. As an additional precaution it might be recommended that the rule should not come into force until after the expiry of the occupier's lease; or at least not within some three years after the enactment. With these precautions the division could do little harm; it might do some good, and seem to do more. What seems may be as important as what is for the political purpose of appeasing discontent and getting municipal improvements adopted.*

Friction is most likely to be effective when the effect required of it is not very great. Friction may resist the force of gravity on a slope of 30 degrees, but fail to do so on a slope of 60 degrees. On the score of friction, therefore, as well with reference to the special deduction from ground-rent above proposed, it may be recommended that the deduction should not be very large; say, a third of the occupiers' rent. This proposal may square with the fact that it is difficult to give the owners a voice equal to that of the occupiers in the imposition of rates.

13. (a.) The effect of a *progressive* rate would be to lighten the contribution of the poorer householders and thereby probably to make the distribution of fiscal burdens more equitable; possibly, to make the working classes more efficient. This desirable result is apt to be reduced by friction in the numerous cases† in which the rates are paid by the owners. *A fortiori* if, as testified by some,‡ the owners of small tenements act as monopolists. For in this case the relief of the occupiers will be, even theoretically, not indeed null, but probably less than in the case of perfect competition.§ And practice may lag even further behind theory.

(b.) An obvious tendency of rating property differently, according to its character and purpose, is to divert demand to the more favoured conditions. But in the more important existing cases of such difference, *e.g.*, between agricultural and urban rates, between rates on inhabited houses and those on trade premises, I do not suppose that this effect is considerable.

14 & 15. As to methods of raising revenue for local purposes otherwise than by rates, I suggest that accurate information should be collected as to the expedients resorted to in foreign municipalities. At the same time, attention might be given to the teachings of experience abroad concerning the incidence of local taxation.

I express the opinion that, if such information is worth obtaining, it is worth printing legibly.

F. Y. EDGEWORTH.

Answers by Professor Bastable.

I.

The classification given in Table D. may be described as *formally* correct, inasmuch as it includes the whole tax revenue and does not count any part of that revenue more than once. Regarded, however, as a scientific or practically instructive arrangement it seems to be open to serious objections.

(1.) It suggests the idea that all taxation can be cut up into two great classes each with well-defined common characteristics resulting from, or at all events connected with, the presence or absence of the feature of being "incidental to property." An inspection of the table, however, shows that very different taxes are grouped together, while similar taxes are separated. As an instance of the former I may give "The Unredeemed Land Tax," and "The Inhabited House Duty;" of the latter "Bankers

* Mr. Costelloe, among other witnesses before the Town Holdings Committee, insisted much on the impossibility of getting improvements adopted—the "deadlock" of the present system. Cf. Final Report, 1892, p. xxi., "In our opinion the change would do much to remove the sense of injustice which, whether rightly or wrongly, is no doubt at present very widely entertained."

† According to Mr. Sargant, three-fourths of all the cases.—*Town Holdings Committee*, Q. 4364.

‡ Cf. Mr. Costelloe's evidence before the *Town Holdings Committee*, 1890, Q. 4529.

§ Cf. "Economic Journal," Vol. VII., p. 227, par. 1.

Notes" and "Railway Passenger Duty." Such defective grouping cannot be remedied by readjustments; it is, I believe, inherent in the classification, and results from the natural complexity of the tax system. To take one illustration, the various stamp duties (which to a great extent correspond to what are described by writers on public finance as "taxes on acts") cannot scientifically or correctly be placed in the same category as taxes imposed directly on the yield of land or capital. They are levied on wealth in circulation and often affect gains from personal exertion or mixed revenues. They have, besides, important resemblances to taxes on commodities.

(2.) Another objection arises from the vagueness in the expression "property." This term describes from the legal side what the economist calls "wealth," but either expression may be confined to material things (the *res corporales* of Roman law), or may be so extended as to include valuable rights which are not directly exercised over material objects (*res incorporales*). Again, property is sometimes used as synonymous with "capital" or "revenue yielding wealth." It appears from the inclusion of the produce of Schedule C under the head of "Non-rateable property" that the widest meaning is the one adopted. This at once raises the difficulty that as "property" includes all wealth its taxation should include taxation of commodities which are indisputably a part of the total stock of wealth. Either from the scientific or practical point of view it is hard to perceive the advantage of placing a tax on the commodity "houses" (where, be it noted, the duty is directly levied from the user) under the head of "Taxes incidental to property" while a tax on the commodity "beer" (which is taxed in the possession of the producer) is put under the head of "Taxes not incidental to property."

(3.) The probable answer that would be made to the foregoing criticism, viz., that the taxes on commodities are really taxes on enjoyment and consumption, and therefore not on "property," would not excuse the laxity of terminology, but certainly indicates another grave objection—the treatment of the question of incidence. It is admissible in taking a preliminary view of a system of taxation to assume *for the moment* that the burden of a tax always remains on the first payer. In making a complete estimate of its effects it is important to trace the various shiftings by which the weight is finally distributed. It cannot be correct to *assume* at the outset the existence and established operation of some forms of shifting as is done in the table. Thus it is assumed (a) that the whole mass of customs and excise duties is shifted forward from producers and dealers to the consumers of the dutiable articles, (b) that the excise licences on dealers and manufacturers are similarly shifted, (c) that the Inhabited House Duty is shifted backward from the occupier to the owner. Even if all these assumptions could be justified by argument, they should not have been made without such justification, and, when established, should have been carried out consistently.

(4.) By the partial introduction of the question of incidence it would appear that the old division of taxes into "direct" and "indirect" has had some influence on the arrangement under consideration, and this belief is confirmed by the fact that almost 51,000,000*l.* out of the 60,000,000*l.* of tax revenue described as "not incidental to property" is taxation of commodities. The balance of 9,000,000*l.* is obtained by taking about one-fourth of the income tax (*i.e.*, the yield of Schedule E. and highly conjectural proportions of Schedule B. and part of Schedule D.) supposed to be due to "personal exertions," along with the net post office revenue and some licences. All other taxes are regarded as "incidental to property," but they, with the exception of the "stamp duties" and the Inhabited House Duty are the "direct taxes" of the old classification. We are thus led to regard the arrangement of the table as a slight readjustment of the well-known grouping of taxes into either "direct" or "indirect," which is now generally regarded as being too loose and imperfect for scientific employment.

From these considerations it follows that the classification of taxes must be more complex than the framers of the table believe it to be. The whole problem of classifying public revenues has recently been discussed by writers on finance,* but personally I have seen no reason for altering my opinion that the most suitable division from a scientific point of view is "Into primary and secondary. The former " include those on land, on business and capital, on persons and on earnings. General " income or property taxes are a combination of these primary forms. The secondary " taxes are those: (a) on commodities, (b) on communication and transport, (c) on

* See Seligman "Classification of Public Revenues." Quarterly Journal of Economics April 1895 (Reprinted in *Essays in Taxation*. Bastable, *Public Finance* (2nd Ed.) Book II., Ch. 1 and note, Book III., Chs. 1 and 4, s.s. 6-12. Plehn, "Classification of Public Finance" Political Science Quarterly, March 1897.

“commerce and legal transactions, (d) on transfer of property, (e) on successions.” It must be added that heads (d) and (e) of the secondary taxes have points of affinity with the primary taxes.

But whatever be the most suitable or least unsuitable method of theoretical arrangements, I would venture to point out that such discussions are unnecessary for the purpose of the Commission.

Its aim is to inquire into the present system of local taxation, and especially into the relative contributions of real and personal property. It has, further, to decide whether equity is at present attained and, if not, to indicate how it can be.

For these objects the most important preliminary question is to get a clear view of the taxation at present falling on land and houses either immediately or through the process of shifting, and the distribution of the charge between the different interests concerned. No mere external classification and analysis of Imperial, or of Imperial and local taxation combined, will materially further this enquiry.

Study of Sir E. W. Hamilton's important Memorandum strongly confirms me in the view taken above. While apparently accepting the classification of the Table (which seems to have been in a measure forced on Sir A. Milner by a resolution of the Royal Commission on Agricultural Depression*) the author carefully points out its weakness (pp. 37-39) and corrects some of its most misleading features.

II.

Several of the items which seem improperly placed even on the principle of the Table have been already indicated; such are the Inhabited House Duty, the licences on dealers and manufacturers, and the railway passenger duty.

The apportionments between “rateable” and “non-rateable” property are also open to question. I would particularly instance the division of income tax on railways into two parts, though the whole is clearly a deduction from dividends and therefore falls on the yield of movable property.

Another more than questionable item is the Unredeemed Land Tax, which is regarded as a “tax on rateable property” instead of being excluded from the Table as being a “rentcharge” rather than a “tax.” The possibility of capitalising and redeeming this so-called “tax” shows conclusively its real nature. Were it not so, the capital value of the redeemed land tax should be counted as a still existing asset obtained from the estates redeemed.

III.

In respect to the Post Office revenue two different views of almost equal plausibility may be taken, viz:—(1) that which treats the Post Office as a State industry obtaining a monopoly profit through the economy which monopoly makes possible. We may perhaps with justice assume that under private competitive industry postal rates would not be lower than at present. Therefore the gain is in a sense “earned” by the State. But (2) we may also regard the State as only entitled to ordinary profit on the capital it employs, and then we must hold that the surplus is a kind of taxation. If this latter view (which is, I think, the better one) be taken, we must further note that this tax falls not on the whole but on a part of the postal service. It does not fall on the telegraphs, which do not make a profit, nor on the parcels service, which is open to private competition, nor, I would conjecture, on circulars or book post, which are carried at low rates. It really falls on letters which might, if this surplus were surrendered, be transmitted for a half-penny instead of the present penny rate. The charge is, therefore, on the writers of ordinary and commercial letters, *i.e.*, it is in part, like excise and customs, a tax on enjoyment, in part like the stamp duties one on business transactions.

IV.

In dealing with a tax-system (the equity of any particular tax depends on the other taxes that co-exist with it, and therefore cannot be determined by considering it alone) two general standards may be applied as tests of equitable distribution, viz:—(1) Is taxation in proportion to benefit received? and (2) Is taxation proportioned to the ability of the payers? If it were possible to use the former principle exclusively it would be the proper one, but owing to the nature of public services it is out of the question to attempt to say how much each citizen gains by his participation in the State.

* See his Evidence to that Commission, *Report*, Vol. IV., p. 471.

Hence the need for employing "ability" or "faculty" as the criterion of contribution. But the unavoidable limitations on the employment of the "benefit" principle do not hinder its use where practicable. Thus the whole system of "fees" (what the French call "*taxes*," as distinct from *impôts*, and the German *Gebühren*) or, as they might be called, "special taxes," is an example of the application of "contribution according to benefit."

The "benefit" principle is of special importance in relation to local finance for (a) the demarcation of local from Imperial taxation is in great part due to the desire to confine taxation to those who benefit, and (b) the services rendered by local bodies have more of an economic character, and more readily admit of approximate measurement than is the case with State services.

It would seem, on the whole, that the distribution of taxation according to benefit should be carried as far as is practicable, the principle of "ability" being applied only to the remainder of the required revenue. Under actual conditions in the United Kingdom this would mean that the benefit principle would be an important, if not the preponderating, element in assigning the distribution of local taxation, while the revenue of the central government would be raised almost entirely in accordance with the canon of taxing according to ability, which may most conveniently be regarded as measured by amount of income.

A further condition desirable, in order to make a tax system equitable, is that it should be "certain" or "stable." Certainty is here used somewhat differently from the sense it bears in the second of Adam Smith's maxims. It is intended by it to mark the fact that the economic arrangements of society are adjusted to the actual state of things, and that reasonable expectations are formed which would be disappointed by sudden and unexpected changes. This consideration applies with very different degrees of force to different taxes. It has little or no weight in the case of most alterations of an income tax or of taxes on commodities (though it is evident that a revolutionary change, such as the doubling or entire remission of the spirit duties, would cause very serious disturbance and loss to sections of the community). Its force is greatest in those cases where contracts for lengthened periods are affected, and in which an old and established system has come to be regarded as permanent. The alteration of taxes (including rates) on land and houses, and the readjustment of tax areas supply instances in which this canon needs particularly to be kept in mind.

The truth contained in (or rather suggested by) the popular maxim that "an old tax is no tax," is, I think, fully expressed in the doctrine of "certainty," as just explained. Taken strictly the saying would imply acceptance of a thoroughly unsound theory of incidence, that of general diffusion, and might be parodied by the statement that "an old grievance is no grievance." The truth is that some old taxes (and grievances) are worse by reason of their protracted and accumulated effects, while others have their evils reduced by time, and cannot be removed without causing new injuries.

V.

It is extremely difficult to deal briefly with the subject of incidence. Definite propositions stated without the necessary qualifications are certain to prove misleading if not positively erroneous. I must therefore guard myself by reference to more detailed treatment elsewhere,* in explanation of the following statements:—

- (1.) Taxes on commodities tend in the main to fall on the consumers, but exceptions exist in the case of (a) monopolies, where the monopolist frequently bears the burden, (b) of industries with much fixed capital where demand contracts with higher prices (is elastic). Here for a long time the producers bear the charge, (c) similarly with very durable commodities, e.g., houses, (d) where the tax is a small one, and therefore too slight to lead to readjustment.
- (2.) Taxes directly levied on rent or on any differential gain are not shifted, but remain on the original payer.
- (3.) Taxes on fixed capital are shifted with difficulty inasmuch as it takes time to reduce the supply of such capital sufficiently to raise its value.
- (4.) Taxes on movable capital are generally evaded by migration, or are so partial in application as to allow of their transference to its users.

* Bastable, *Public Finance*, Book III., Ch. 5, 6, s. 8. Book IV., Ch. 1, s. 9, Ch. 2, ss. 5, 12, Ch. 4, s. 10, Ch. 6, s. 15, Ch. 7, s. 7, Ch. 8, ss. 2, 6, Ch. 9, s. 10.

Also Seligman, *The Shifting and Incidence of Taxation*, which is in general agreement with preceding.

- (5.) Taxes on employers' gains in general are not shifted, but special taxes on a particular set of gains are, unless (a) there is a monopoly, or (b) the capital cannot be withdrawn without loss.
- (6.) A general tax on business profits is not transferred, and even if confined to particular kinds of business, its transfer will prove difficult unless there is great facility for moving to other businesses.
- (7.) Taxes on commodities consumed by labourers may be passed on by them to their employers under favourable conditions.
- (8.) Taxes directly imposed on wages may or may not be transferred.

It therefore appears that in dealing with questions of incidence, it is specially important to consider,—

(a) the extent to which labour and capital are mobile or fixed, (b) the presence or absence of monopoly, (c) the existence of differential returns of which rent is a conspicuous instance, (d) the nature of the law of demand in respect to articles affected by the taxes under examination.

VI.

(a.) Broadly speaking this tax falls finally as well as immediately on the occupier. So far as demand for building is reduced by it the ground landlord is affected, but this influence must be trifling. The tax has been long enough in existence for building profits to have been adjusted to it, but it is possible that in stationary localities its remission might enable house owners to get some more rent, and so far it falls on them, but this is also a small matter.

(b.) The incidence of rates is more complex, owing to (1) their greater amount, (2) their inequalities, and (3) the varying applications of their yield. At first the charge seems to rest on the occupier, but his demand for house accommodation is reduced, leading to a lowering of ground rent and less investment of capital in building. Where a locality is stationary the increase of rates falls on the house owners, who would otherwise get more rent. Where different amounts of rates are levied in different parts of the same district, the extra rates are shifted back to the house owner, and in the case of new building tend to lower ground rent. A distinction has therefore to be drawn between the effect of the amount of rates general over the country which resemble the Inhabited House Duty, and the extra amounts charged in the more heavily rated localities. It is even possible that owners of houses and building ground may gain by increases of rates outside their districts, which enable them to obtain higher rents.

In specially favoured situations, where building sites command a high, or what is usually called a monopoly, value, the ultimate incidence of rates is clearly on the ground owner. The occupier pays a combined sum of rent and rates equal to the value of the situation, the house owner regulates his offer of ground rent by the cost of building and the rate of profit, so that ground rent is reduced by the estimated rates.

The effects of the expenditure of rates must also be taken into account. In so far as their outlay is reproductive in adding to the value of the houses in the district, they may be said to come out of a fund created by their employment and thus to adapt a phrase of J. S. Mill's to be "paid by no one." The "rate" becomes a "fee" instead of a "tax," and cannot be counted as a burden in the same way that it otherwise would.

Rates on business premises are further complicated by the possible effect they may have on prices to consumers. An equal tax on all business premises in a country would be a tax on profits since it could not be evaded by change, but a rate on such premises in a particular locality would appear to be shifted either forward to the consumers in higher prices or backward to the ground owners in lower ground rents. Owing, however, to modern facilities of communication the former is very difficult, and I am inclined to believe that in practice special local rates fall mainly on the gains of the traders occupying the taxed premises who have established a connexion that gives them an extra profit. Here, again, the advantages resulting from a proper expenditure of rates may either recompense the traders, or so attract consumers as to allow of higher prices being maintained.

Finally, it is essential to take into account the slowness of the shifting process in the case of rates, and the diverse interests into which the ground ownership and that of the buildings may be cut up.

(c.) The ultimate incidence of rates on agricultural land is on "rent" *i.e.*, on the "return due to the natural powers of the soil." But where capital has been permanently invested in land and has raised its value that portion of rates falls on the

capital so fixed. On an extreme hypothetical view it might be argued that this portion of the burden would "in the long run" be passed on to the consumers of agricultural products. Actual conditions clearly prevent this.

(d.) The expression "property" in this case also is somewhat ambiguous. Ordinary commodities are "property" and yet a tax on their transfer is held to fall on the ultimate user. Taking the term in the sense which, I presume is meant, viz., "land and capital," the old doctrine of the English economists was that taxes on land transfer fell on the seller, who was in need and therefore had to sell for what he could get. Another view, favoured on the Continent, was that such taxes fell on the possessors of land *at the time they were first imposed*, since the value of the taxed property was reduced. Personally, I believe that the effect is more complicated. In part the owners of land suffer, but purchasers also suffer, as they pay more (the tax included), and so does the community in the greater immobility of land as an instrument of production by which it is kept in less efficient hands.

In respect to fixed capital the above considerations are modified by the unwillingness of persons to create it without adequate reward, hence a tax on its transfer will ultimately pass to the community or, at least to the users of articles made by the taxed capital.

(e.) This has been dealt with in answering question 5 (*see* p. 140), but I may add that in practice a good deal depends on the *form* of the tax. The French *Patente*, the various German "business taxes," and Schedule D. of the English Income Tax all come under this head, and yet have different effects.

(f.) I see no reason for departing from the old doctrine that death duties fall "finally as well as immediately on the payer," bearing in mind of course the remote possibility that they may be paid out of capital and thus reduce the accumulated wealth of the country, raise interest and lower wages. This would be the consequence as the particular method of imposition in their case.

This is the most convenient place to notice two points raised in Sir E. W. Hamilton's *Memorandum* respecting questions of incidence. Sir E. W. Hamilton holds (1) that "a large part of the rates of Bond Street and Oxford Street may be contributed by all of us" (p. 39), since higher prices are charged to purchasers there, (2) that in the absence of economic friction the burden of rates on mines and quarries "is borne by the consumers of the produce" (p. 47).

I would respectfully dissent from both these conclusions. As to (1), I believe that the rates fall on the ground landlord, whose rent is produced by reason of the high prices and not *vice versa*. As to (2), it is I think clear that rates like royalties fall to by far the largest extent on *rent*. I cannot see how if we accept *in any sense* the economic theory of rent we can regard such rates as importantly affecting cost of production.

VII.

Assuming for the moment, and subject to what is said in the next answer, that the criterion sought is one for distinguishing the duties of central from those of local government, it seems that there are certain classes of duties specially suitable for local government, viz., (1) those which exclusively, or mainly, concern the inhabitants of the locality; (2) those in which more effective, including more economical management and supervision can be attained by local administration; and (3) those in which variety and flexibility are required in order to meet differing conditions. Maintenance of roads, water supply, sanitary measures may be given as examples of the first class. The poor law arrangements are the best instance of the second—the chief arguments against placing the relief of the poor under a central board, maintained by Imperial funds were derived from this principle. For the third class police and education may be taken as examples.

It is evident that services at one time proper for local direction, may at another be advantageously given to the central government, since they may alter in character, or in the area of their benefit.

It is also to be noticed that it is only the first class that is assigned to local government in order to secure just distribution of the burden. The delegation in the other classes is founded on general advantage.

There is, accordingly, no such strong ground for placing the whole expense of these services on the locality concerned.

VIII.

A full answer to this question would involve the introduction of political considerations as being more important than financial ones. Keeping to the latter, the weight of evidence is in favour of two distinct systems, viz., (1) general, and (2) local, each raising its own revenue. Lord Farrer has forcibly insisted on the advantages of this separation. (*Mr. Goschen's Finance*, p. 54.) In order to secure the full benefits of the division it is, in addition desirable that the taxes to be levied by each division shall not overlap, but be as distinct as possible. Recent reforms in Prussian local taxation, and the proposals of the best American writers in reference to the local taxation of the United States are in this direction.

The sound principle of separating the two systems does not prohibit the assignment of specific parts of the general tax revenue for the assistance of local government. It may be necessary to relieve local bodies from undue weight of expenditure incurred for general advantage, but this method should be limited to cases of real and serious pressure, and the mode in which the assigned revenue is distributed should be such as to secure relief to the proper persons.

IX.

The division of rates between owner and occupier seems on the whole desirable. In the case of agricultural land, it secures at once a portion of that shifting which would only come at the expiration of leases or readjustment of rental. In the case of houses also it makes economic friction (so called) work for the occupier rather than against him (of course, I assume, as has been so often proposed, that the division is half and half). But with short tenancies and where competition is effective the question of division is a minor one. It also raises the problem of the representation of owners, who would otherwise be taxed without having any influence in the matter.

X.

I cannot see that any important advantage would be gained by the separate rating of ground rents. There is, I gather from the opinions of valuers, a great difficulty in making a separation between the value of the buildings and that of the ground. Where the latter has a high value it is really taxed as explained in answer 6 (b). In the case of the smaller ground rents they exist under long standing contracts and are really rentcharges which frequently change owners. It would, of course, be feasible to distribute the rate proportionately over the various interests into which the rent may be divided, each payer deducting the amount per pound.

As to the principle of valuation it should be that of taking "true market value" so far as it is discoverable.

XI.

This question is simply a variant of question 6, (b) and (c). Theoretically, the imposition or abolition of a rate, operates just as the increase or reduction of a rate. The only difference will be in the extent to which occupiers neglect variation in established charges, as contrasted with entirely new ones.

For the reasons already given, I hold that the rent of land tends to be lowered by (a) and (b), while it tends to rise under the influence of (c).

At each new valuation or letting, the average amount of rates is taken into account as a deduction from rent.*

In respect to other rateable property it may be said (in addition to answer 6 (c)) that the more it approaches the character of land—in Professor Marshall's terminology the more its yield is a quasi-rent—the more will the influence of the changes enumerated be the same. It is because a proportion (generally a considerable one) of rates rests on the occupier that changes are of such importance to him, and, further, (in this, like the farmer) he bears the *temporary* increases.

XII.

Like the last question, this is an inquiry as to a special form of the process of shifting. The effect under existing contracts would be to place the occupier in

* This is borne out by the *Poor Law Report* of 1832, which states that farmers preferred to place their labourers on the rates, which would be taken into account in valuing for rent, to paying them higher wages which would not be so taken (pp. 60, 61, 8vo. ed.) Judicial rents in Ireland are fixed with a deduction for rates.

possession of the advantages that he would have if no contract were in force. In all cases, too, it would bring the influence of "friction" (*i.e.*, custom, *inertia*, carelessness or ignorance) to tell *for* him, not as now, *against* him.

XIII.

I cannot see that this admits of a determinate answer. The effect of applying "different scales of duty" encourages the formation of those classes which are favoured, while it discourages the continuance of those that are differentially taxed. Higher rating of large properties (*i.e.*, large in value) would tend to lower their rent, but it would also tend to raise the rental of properties of small value which are, *ex hypothesi* rated lower than they would otherwise be.

In the same way lower rating of property used for special purposes is so far a bounty on its employment for those purposes, and enables more rent to be obtained, but it is *pro tanto* a tax on the use of property for other purposes and lowers its rent.

XIV.

It is right to remark at once, that so far as can be seen, the principal local resource must continue to be found in the taxation of land and houses. Any other revenues can only be subsidiary.

In accordance with this principle, I would suggest that (*a*) the remains of the land tax (or rather the rentcharges which bear that name) and (*b*) the Inhabited House Duty should be handed over to local authorities. The transfer of the latter would be only the accomplishment of Mr. Goschen's proposal made nearly 30 years ago.

As subsidiary sources of revenue I would notice:—

- (1) Licences on business and communications. The remaining licences in the United Kingdom might be surrendered and greater liberty given to the larger local bodies in their imposition. The "horse and wheel" licences which Mr. Goschen failed to carry in 1888, would probably be used by local bodies. Drink licences also could be made more effective.
- (2) What American writers describe as "franchises" or rents for special privileges. Tramways, water, gas, and electric lighting companies (where those businesses have not been taken over by the municipality), may fairly be made to contribute specially to local revenues. It is open to question whether the contributions of railways to rates might not in principle be treated as franchise charges and regulated accordingly.
- (3) In the case of important improvements benefiting definite properties, the American system of special assessments might be applied, subject, of course, to a judicial inquiry in each case as to its propriety. That these assessments have been badly used, affords no reason against their employment under due restrictions.

If with these resources local bodies are unable to meet their growing expenditure, the remaining expedients are either the assignment of parts of the Imperial revenue or the transfer of certain items of expenditure from localities to the central government. Both have been to some extent tried, but there are grave objections to the extension of either. It seems plain that Imperial expenditure is on the increase, and circumstances may at any moment arise that would put severe pressure on even so elastic a revenue system as the British one.

Any arrangement therefore which would definitely adjust the relations of central and local finance and, especially, force on ratepayers the advisability of economy and prudent administration, is eminently desirable.

Answers by Professor Gonner.

I.—THE EQUITY OF A TAX OR SYSTEM OF TAXATION.

Question 4.—In treating of equity, especially in view of existing fiscal conditions, it must be observed that any tests which can be applied relate to the system of taxation, and not to any separate taxes. Taxation is the exaction from the various members of the State of contributions towards the common expenditure. To make such equitable, and to prevent evasion, it has been and is necessary to levy different

taxes, which, in many instances, are complementary, and not merely additional. This doctrine has been so frequently and authoritatively enforced by both fiscal writers and statesmen that it requires little further emphasis. It is true, indeed, that complaints are frequently made as to the equity of particular taxes, but these, when not arising out of a general and inexact use of the term, are due in the main to the belief, either that the tax in question falls upon and is paid by others than those whom it is designed to affect, or that the particular tax, by its imposition, or, if an old tax, by alterations brought about by time, occasions inequality in the fiscal system, and overweights it to the disadvantage of particular classes.

To judge correctly of the equity of any system of taxation, we must arrive at some conclusion, not only as to the particular standard or theory on which it is based, but as to the actual extent to which it conforms to such a standard. The principal theories of importance are two. According to the one, the amount of taxation contributed by the individual depends upon his "ability"; according to the other, upon the services rendered to him by the State, or, in other words, the extent of his benefit in the common expenditure. This latter theory, which is wholly unrelated to the first, represents State expenditure and taxation very much in the light of an ordinary mercantile transaction, the State, on its side, performing a number of individual services on behalf of its various members, and these paying for such services as they appropriate and enjoy. Instances of such a relationship between the State and its members occur when industrial functions capable of private management are undertaken by a public body. Far more important with regard to the present question is the case where the expenditure in view of which specific taxation is imposed, while undertaken for the general good, results in additional benefits to particular classes or individuals. This would seem to be more common in local than Imperial taxation. But, despite such instances and their obvious importance in the fiscal system of the country, the view that taxes are or should be proportioned to the benefits derived by the individual from the public expenditure does not seem to furnish an adequate theory of taxation. Not only does it ignore the true nature of the bond between the individual citizen and the country, and the distinction between the common interests for which expenditure is undertaken and specific services which are, as it chances, more conveniently rendered by a public body than an individual or number of individuals; but it suggests the apportionment among individuals of such items as the benefit of the naval, military, judicial, and civil, establishments. For these reasons it would seem that this view must be rejected as furnishing a theory of taxation or a standard to which an equitable system should tend to conform. Its importance is of another kind. It accounts for certain apparent deviations from what may be considered the correct theory. This applies mainly to those cases where, as observed above, the benefits conferred upon individuals are incidental rather than intentional. Local rates, for instance, are levied in respect of expenditure much of which enhances the value of real property in the district, but such benefit, however much it may serve as a reason for the imposition of taxation upon the land, is incidental. The object of local expenditure is the general benefit of the district and not an increase in the value of landed property. On the other hand, in cases where public bodies perform services directly and intentionally with a view to private benefit, the payment made in return by those who enjoy these services, and so made because they enjoy them, must not be confused with taxes contributed in view of the furtherance of the common interests of the community.

The other theory mentioned, that contributions to taxation should be determined by the respective "ability" of the individual, may be regarded as receiving a fairly general assent on the part of modern economists and financial writers. We may adopt this as the standard to which the system of taxation in a country should conform, always remembering that all taxes must be regarded as falling upon a person, and not on either property or commodities, save in so far as these are representative of a person. The main fiscal problem is to devise taxes which may affect the various members of the community in due relation to their "ability" or fiscal capacity. To achieve this, and to prevent evasion of an equitable burden, different methods of taxation are adopted, of which two require particular notice. Persons are taxed in their capacity as recipients or owners of income, and in their capacity as consumers of income. Between these two classes a distinction has been occasionally drawn in favour of regarding taxes on commodities which enter into consumption as less obligatory in character. It is unnecessary to point out the error of such a distinction from a purely fiscal standpoint. Taxes are placed on commodities entering into consumption because, by their means, certain classes are affected

which have hitherto escaped taxation, and other classes made to contribute more largely than would otherwise be the case. It is true, no doubt, that these taxes can be escaped by a refusal to consume the articles in question, but the possibility of doing this without serious inconvenience is a mark of imperfection in the tax; while if such inconvenience is incurred, it is clear that the individual concerned is penalising himself by not spending his income in the way he desires. The meaning of his income to a man depends on the pleasure, or, to use the technical phrase, the utility, which he derives from its consumption; and to avoid a tax by sacrificing some part of this pleasure or utility is much the same as striving to avoid the income tax by not receiving an income. Of course where commodities are capable of being substituted for one another, and are so substituted with but little loss of pleasure, the preference in favour of one over the other being but small, great care and skill is needed in the adjustment of different taxes. At the present time considerable dissatisfaction is manifested on account of alleged inequalities between taxes on spirits and on beer, while those to whom alcoholic liquors are distasteful escape a considerable burden of taxation. In this latter instance extraneous and non-fiscal motives have exerted considerable influence. But notwithstanding the possibility of such escape, such taxes must be viewed in the same light as those levied directly on income. They are imposed in order to affect in due proportion the income-owning and consuming person, and are not to be regarded as more voluntary in intent than these others. Those who pay them are as definitely taxed as those who contribute in other ways less easy to avoid.

The theory that taxation should be apportioned according to "ability" requires considerable definition before it can be accepted as a test of the equity of any particular system. In the first place, it must be observed that such apportionment assumes that the sacrifices or inconvenience undergone in the contributions of respective persons are equal, or approximately equal; but this is not necessarily achieved by the exaction from each of the same proportion of his wealth or income. But the question of graduation, while important in view of the general equity of a fiscal system, is too slightly connected with the particular purposes of the present inquiry to deserve argument. Two remarks will suffice. The income or wealth of the individual is a sum of utilities and necessities, comforts and luxuries, which such enables him to consume; and inasmuch as in the choice of such preference is first given to those more keenly desired, the deprivation actually undergone by different individuals, if their contribution towards taxation be proportioned to their wealth or income, is very different in character. The poorer the man, the less easily dispensable any portion of the commodities he consumes, and the more acutely felt their loss. Secondly, graduation has been recognised in our present system in several instances, as in abatement or exemption under the Income Tax, in the Estate Act, and in the Inhabited House Duty.

If, moreover, fiscal "ability" be regarded as represented by income-owning capacity, a distinction must be drawn according as incomes arise from personal exertion or property, in view of the smaller liability imposed upon those enjoying the latter of making provision for emergencies, for their own future needs, and the subsequent requirements of their families. Such inequality is regarded as met by the death duties and, to some extent, by the taxes imposed on the transfer of property.

The foregoing considerations raise two questions of great importance, relating respectively to taxes on property and to taxes on rateable property:—

- (a.) The greater liability of persons owning property, and deriving their income from property, to contribute to the revenue of the country as compared with that of those who depend upon incomes due to personal exertion.
- (b.) The liability of owners of rateable as compared with other property, owing to their contributions being, in part, due both to hereditary burdens on the land, that is, a special liability to yield revenue, and to particular benefits conferred by certain expenditure.

Thus, in applying the test of contribution according to ability, allowance must be made for payments due to the special circumstances enumerated. Only after such has been done can the theory be regarded as affording any standard of equity.

There are particular difficulties in employing this test under our present system of taxation. One of these consists in the large proportion of taxation raised by imposts placed upon the consumption of some few commodities. The convenience of the customs and excise, so far as collection and administration is concerned, is obvious—not so their equity. Putting aside the small number of articles from which this large revenue is raised, and the possibility of escape by changes in

consumption, and the substitution of untaxed for taxed commodities, the articles in themselves cannot be regarded as entering into consumption in any necessary relation to the respective "ability" of different persons and classes. Owing to the practical difficulty of proportioning the duty according to value, these taxes probably bear most heavily on the less wealthy classes. Graduation in other taxes where it exists, as in the income tax, to take the case most pertinent in this connexion, counteracts the hardships thus involved; but this relief is afforded only within very circumscribed limits, and the class just above the limit at which it stops is severely treated. On its expenditure and in comparison with the classes above it, it is almost certainly taxed out of proportion to its "ability," while in direct taxes it obtains no corresponding set-off.

Again, onerous rates and taxes on rent of houses and premises, in so far as they fall on the occupier or consumer, are levied in respect of expenditure which does not stand in a necessary relation to "ability."

Another difficulty arises in distinguishing from other expenditure that which results in particular benefits to particular classes. In these cases there is a *prima facie* case for the exaction of special contributions from persons thus affected, and such contributions should not really be regarded as taxes. It is worth noting that such expenditure is twofold in character, and, in consequence, a similar distinction attaches to the so-called taxes levied to meet it. The question arises in connexion with rates, some of which are really a payment for specific services rendered, while others may be looked on as a payment made because the character of the expenditure has been such as to enhance the value of the property concerned.

It is, I think, clear, that due allowance being made for the points urged above, the system of taxation, with reference to which the question of equity is raised, must include local as well as Imperial taxes.

So far as the correspondence of our existing system of taxation with the standard of fiscal ability is concerned, I would suggest the following conclusions as important:—

- (a.) Of existing taxes the larger proportion (that is, 58·7 per cent. of the whole) stand in no necessary relation to the supposed "ability" of the taxpayer.
- (b.) Income tax by itself, and irrespective of the question of graduation, does not conform to the required standard. Under a scientifically "equitable" system the income taxed would be the income available for purposes of living, and not that which, in addition, must serve as a fund out of which necessary provision for the future must be made.
- (c.) In the case of taxes on property, regard must be had to the particular grounds which may exist for considering them as rectifying defects in the foregoing, or as being of the nature of payment for special services or advantages.

II.—THE CLASSIFICATION OF IMPERIAL TAXES.

Question 1.—While agreeing with much that is urged by Sir Edward Hamilton in his Memorandum, as to the difficulties of correct and also practicable forms of classifying taxes, and especially as to the necessity of distinguishing between the questions of classification and ultimate incidence, I rather dissent from his conclusion as to the desirability of the form finally adopted. The object of such classification is, I take it, to exhibit the chief avenues through which Imperial taxation approaches the individual, and to do this with particular regard to the taxes imposed on property, and those not so imposed. Of course this is irrespective of the results brought about by the shifting of any such taxation. Here I differ as to the desirability of including the income tax with other taxes levied on property, and this I do, in the main, for two reasons. In the first place the aim of taxation, as I have suggested above, is to catch the individual at his true fiscal value, or "ability." This, as it seems to me, is attempted by taxing him in his *income-owning* and *income-spending* capacities. By itself, income imperfectly represents the true fiscal ability, a defect which, so far as our own system is concerned, is largely rectified by the imposition of other taxes on property. In this contention "ability" is taken as the test of equitable taxation; and, further, it is assumed that the main items in our system are capable of being placed in these classes, though it is not contended that the above have been the historical reasons for their imposition. Notwithstanding difficulties as to certain items, I think that, in the main, the three headings of *income*, *property*, and *consumption* are suitable for the purpose of classification

under our existing system. In the second place I cannot but think that the classification in Table D. is somewhat unnecessarily liable to wrong interpretations. It suggests, for instance, a distinction between taxes levied on income accruing from property, and those levied on income derived from personal exertion; and, again, a similarity between income derived from personal exertion and commodities, as a basis for taxation. Further, it appears to me undesirable to place certain of the stamp duties (namely, 5, 6, 9, 10, 12—those alluded to by Sir Alfred Milner in his Memorandum, p. 64) under the same heading as taxes derived from property and from income on property, whilst separating them from income derived from personal exertion.

The most suitable form of classification would, I think, be as follows:—

- I. Taxes forming part of a general income tax and levied in respect of income derived from—
 1. Property—*a.* Rateable.
b. Non-rateable.
 2. Personal exertion.
- II. Taxes incidental to the ownership, occupation, and transfer of property, and not levied as part of a general income tax—
 1. Rateable.
 2. Non-rateable.
- III. Taxes levied in respect of commodities, and miscellaneous forms of consumption—
 1. Commodities.
 2. Miscellaneous.

In any case the tax on incomes derived from personal exertion should be more distinctly separated from those imposed on commodities and miscellaneous. Its interposition between these is liable to misinterpretation.

This classification has, I fully recognise, obvious defects. To meet the difficulty of local rates, the tax on income has been restricted to the instances where such income tax is general and levied on income, and not on income arising from a particular source. An income tax imposed on one particular kind of income should be regarded as imposed rather on the source of the income than on the income itself. But while the defects are obvious, the advantages are equally so. In the first place, taxes on *income*, *consumption*, and *property* are distinguished. This is important, not only from a scientific standpoint, but by reason of the different relation in which these stand to the standard of equitable taxation. It is, of course, true that final correspondence with such a standard is a matter of ultimate incidence, and that classification does not show this; but a system of classification should distinguish between taxes which are obviously further distributed, and those which may or may not be shifted; between taxes shifted in one way and those shifted in another; between taxes according to some standard of "ability" and those justifiable in view of the defective working of these former. In the second place, where practical use is made of a system of classification, as on page 43 of Sir Edward Hamilton's Memorandum, where the classified taxes of 1868-9 and 1895-6 are compared, it is important to know how far the changes which have occurred are due to changes in the income accruing on rateable property, on non-rateable property, and from personal exertion, or how far these form an index of the changes. The inclusion of part of a direct tax, that on incomes derived from personal exertion, with indirect taxes, while the remainder is separately classified, has this obvious disadvantage, that a transfer of taxation from indirect taxes to direct taxes affecting incomes, necessarily occasions an apparent increase in the taxes falling on property. When this amount of taxation is levied by an indirect tax, all of this falls under the heading of "Taxes not incidental to property," whatever its incidence may be, but where levied by a direct income tax, a portion will be classified as falling on property. This alteration does not take place in any necessary relation to changes in incidence. A particular ground for urging the separate classification of the income tax occurs in relation to the portion falling on income accruing from non-rateable property. Much of the increase in the income tax under this heading is due to the substitution of joint stock companies for private traders. The profits arising under the two systems are the same in nature, but owing to differences in method, are, in the one case, regarded partly as interest or income on capital, and partly as trading profit, but in the other case wholly as income on capital.

Question 2.—Passing to the distribution of particular taxes in Table D., there are a few points which seem open to criticism. It would be desirable to mark the close connexion between taxes appearing as miscellaneous and those on commodities, both being in the main levied on consumption. The separation of the dog tax from the tax on playing cards, for instance, is purely a matter of form. The same holds good in the main of the establishment taxes. In the case of stamp duties, some part of the tax levied on contract notes arises on fictitious transfers; but the impossibility of correct apportionment, together with the smallness of the amount affected, is a sufficient reason for leaving the tax as it stands. But this does not seem to be the case with the other duties specially referred to by Sir Alfred Milner. With the exception of those on life and marine insurances, which I should leave where they are I agree with Sir Alfred Milner's opinion, that those duties ought not to be regarded as incidental to property. They appear to me to be incidental to certain commercial operations which, like all commercial operations, are concerned with either commodities or services. They are thus sometimes incurred when property is not only unaffected, but not even an incident in the operation. Their connexion with property is not essential. The arguments with regard to the peculiar nature of the land tax are too well known to require recapitulation. Its place by itself, rather as payment for release from particular burdens than as a tax, does not affect its position in the classification. The difficulty which arises in the case of income tax on the income of public companies and on income derived from personal exertion, has already been referred to. The business profit which is the remuneration for normal risk, as also for exceptional risk, in the case of companies stands related to capital, in the case of private traders to exertion.

Question 3.—I feel no doubt as to the soundness of the decision to regard the net revenue of the Post Office as a tax, and to place it under the heading of "Miscellaneous taxes not incidental to property." The matter is, it is true, not unattended with difficulties, but the most important of these seems to me to arise from a want of clear distinction between the nature of taxes and their incidence. Taxes are the contributions exacted from persons who are members of the State towards its general expenditure.

If this is so, payments made by the individual to the State in regard of definite personal services are taxes, in so far as they are in excess of the cost incurred. The mere fact that they are, in the first instance, exacted from persons availing themselves of these services is not sufficient to deprive them of the character of a tax. Like any other tax, a tax on communication, which this net revenue represents, is open to the charge of arbitrariness in its imposition.

Many definitions of taxes are offered by various writers. In view of the considerations put forward above, I would add one. Taxes are contributions towards the general expenditure, Imperial or local, of the State, exacted by it from its members in respect of something they possess, or something they do. This definition, which corresponds in many ways with that laid down by Sir Edward Hamilton in his Memorandum, if rigidly construed, removes from the category of strict taxes payments made to cover the cost of personal services rendered by the State.

III.—INCIDENCE OF TAXES.

Question 5.—Without a knowledge of the final incidence of the taxes composing the fiscal system, any decision as to its equity is obviously impossible. Classification, which has already occupied our attention, is, when applied to taxes as they are levied, only of use in so far as it places together those which either are capable of similar treatment or approach the individual through the same avenue. Even in this respect its employment is of doubtful use since, against its advantages, must be placed the disadvantage of beginning an examination of facts by grouping together items which afterwards will have to be separated. It would be different with a classification of taxes as they affect persons in their ultimate incidence; but then, such a classification would mean the decision of the most difficult points before this Commission.

Though incidence in the main must be discussed according to the capacity in which persons are affected by any tax or group of taxes (spending, earning, and owning capacities), there are three general points which may be briefly dealt with.

In the first place, there is the question of taxes on the poorer classes of the community. Broadly speaking, the doctrine of many of the more rigid early economists was that taxes imposed upon this class, and not capable of evasion as those placed

upon non-necessary commodities are, would be shifted from their shoulders by reason of actual insufficiency of means for aught but bare physical support. This view depended for its particular validity upon the doctrine that the wages of labour, through the elastic response of population, not only could be, but actually were, forced down to the level of subsistence. The introduction of the theory of a *variable* standard of comfort and life, adapted to the particular stage of development in which the community found itself, deprived the so-called law of its rigidity, and so far as the shifting of taxation is concerned, of part of its importance. What was once thought to be true of taxes on wages only, and wages were taken in the sense of payment for manual work, and not as remuneration for all efforts and exertions, is now seen to be true of wages just as it is true of taxes on profits, salaries, capital, earnings, and, in fact, on all the shares into which the income of society is divided. If this distribution of wealth is regulated by any definite law, effected through competition, an undue burden of taxation on the remuneration of any one class of agents will lead to rectification of the distribution.

In the second place, the shifting of incidence must be looked on as arrested fiscal loss. In other words, it occurs when the class immediately affected, by doing something else, or consuming something else, is able to escape the tax. If a tax be imposed on a commodity for which another can be easily substituted, the consumer, sooner than pay the augmented price, will take the non-taxed commodity instead of the taxed commodity. Now, if the producers of the commodity thus taxed were monopolists, who had formerly been able to gain more than the ordinary rate of return by right of strict monopoly, and this extra gain be larger in amount than the new tax imposed, it will be to their advantage to pay the tax. The tax will be shifted on to their shoulders. In a like manner the imposition of a tax on incomes and profits derived from a particular business will tend to deter people from entering that business, unless the tax can be placed upon the consumer through an increase of price.

In the third place, the friction, uncertainty, and time involved in the process of "shifting" give definite force and meaning to the remark that "taxes tend to stick where they are imposed."

Incidence, when more closely approached, should, I think, be considered first with regard to taxes on commodities or consuming capacities and then with regard to taxes on incomes and property. Taxes on commodities fall, it must be remembered, on persons, and affect them by restricting their effective incomes or means of support and enjoyment. A man's income is not his money income, but what he can get with it, and anything which increases or decreases the quantity of commodities he obtains affects his income. So far as production is directly concerned, taxes on certain commodities will finally handicap the particular industries. Till, however, an adjustment of the productive forces takes place, considerable hardship will be inflicted on those employed in these directions, as the enhanced price will restrict the market for their products. But the incidence of the tax is not determined by saying that it will be paid by the consumers in the first instance. Their payment of the tax occasions a necessary alteration in their income, and what is important to note, in their income as compared with the income of others. Commodities for our purpose may be divided into three classes : those which enter more or less equally into the consumption of all, and which may be described as necessary, or articles customarily consumed ; those which enter more largely into the consumption of the richer, and are more evidently of the nature of luxuries ; those which are pure luxuries, and are rather determined by individual choice than assigned by custom to a particular class. Now, with the exception of taxes imposed on those in the third and last class, taxes on such commodities may tend to disturb the equilibrium previously established between the incomes of different classes. In this case shifting may take place. If, for instance, to take an extreme case, an ordinary necessary of life, such as bread, were heavily taxed, the strict wage-earning class would be more seriously affected than any other ; and the question of readjustment between profits, interest, and wages would arise. Again, if the commodities of the second class taxed were those consumed wholly, or almost wholly, by profit-receiving classes, a similar question would arise. If, however, they were such that the tax would progressively affect the more wealthy of all kinds, the matter reduces itself to one of graduated taxation ; or, again, the tax may be such as to fall on incomes in simple proportion to their size. So far as taxes on commodities of the third class which form the subject of individual choice are concerned, the final incidence of the tax is on the consumer. But is this so when the tax is imposed so as to disturb the relations between the incomes of the different classes among which the income of society is distributed ? Of course here it must be noticed that a tax which

produces such an effect may be offset, and its effects balanced by other taxes. But this does not affect the question of incidence. The countervailing tax is called for by reason of the shifting which takes place, or would take place.

Taxes on commodities, though imposed on persons in their spending capacity, are paid out of income or property, and thus they may be said to be shifted on to their income and owning capacities. They must be considered with regard to these.

All taxes, both those levied directly and those levied indirectly, either disturb or do not disturb the relations otherwise existing between the incomes of different classes, and different groups or ranks in those classes. The distinction in point of theory is important, because when they disturb this relation there are specific grounds for arguing that the incidence will be shifted until readjustment takes place, and the equilibrium previously existing is re-established. When there is no disturbance taxes will rest where they fall, provided that no class is so placed that it is unable to bear the burden of taxation. This position was predicated by some writers as that of the wage-receiving class; but, for reasons urged above, this view is untenable.

The above statement is theoretical, and depends for its validity on the accuracy of certain hypotheses. Firstly, rents in their pure economic sense are omitted. Secondly, it is assumed that the incomes of the various classes and various groups are adjusted and held in their place by the action of competitive forces, whereas at all times such adjustment is rather a matter of tendency than of existing fact. Without doubt the working of competition tends to bring about some correspondence between remuneration and income, and effort; equally without doubt, in all societies, and especially in a society varying so greatly in its condition as does ours, there is at any time a great divergence between these. Both the abstract theory, and the divergence between it and actual conditions, are important on account of one conclusion. In view of the theory, it has sometimes been argued that the mode of imposition of taxation is unimportant, inasmuch as the forces of competition will distribute the taxes in the same way, however imposed. Such a conclusion is thoroughly vicious in theory. It is obviously dangerous in practice since much time must elapse before final distribution takes place. Even should this occur in the end, there would be a long period during which the wrong class or wrong persons would be taxed. Moreover, the theory on which it is based premises a competition which does not exist and the absence of monopolies or combinations which enable those interested in the monopoly or the combination to obtain an income out of proportion to their effort, and unrelated to other incomes. When such exist, correct imposition is of the very highest importance. It assumes, indeed, that the relations between wages, profits, and rent depend on simple competition, an assumption which is, to say the least, only approximately correct.

To return to the distinction between taxes according as they disturb or do not disturb the relations between incomes. Such relations are not disturbed by taxes which fall on commodities of the third class, that is, luxuries which are a matter of individual, rather than of class or average class, preference. Again, taxes which affect the wealthier classes progressively, as also duly graduated taxation of a more direct character, may be held, for reasons previously suggested, to leave the relations between incomes, as represented by their *utilities*, undisturbed, that is, much as they would be were there no taxation. But what if taxes do disturb this relation? Does it matter? The point seems to me to be of practical importance with regard to one of the important questions necessarily before the Commission, namely, the possibility of taxing property and capital, or incomes arising out of such, in a higher proportion than incomes derived from personal exertion. The possibility of taxing rents will be separately dealt with. The imposition of such taxes is worse than useless if they occasion alterations in the competitive relations between the different agents in production, and so are "shifted" through an alteration in the proportions in which the income of the society is distributed among the various classes.

It is not questioned that, in a state of competition, a tax laid on the earnings of a particular trade will be gradually "shifted" through a rise in its remuneration, or the price of its products, until the rate of remuneration current in it and proportioned to the efforts involved, will stand in the same relation to the earnings of other trades which it previously held. In like manner it has been urged that a tax falling out of proportion on any particular kind of income as wages, profits, or interest, on the earnings of labour, of the employer, and of capital, will similarly distribute itself. Taxes and a system of taxation which affect each factor equally, thus leaving their proportions undisturbed, will not occasion "shifting." Let us take the case of most practical importance, that of taxes on all capital. Here it is argued that such taxes tend to occasion a diminution in the rate of saving, and thereby raise the share of

income, in other words the interest, allotted to capital. Put in plain words, this amounts to the assertion that taxes on capital are not paid by capital alone, but by capital and labour, the latter having to yield a portion of its share to induce sufficient accumulation. But the case is not so simple as it seems. *Firstly*, a tax on incomes derived from capital may fall very largely on incomes due to monopoly rights, which are already strained to their full extent. In this relation it is impossible to pass over, without notice, the views sometimes expressed to the effect that some part of the incomes received by those representing capital is due to the greater advantages they possess over labour in any question of division. It is practically suggested that they take what they can get, and would be content with less if they could not get more. *Secondly*, it seems to me impossible to regard the contention that accumulation depends on the rate of interest as beyond controversy. The accumulation of wealth in a community depends on the particular comparison formed in that community, and at that time, between the conditions of the present and those of the future. The grounds on which such an estimate is based are many, and very various in character, and the rate of interest is but one element among many. To assert further that, but for a certain rate of interest, capital when saved would remain unemployed, is to ignore the conditions which allow of saving. The great mass of saving must take place through the employment of capital in some form of productive enterprise. *Thirdly*, it must be remembered that the great argument used in support of the special taxation of capital is the relief of income derived from personal exertion, in view of the necessity laid upon those receiving it of saving, and thus aiding accumulation of capital. Thus, even if the assumption as to the detrimental effect of a fall in interest on accumulation be true, it may be argued that, though the inducement to save is diminished, the fund out of which saving takes place is increased, those who possess incomes not derived from capital being under a greater impulse to save, and more likely to save, than those whose incomes are derived from capital. Such a consideration involves matters of difficult computation.

Next, as to taxes which fall on rents. The apparently simple rule that rent, being a payment for differences inherent in situation or fertility, taxes imposed on it must be borne by the landlord, is complicated in practice by certain circumstances. *Firstly*, rent is used to describe payments not only differential in character, but by way of remuneration for investment of capital. *Secondly*, the existence of fixed contracts must be taken into account, as taxes may be imposed during their continuance. Thus taxes may be imposed, on the one hand, when the sum payable by the occupier to the owner is fixed for a short term of years; again, on the other hand, during the course of a building lease, where the payment made to the ground landlord is determined. *Thirdly*, different scales of taxation prevail in different districts. In the main this is due to differences in beneficial rates, and such differences correspond, or are held to correspond, to actual differences in advantage. They may be due to differences in local management.

The cases raised in the last sentences may be dealt with first. When differences in the scale of taxation, that is, differences in rates, correspond to benefits conferred by local expenditure, the occupier or consumer will obviously pay the rate. In addition to the usual advantages of a particular kind of house, or of particular land, he enjoys the benefits of the district. Such differences in rates are a payment for differences in advantages by those who enjoy them. Sometimes, however, these advantages are enjoyed by those who do not pay for them. This happens when local expenditure, though paid for at the time by rates, results in ultimate improvements, the advantage of which accrues to the owner, or in the last resort to the ground landlord. Again, at the time, property outside the district in which the expenditure takes place participates in the benefit. In this instance, too, an advantage is conferred on the owner or landlord. But differences due to local management being better or worse than the average, though, in the first instance, they affect the occupier, will, if maintained, come to affect the owner.

In this connexion the whole question of beneficial rates needs some notice. It is argued that these, being for services rendered, are paid for by the occupant, and, in point of fact, such a result is to be anticipated, though the mode in which it is attained is more intricate, and requires more precise statement than is thus suggested. If these rates are levied according to consumption, their incidence on the occupier is obvious, but where levied on rent, the power of the landlord to prevent the occupier shifting them may be questioned. The power of the occupier to do so rests, of course, on the supposition that such rates, by affecting price, alter his position in the competition with his landlord. Now, two things require notice. *Firstly*, these rates

are levied on a scale (*i.e.*, the rent) which is supposed to correspond to the benefit enjoyed by the occupier. Secondly, they are levied in respect of expenditure which confers advantages either formerly conferred by private services paid for by the occupier, or new in character. In neither case do they, granted the correctness of the assumptions made under these two headings, affect price, and consequently the position of the occupier is not altered with regard either to the landlord or, when using the houses or land for trade purposes, to the consumer. When the rent is not a correct scale some little shifting may take place in process of time.

Irrespective of alterations arising out of the foregoing, the circumstances enumerated under the first and second headings give rise to great variety in the final incidence of taxes imposed on rents. There are two general rules. Taxes on pure rents, and under conditions of competition, fall upon the ground landlord, whether imposed directly upon him or upon the owner. In the latter case, the shifting of the tax may be slow, and, where leases for fixed terms exist, is postponed definitely for the given term. On the other hand, taxes which fall on the capital invested in and on the land, like taxes on the profits on particular trades, will be shifted off the shoulders of the trader and borne by the consumers. Consumers of houses are like consumers of any other necessary commodity. They cannot dispense with the commodity, but they may diminish their consumption of it.

Question 6.—In view of the considerations already laid down, the incidence of the different taxes and of the onerous rates may be separately treated.

(a.) *Inhabited House Duty.*

As this is not a local, but an Imperial tax, no considerations of differences between districts, with the corresponding influence of possible escape, enter into discussion. It is levied on a consumable commodity, namely a house, and thus will fall in the first instance on the immediate consumer. The consumer cannot shift it on to the owner, as in that case the profits of a particular trade would be specially taxed. But as the tax is levied according to the rent, which includes both house rent and ground rent, the point arises as to the particular incidence of this latter portion. In the long run, and in a state of perfectly free competition, uninterfered with by fixed contracts, this portion would fall on the ground landlord but for one circumstance, namely, that the tax only arises when land is put to a particular use. The occupant, who is the cause of the land being put to the particular use suited to his purpose, will consequently have to bear the tax on that part of the ground rent which the landlord can obtain if the land is used for cultivation instead of being given over to building. The general question as to temporary differences in incidence due to leases, &c., will be discussed below. Finally, it must be observed that this tax is slightly graduated. This will affect the building of houses; and the shifting of a certain portion may occur, but this point will be discussed below (Question 13).

(b.) *Rates levied on Houses and Trade Premises.*

For the moment we may leave on one side the possible shifting of the tax on to consumers, due to houses or premises being used for trade purposes, and confine ourselves to the question of the incidence of taxes and rates as affecting the occupier, or the so-called owner, or the ground landlord. Here we must take into account the particular reasons which prevent the ground landlord from shifting on to others the taxes which fall on the ground rent. Under taxes, rates are here included. The land is not subject to further increase, and the payment, as its rent, is a payment in view of differences between one plot and another. But neither the one nor the other circumstance is present in the case of houses. Here rent is paid as a profit on a trade, and more houses can be built in partial competition, or existing houses enlarged, if only it be worth while to build or enlarge them. Of course they will not be built, that is, in the long run, unless those employed in the building trade can add to the price taxes which would otherwise fall on their particular profits. In pure theory, and in long periods of time, it may be said then, that the occupier will pay the tax which falls on the part of the rent which forms the profits of the builder, whether acting as owner himself or having transferred his rights to others; while the tax, so far as it falls on the ground rent, will fall on the ground landlord. But in point of fact, such taxes are imposed while fixed contracts exist, and it is important to realise how far these temporarily interfere with their incidence. Taxes imposed during an occupying lease fall obviously on the occupant till the termination of his lease. But

what if taxes be imposed during the owner's lease, that is, after the owner and ground landlord have settled the ground rent for a long term of years? In that case, we must take as distinct that part of the tax which falls on the portion of the rent which is the builder's, and through him the owner's profits, and that which falls on the rest of the rent. It is, I think, clear that the former portion will fall on the occupier. But what of the latter part of the tax? It cannot fall on the ground landlord till the termination of the ground lease, as the ground rent is fixed, and is fixed in view of the taxes levied at the time when fixed, and of no others. But for these then levied it might have been higher. New taxes, however, will not affect it. Will this part of the tax fall on the occupier or the owner? The assumption underlying the argument is, we must remember, that the ground rent is fixed, *but* here it must be noticed that this is only true of the land on which houses are built, and of some other land. There will be land in greater or less proximity which can be taken in for building purposes. When such is done, the ground rent of the land thus taken in, on which new houses are constructed, will be fixed in view of existing taxes, including, of course, those recently imposed. Thus, when the houses are built, the owners or builders of the new houses will be able to let their houses at a proportionately lower rent than would be possible if their ground rents had been fixed before the new taxes could be taken into account, and thus these houses will tend to be proportionately cheaper, wholly irrespective of differences in rent due to differences in advantage and situation, than those the ground rent of which was fixed prior to the new impositions. In other words, the owners of the old houses will have to bear that portion which should fall on the ground rent, and which will do so at the termination of the contract.

When houses and premises are used for trade purposes, the occupier will be able to shift on to the consumer (by an increase in the price of his products) that part of the tax which falls on the portion of the rent which forms the ordinary profits of the builder and owner. But this would not take place if the profits of all trades were equally affected. In practice, such a case is hardly likely to occur. Throughout it must be remembered that lapse of time, with its changes, may really create a kind of second ground rent in the possession of the owner, as distinct from the strict earlier ground rent. Both are payment for differences in advantage and situation. Taxes on the rent, which is a payment for such, cannot be shifted on to the consumer.

(c.) *Rates levied on Agricultural Land.*

In this consideration, the incidence of rates as affecting farm-houses and premises is, I imagine, not involved. These are cases which fall under the foregoing heading; farm-houses, however, being buildings partly used for dwelling and partly for trade purposes. So far as the rent of agricultural land is differential, or pure economic rent it is of the nature of the ground rent in the case of a house, and taxes levied on it fall on the landlord. This is on the assumption that such rents are rack rents, and that the rent is not paid to encourage or compensate investment of capital in the improvement of the land. To such extent as one or other of these is the case the tax falls on the occupier, and will be shifted by him on to the consumer. To such extent, and to such extent only, do they hamper agriculture, by necessitating a rise in the price of its products. The tax which falls on the landlord will not be shifted on to the consumer.

The tax, so far as it falls on the rent which forms the profits of the builder or the owner of the house, is in the position of a tax on certain profits. All occupations may be said to involve outlay of two kinds, the immediate outlay required to fit the product for sale, and the preparatory outlay which makes such employments possible and prepares the way for their exercise. One part of this preliminary outlay consists in the construction of houses, and of some kinds of permanent improvements in land. Owing to differences in the amount of such preliminary outlay required by different trades, and the fact that it is remunerated by a payment included in the rent, one part of a tax on total rents may form a tax on the profits of particular trades. In the case of agriculture many improvements occur in the ordinary course of cultivation, and these cannot be said to have the above consequences. Other permanent improvements are undertaken in view of increased rental. Here the rental calculated upon is probably rental for a period during which the outlay is recouped, and after which the improvement, so far as it is unexhausted, may be treated as consolidated with the land.

In this connexion it is perhaps useful to remember Ricardo's argument that in many cases improvement in fertility, while beneficial to the nation, would not lead to an increase in the total rental of the country, and might occasion a positive decrease.

(d.) Taxes on the Transfer of Property.

Taxes levied on the transfer of property of various kinds are an obstacle to free transfer, and must be viewed as taxes on a particular operation whereby a particular commodity comes into the possession of a consumer. As such they fall, as a general rule, upon the consumer through a rise in price, while, in addition, they may lead to a restriction in the consumption of the property concerned. It has been maintained that, in the case of real property, taxes on transfer fall on the seller or owner of the property, for the reason that the offer of land and real property for sale is occasioned by considerations rather of necessity than of price; and it seems obvious that when the supply is fixed, independently of the price, such will tend to be the case. When the property transferred is purchased in view of trade operations, and used by the purchaser to assist him in an industrial capacity and in the production of commodities, the tax will tend to be shifted on to the consumers of these commodities.

(e.) Taxes on Profits.

Some of the questions involved in the consideration of taxes on profits have been discussed in the answer to the previous question (Question 5). Like a tax on income arising from capital, or a tax on all capital, a tax on all profits will have a different incidence according as profits are determined by competition, or are in part, at any rate, the result of a monopoly advantage. Taxes on the income of capital have been treated of.

(f.) Death Duties.

These are, in effect, a tax on a very particular kind of transfer. The objection taken to them on the part of early economists was that, as they were paid out of capital and not income, they would tend to diminish the stock of capital and thus hamper progress. At the present time the objections raised to them are, first, that they are easy of escape; and second, their bad effect on accumulation. With regard to the first, their rate should be so determined that the tax on transfer at death is not sufficient to overcome the great objection felt by possessors of property to relinquishing control over their possessions during their lifetime. The differential scale, according to which property going to distant relatives and strangers is more heavily burdened than that devolving on those nearer of kin, really emphasises this. With regard to accumulation, the possible effect of such taxes in this direction has, I think, been often over-estimated. It seems to me to be slight. Indeed, at the present time, practical illustrations are said to exist in increasing numbers of a contrary tendency. So far are the taxes from discouraging the rate of accumulation that sinking funds and other methods have been adopted to meet these duties. In these cases the tax is free from the objection urged by early writers, as it falls on income and not on capital; and forms, in actual fact, an increased income tax on incomes derived from property, and not from personal exertion. Where such methods are not adopted it may be looked on as a commutation of such a tax paid in a lump sum; but in this case it may fall on capital, and not on income.

It must be remembered that in the treatment of these particular cases, as indeed in that of the whole question of incidence, a state of fairly active competition is assumed. Defects in competition bring about a corresponding tendency on the part of taxes and rates to continue to be borne for a long time by those first affected. Hence the importance where possible of imposing taxes directly on those who, even if they are indirectly imposed, would come to bear them in the process of time.

It is also assumed in the case of the rent of houses and premises that the conditions of the country are such that these are not fixed in number or amount, and that building, replacement, and repairs, are continually proceeding. When this is not the case, when, that is, the supply of houses is fixed, and the demand for them or for further accommodation is not increasing, the occupier will be able to force the owner or landlord to bear a large portion of the tax which naturally affects him in his house-consuming capacity, and this will continue till the supply is reduced. Such results, even though they may not be widespread, occur in the case of houses and of large improvements on the land, because both of them are durable and not capable of withdrawal like some other forms of capital.

IV.—DISTINCTION BETWEEN LOCAL AND IMPERIAL TAXATION.

Question 7.—The difficulty of furnishing a clear criterion is mainly due to the fact that the division between the functions of the central government and local bodies in certain instances is determined by simple motives of convenience and administrative economy. Still, most of the functions undertaken by local bodies, and forming the bulk of local expenditure, may be placed under two headings:—

- (i.) Cases where the expenditure is undertaken for the particular advantage of the district, and its benefits appropriated in the main by those dwelling or possessing property in the district. Under this heading comes the expenditure met by beneficial rates.
- (ii.) Cases where the need for expenditure is largely or, at any rate, partly determined by the administration. The poor law expenditure furnishes an illustration of this.

So far as these are concerned, there seems to be a fairly clear and reasonable ground for distinguishing between the purposes for which taxation should be raised locally, and those for which it should be raised by the central government. But there are cases of another kind.

- (iii.) Cases where functions are delegated to local authorities for purposes of administrative convenience and economy. Though economy is effected here as well as in the second heading, it is not effected in the same way. In this instance the primary need or occasion for expenditure is not so largely determined by the mode of administration.

Question 8.—In order to determine how far, if at all, local expenditure should be borne by the central government, that is, paid for, not by the taxpayer of the district, but by the taxpayer of the whole country, it is necessary to arrive at some sort of decision with regard to two separate matters.

In the first place there is the general question as to the liability of the district, and the liability of the country, in view of the particular purpose. Here we have to consider separately the three classes of expenditure. The first should obviously be borne by those who particularly benefit. So far, that is, as beneficial rates are concerned, the decision seems easy; they benefit those living in the district, and they fall mainly on the occupier. So far as differences in respect of such expenditure exist they fall entirely on him. In the case of the second, local liability seems clear, but it is doubtful if the incidence is so equitable. The expenditure involved under the third heading, it might be thought, should be borne by the central government.

In the second place it must be remembered that the apportionment of taxation is entirely different in the local, from what it is in the Imperial system. The larger part of Imperial taxation is so levied that it does not necessarily correspond to ability. In the local system the correspondence, though not necessarily exact, is probably greater. Again, real property is more burdened under local than under Imperial taxation. A transfer then from local to Imperial taxes, or *vice versa*, unless some particular adjustment be made, means not merely a transfer from the district to the country, but a transfer from one class to another class of taxpayers. In the case of expenditure of the third kind, the right people to pay may seem to be the general taxpayers of the country. This is not so in the other two instances. But even in the third case, or indeed whenever change is suggested, attention must be paid to the system of taxation as a whole. That system includes both local and Imperial taxes; and a change from one of these to the other may upset the balance attained, and thus, though apparently equitable when considered apart, really result in a disturbance of the imposition of taxes according to a standard of equity.

V.—FURTHER QUESTIONS.

Question 9.—Some division of the rates between owners and occupiers of real property is most certainly desirable, on account of the delay which occurs before the part falling on pure rent is gradually shifted off the occupier on to the owner. As has been incidentally pointed out, pure rent often arises not only in the rent due to the ground landlord, to take the case of houses, but in the form of part of the rent due to the so-called owner of houses during the time of the ground lease. That is, the situation and other advantages of position possessed by the house, have improved since the grant of the ground lease and the fixing of the ground rent due under it. The aim of division is, not to alter the final incidence of the

tax, but to accelerate its establishment. So far as taxes stick where first imposed, division is obviously important. The same holds good of the rent of agricultural land, in which case the division of rates in the first instance is peculiarly important. Rates on agricultural land, to such extent as they fall on the pure rent are, in essence, a tax imposed on the landlord; but until they attain their final incidence, they fall on the income of the occupant, and thus on the profits on farming. Custom, moreover, exerts great influence in the regulation of rents, making them singularly irresponsible, and thus enabling the postponement of this final incidence.

The proportion in which such division should take place is largely a matter of practical knowledge. I would suggest, however, that the rates should be levied on the owner in a higher proportion when land is concerned than in the case of houses. If in the latter case the rates be equally divided, in the former the owner should, I think, bear two-thirds and the occupier one-third.

Question 10.—The separate rating of ground values and rent to local taxation, if accompanied by a deduction of the rent (or the rent formed on the estimate of ground value) from the rent paid by the occupier, will in one case do nothing more than accelerate the shifting of part of taxes imposed during leases on to the ground landlord. As we have previously seen, final incidence will not take place till the termination of the lease, until when a burden will be laid on the owners of the old houses. This view rests on the assumption that the rates levied on the ground rent, or the estimated income of the ground value, will be the same as those levied on the other rent. In such case separate rating, if practicable, must be viewed as a method of securing the rapid shifting of the tax. But if the ground rent or values be more heavily charged, or if, what amounts to the same thing, the ground rent be taxed twice, once separately and once as forming part of the total rent, other considerations enter in.

The special liability of ground rents and values to taxation, and in particular local taxation, has been urged on these grounds.

In the first place, the land is said to be subject to hereditary burdens with regard to taxation. Objection is taken to the basis on which services which had fallen into desuetude were commuted, and in particular to the artificial valuing of land in the case of the Land Tax. Further, the early incidence of taxation on the land has been alleged as an argument for regarding the land as the main and rightful source of revenue. These arguments apply to more than local taxation. With regard to the first, moreover, it has been answered that a bargain is a bargain, even though after generations may disapprove of the terms on which it was concluded. The second argument with reference to the historical incidence of early taxation is not conclusive, for it must be remembered that, at one time, the possession of land and a free status were in inevitable connexion; the land was the badge of freedom.

In the second place, it has been contended that the land is the natural source of public revenue, a view which any new community, or nation, or colony, would do well to adopt, at any rate in part.

In the third place, the particular benefits accruing to land from public expenditure and national growth are given as grounds for a particular liability to taxation. This argument acquires additional force in the case of local taxation, which is raised largely in view of expenditure which affects the value of the land. This is increased by the growth of population, by the development of various resources, and by improvements in the opportunities for leading comfortable lives and earning an adequate living; and while all national expenditure may be said to conduce to these, local expenditure, as some urge, is of such a kind as to be peculiarly effective and immediate in its action.

In opposition to these views it is urged that special taxation of ground values would partake of the nature of confiscation, and in particular cause substantial injustice to those who have bought land or ground rents instead of resorting to other investments, and in view of the income they yield. Apart from general grounds this contention would not necessarily be valid if such special taxation were introduced to meet the changes occasioned by relief being given to local taxation from Imperial taxation, for such relief might be intended to lighten the burden on the local occupier and not on the land. Speaking generally, the objections urged to such special rating and taxation of ground values seem directed not so much against any injustice in this particular mode of taxation, as against its adoption under existing circumstances. They certainly indicate the need of great care in its imposition. But I think they are insufficient to deprive the community of the particular revenue to be derived from a fund so well suited to local taxation, and which owes so much of its present extent to general growth and public expenditure.

Question 11.—Given certain conditions, the rent received by the owner of land or rateable hereditaments will be affected by alterations in rates, that is, diminished by their imposition or increase, and increased by their reduction or abolition.

The conditions are as follows:—First, the existence of an active competition; second, the absence of custom so strong as to prove an effective check; third, the non-existence of fixed contracts. When these conditions are not present, rent will not necessarily be affected, and when these conditions are only partially present, as is the invariable case, a considerable time will elapse before the full effect is produced. Even then, rent will not be increased or diminished by the full amount of the rates concerned, but only by that part of the rate which is proportioned to the pure economic rent, that is, that rent which expresses the difference between site and site, or land and land. So far as the rent is a return calculated upon and received on account of expenditure of capital and labour on the land, or in the construction of houses and premises, the tax corresponding to it will fall on the occupier.

The theory thus stated rests on certain conditions, most imperfectly realised, and, so far as actual practice is concerned, is mainly important as displaying the tendency which, but for the renewed interferences, would be realised over long periods of time. The creation of new contracts, the constant changes in rates, the influence of custom, prevent it from being more than a tendency. The effect of leases has been dealt with in the answer to previous questions (5, 6), and this, together with the other interrupting agencies, constitutes a forcible argument for a division of rates. Further, it may be added that the rapidity with which the rent is affected by the shifting of the tax will largely depend on the respective keenness and competitive strength of the two parties, that is, the tenants and the landlords. Rents do not, as we know, readily adapt themselves to alterations in price arising from other causes, and it is hardly probable that they will prove more elastic when the alteration is due to a tax.

The power of the occupier to shift part of the tax on to the rent, and of the landlord, in case of reduction or abolition, to increase the rent, is due to the connexion between price and rent, and its mode of operation can be briefly summarised. So long as the tax falls on the occupier, it involves a rise of price, either, in the case of houses, of price to him as paying both rent and tax, or, in the case of trade premises and agricultural land, of price of the product he sells; and, in consequence, the demand tends to be restricted. So far as the rent which forms the profits on outlay is concerned, the case is the same as that which occurs when taxes are levied on particular commodities. Outlay in that direction will cease unless the ordinary rate of profits is assured, or thought to be assured, except, of course, in the instance of monopolies. But the effect of that part of the tax which is proportioned to the pure economic rent is different. Here the supply is in the hands of owners letting their acres at different rates, and the supply is and will be there. It is, so to speak, fixed and immovable. If the reduction in demand and price take place, some land or sites will fall into disuse, being naturally the lower in fertility or situation, and rent on those above them will diminish; but the desire to let will prevent this reduction, and force each landlord to take his rent less by the tax. The landlord who refuses will be outbid by those who offer their land at a reduced rental, and thus disproportionately cheaper than his, the respective differences in fertility being allowed for. But such a result will be very gradual, and much delayed in its attainment.

The case where a rate is reduced or abolished is the reverse of the above.

Question 12.—In abstract theory, and granted the assumptions enumerated in the previous answer, no difference would occur through the change of method suggested in the present question. But taking things as they are, and allowing for the friction which is an inevitable element in social conditions, differences may occur through one or more of the following causes. The amount to be shifted, if the whole or part of the tax be thus deducted from the rent, may be altered. If only part of the tax be deducted, the amount liable in theory to be shifted would probably be decreased. Again, the power of the landlord to procure a rapid adjustment may be greater or less than that of the tenant. And, lastly, the greater prominence and definition given to the question of the incidence of the tax by its formal deduction may have some influence, and consequently affect the time occupied in readjustment.

On the whole, I am inclined to think that the deduction of a part would facilitate such readjustment, as occasioning imposition in greater approximation to final incidence. Furthermore, at present the whole burden of new rates, until the shifting of such part as should fall on others is accomplished, lies on the occupier, who, in

addition to the portion of rates falling on him according to the laws of final incidence, is always bearing some other portion in the interval—often the long interval—elapsing before readjustment.

Question 13.—The result of such rating in both instances will differ according as it is viewed in its more direct effects under existing circumstances, and those which may be produced when it has been taken into account in building, improvement, and other ways. At the present time, houses have been built, and land improved and brought into cultivation, without reference to changes in these directions, and, as houses and improvements are very durable, the owners of those houses and of that land more highly and differentially rated would be seriously affected, and their rent would tend to be diminished. There would be a change in the direction of demand on the part of occupiers, unless the extra tax on the rent (profits) due to owners, and due under these new circumstances, was paid by the owner.

But such temporary effects may be put on one side.

Then, in the first case (*a*) the tax will be graduated on the total value, and the alterations in rate must occur with long intervals between. Under these circumstances, and especially if the difference in the scale of graduation be marked, there will be a tendency to avoid building and improvements which will *just* transfer the property from one class of rates to another class, and a consequent diminution in the total rental of the country. Further, in the case of house property, and this question is mainly important in the case of houses, inasmuch as value is determined by the tenement and not by the total value of tenements and ground per acre, there is a certain inducement to the ground landlord to build small property. Thus he will in all probability be able to force the occupier or consumer to bear the extra tax on higher value so far as that is proportioned to the ground rent. The occupier will have to bear that in addition to the tax falling on the building profits. If the ground value be separately valued, and rated according to acreage, the ground landlord will bear the graduated increments as well as the minimum tax.

In the second case (*b*) the occupier of the property employed for the particular purposes more highly rated will have to bear the extra tax, not only on the strict house rent, but on the ground rent, except in so far as the ground rent which can be obtained for that particular purpose is in excess of that which the landlord can obtain if the ground be used for a purpose not liable on the heavier scale. The part of the tax falling on this increase of ground rent will tend to be borne by the landlord.

Question 14.—One marked defect in the system of local taxation is the escape of personal property, owing to the alleged danger of hampering enterprise, and its especial mobility. A remedy for this can only be found by a resort to Imperial or central taxation, and to supplement local funds out of taxes raised by the central government is open to danger and abuse. At present the case appears to be much as follows. It is not desired to tax more heavily the income derived from personal exertion. Again, real property is taxed together with other property, and by itself in rates. Personal property escapes more lightly. If this be the case, and without any minute investigation and discussion the relative proportions in which taxes *should* fall on personal and real property could not be determined, one of two alternatives presents itself. Either to adjust the property taxes in the Imperial system so that they fall more heavily on personal property, or to raise a new revenue by fresh additions to these taxes so far as they affect such personal property, such revenue to be kept distinct, and to form a fund out of which rates might be supplemented. The fund would be raised centrally, but ear-marked for local purposes. The temptation to bad local economy would have to be met by making the contributions subsidiary, and never allowing them to bear more than a certain proportion to funds raised locally by rates.

Question 15.—There are two points to which I have already drawn attention, which I should like to emphasise. The one is the importance, in dealing with local taxation, of remembering that it does not form a system of taxation by itself. The system is constituted by the combination of local and Imperial taxes, and the equity of contribution by any class of property owners or other persons can only be judged with regard to it in its entirety. The other is the clear distinction which should be drawn between contributions to the revenue from income and from property. The latter contributes not only in its income, but as property.

In conclusion, I append a brief summary of certain of the conclusions arrived at in the foregoing answers:—

(1.) The system of taxation, with regard to which all questions of equity must be considered, comprises both Imperial and local taxes.

(2.) Imperial and local taxes affect the various tax-paying classes differently, so that a transfer from one to the other means not only a change from local to central funds, and *vice versa*, but an alteration in the incidence of taxation.

(3.) Taxes levied on commodities do not fall on persons according to their ability. The same is true, though possibly in a less degree, of that portion of the local rates which is borne by the occupier of a house, or, in the case of trade premises and agricultural land, by the consumers of the products there produced.

(4.) There are certain grounds for holding that property is more liable to taxation than income.

(5.) Real property in particular lies under very peculiar liability, which may be met by the separate taxation of ground values.

(6.) The shifting of taxation is attended by very great delay, and in consequence the occupier is constantly burdened by taxes which finally fall on others, but which he has to bear until they achieve their final incidence. This gives grave importance to the division of the rates along the lines of final incidence.

(7.) The difficulty of taxing personal property locally can be met by an adjustment of the property taxes in Imperial taxation.

E. C. K. GONNER.

Answers by Mr. Edwin Cannan.

1. It is impossible to offer useful criticism of a classification without knowing for what purpose the classification is intended. In order to discover what this is, I must have recourse to the reference to the Commission.

The reference seems to ignore the commonplace of economists which asserts that taxes cannot be defrayed by things, but must, like all other payments, be defrayed by persons. It seems to ignore this commonplace not only, as Sir Edward Hamilton observes,* by speaking of property "contributing" to taxation, but also by its assumption that there can be equity in taxation as between different kinds of property. Now, in spite of Blackstone's phrase, the "rights of things,"† things cannot be wronged or suffer inequitable treatment, whether in regard to taxation or anything else. It is necessary, therefore, to "interpret liberally" the terms of the reference, rather in the sense in which sacred writings, whether by theologians or economists, are "liberally interpreted" by modern teachers who shrink from leaving the shelter of the wings of authority. That is to say, the Commission will have to endeavour to answer not the question actually put (which is impossible), but the question which would have been put if its framers had been advised by someone familiar with the most recent scientific discussion of the subject.

The question which would have been put under those circumstances might, I think, have been divided into three branches:—

- (1.) Is the present taxation‡ of persons in respect of property equal as between the various kinds of property?
- (2.) Is it equitable as between different persons?
- (3.) If it is inequitable, what, if any, alterations in the law would make it more equitable?

The first two of these inquiries are perfectly distinct from one another, since a negative answer to the first does not necessarily involve a negative answer to the second, nor *vice versa*. In my opinion any confounding of the two as they are habitually confounded in the press and on the platform would render the labours of the Commission, however arduous and prolonged, wholly nugatory, if not actively pernicious.

Accordingly, it appears to me that the Commission's first object in classifying national taxes must be to discover how far the present national taxation of persons in respect of property is equal as between the various kinds of property. For the purpose of answering the second question, how far the taxation is equitable as between persons, this first classification may be, and probably will be, altogether unsuitable.

* Memorandum, p. 33.

† Quoted with the same purpose as here in Bastable, "Public Finance," 2nd Ed., p. 255, note.

‡ I omit the words of the reference "for local purposes" since it is conceivable (and is, as a matter of fact, argued) that certain inequalities and apparent inequities in the one kind of taxation are balanced by corresponding inequalities and apparent inequities in the other.

The first thing to do, in framing the classification, is to divide the various taxes into those which are equal and those which are unequal as between the various kinds of property. I take it that a tax is equal as between the various kinds of property if its abolition would neither benefit the present owners of a particular class of property more than the present owners of another class of property, nor, by making a particular class of property a more desirable investment than another class of property, tend to increase the quantity of the first class in comparison with the quantity of the second class. In the shorter but more metaphorical and consequently dangerous language of everyday life, an equal tax in respect of property is one which "lays no peculiar burden" on any particular kind of property. The term "burden" is used because the unequal tax, so to speak, weighs or presses down either the clear value to the owner, or the quantity produced and maintained in existence.

Without going into minute details further than is done in Table D., we may say that the following taxes are obviously unequal as between different classes of property :—

Customs duties.	Playing cards tax.
Excise duties.	Marine insurance tax.
Railway passenger tax.	House tax.
Telephone tax.	Land tax.
Bankers' notes tax.	Patent medicine tax.

The Customs and Excise duties have the effect of restricting the consumption of intoxicating beverages, tea, and tobacco. If they were abolished the capital employed in the importation and production of these commodities would increase in comparison with other forms of capital.

The abolition of the railway passenger tax would both benefit the present owners of existing railways in comparison with the present owners of other property, and, by making railways a more profitable form of investment, tend to cause an increase of railways in comparison with other forms of capital.

The telephone tax, which is none the less real because it happens to be called a "royalty" and to be hidden away in the receipts of the Post Office, is exactly like the railway passenger duty. It makes an extension of business on the part of the telephone company less profitable than it would otherwise be. Its abolition would both benefit the telephone company more than the owners of other kinds of property, and tend to increase the proportion of the capital of the country taking the form of telephone wires, instruments, and exchanges.*

The abolition of the tax on bankers' notes would disproportionately benefit the bankers who retain the old privilege of issuing notes.

The abolition of the tax on playing cards would lead to an increased consumption of cards, and consequently to the investment of a larger proportion of the capital of the country in the machinery necessary for the manufacture and distribution of cards.

The abolition of the tax on marine insurance would tend to increase the proportion of the capital of the country invested in the form of shipping. The abolition of the Inhabited House Duty would disproportionately benefit the owners of the existing stock of houses of 20*l.* annual value and upwards for a time, and would eventually tend to increase the proportion of the capital of the country invested in the form of houses of 20*l.* annual value and upwards.

The abolition of the land tax would disproportionately benefit the owners of property at present subject to land tax. It would also tend to increase the proportion of the capital of the country invested in the form of rateable property on the areas which are at present subject to the tax.†

The abolition of the tax on patent medicines would disproportionately benefit the owners of the patents, and would tend to increase the proportion of the country's capital invested in things necessary for the manufacture and distribution of the patent medicines.

The remaining taxes are either equal, or so nearly equal, as between different kinds of property that their inequality is not worth considering. The various stamp duties, doubtless, do not, when taken together, form an absolutely equal tax, but *de minimis non curat lex*. It would be absurd to inquire whether more receipt stamps and cheques are used in connexion with houses or with ships. The income tax and the death duties are both professedly equal taxes on all kinds of property, and in spite of their necessary and unnecessary imperfections, the mere fact that Table D. (taken in conjunction with

* In short, the railway passenger duty and the telephone royalty are both vingtièmes, and liable to the objections which have always been made to tithes and other taxes on gross produce.

† I assume that reassessment within a parish does actually take place when new rateable property is created there. See *below*, Question 14, fourth paragraph.

the estimates of the value of property furnished to the Royal Commission on Agriculture) represents them as unequal as between rateable and unrateable property, is not nearly sufficient to destroy the presumption in favour of their equality. The great inequality indicated by the table in the case of the death duties is presumably due to the fact that the changes made in 1894 have not yet made themselves fully felt in the returns. When this has taken place we may expect to see a somewhat higher rate in the £ or percentage yielded in respect of rateable property than in respect of non-rateable property, since, as a rule, rateable property belongs to richer people, whose estates, under the progressive scale, will be chargeable at the higher rates. The inequality indicated by the table in the case of the income tax is trifling, and probably does not really exist. Here, too, we should expect to find a higher rate in respect of rateable property, since it is not much held by persons whose incomes are small enough to entitle them to exemption or abatement. But inequalities of this kind, resulting from progressive taxation, are not inequalities of taxation as between different kinds of property, but inequalities as between persons possessing different totals of all kinds of property taken together. The abolition of the progression would not make anyone more ready to buy or produce any particular kind of property.

Now in view of the classification in Table D., and the evidence given before the Royal Commission on Agriculture, it seems that the next step is to ask whether the amounts raised by the unequal taxes can be disintegrated, classified, and summed up in such a way as to show whether any inequality, and if so, how much inequality there is in taxation as between rateable property and unrateable property, each being taken as a whole. I am not prepared to deny that it is conceivable that this might be done by an omniscient statistician. He might discover and set down exactly the proportions in which the property affected by customs, excise, railway passenger duty, and the other unequal taxes, is divided between rateable and non-rateable. But no actual statistician approaches near enough omniscience to produce anything worth looking at in this direction. Moreover, even if correct figures were obtained, they would be of no use for the purposes of the Commission. The fact that one species of rateable property is more "burdened" than property in general, is not, and cannot be, counter-balanced by the fact that some species of unrateable property is more "burdened" than property in general. A special tax in respect of ships is no set-off to a special tax in respect of houses. It is not possible to set off against the land tax the fact that carriages and dogs render their owners liable to taxation. In addition to all this, we have to remember that the amount of tax collected does not measure the magnitude of the burden. The burden surely increases when the tax is made higher, whereas the amount collected does not always increase with the heightening of the tax, and seldom increases exactly in proportion to it. A tax on some non-rateable article might be made heavier and heavier till it finally prevented any new capital being invested in that form. Then, as soon as the existing stock was consumed or worn out, the article would cease to appear in Table D.; but would this be any "relief" to non-rateable property? Obviously not.

2. The classification in Table D. is valueless for the purposes of the Commission, because it overlooks the considerations mentioned under Question 1. But it is to be condemned for several other reasons.

In the first place, following, I admit, numerous and high authorities, it distinguishes between "taxes levied in respect of commodities" and "taxes incidental to the ownership, occupation, or transfer of property." But what commodities are not property, and what property, with the possible exception of land, is not composed of commodities? I know of no definitions of property and commodities which distinguish things into things which are property and things which are commodities. The old distinction between taxes on commodities and taxes on property is a merely temporal one, *i.e.*, a distinction based, not on the nature of the thing taxed, but on the time or times at which the taxation takes place. A barrel of beer is taxed at the time it is produced; therefore the beer tax is called a tax on a commodity. A house is taxed, not when it is built, but annually while it remains in existence; therefore it is called a tax on property. If the house duty were levied on the builder, we should call it a tax on a commodity; if the wine merchant or the private epicure were annually taxed on the stock of wine in their cellars, we should call the duties on wine taxes on property. But this distinction is of no importance to the present inquiry, and the classification, as a matter of fact, does not adopt it, since the duties exacted from public-houses annually in proportion to their annual value (on a certain arbitrary scale) do not appear under "Rateable Property" taxes, but are huddled away under "Miscellaneous Taxes," the framers of the classification having evidently thought that they were too

near akin to the taxes on the gallon of beer and spirits to be classified in the other main division of the Table as a "tax incidental to the occupation of property," which they certainly are. The same confusion probably is the cause of the strange classification of the carriage tax and dog tax among "miscellaneous taxes," instead of among "non-rateable property" taxes, and to the setting down of the railway passenger duty under "Miscellaneous," instead of dividing it between "rateable" and "non-rateable" property.

If it is once recognised that the 50,928,000*l.* classified as "taxes levied in respect of commodities," and a considerable proportion of the 5,052,000*l.* classified as miscellaneous taxes do, as indeed is obvious, affect the interests of the owners of property in diverse degrees according to the nature of their property, and also affect the distribution of the capital of the community between the various forms of property, it seems almost unnecessary to criticise the Table in further detail. I will add, however, that it seems very extraordinary to treat the 1*l.* which I pay to the income tax collector on receiving 30*l.* for a term's lectures as a "tax levied in respect of income derived from personal exertion," and then to say that the penny stamp I put on the receipt is a "tax on non-rateable property." And how is it that the receipt stamp paid for by my landlord when I pay my rent, is a tax on non-rateable property?

3. Many definitions of the word "tax" have been proposed, but I know of none which would include just so much of the Post Office revenue as happens to be in excess of the amount expended in the year and no more.

I believe that the desire to reckon this amount and no more as a tax, arises from a somewhat dim impression that it is the sum which the State exacts in excess of what a private company, without any legal or natural monopoly, would have to be satisfied with for performing the same services.* But it is not. In the first place, such a private company would expect and receive about 3 per cent. on its capital in addition to the mere working expenses. We do not know what the capital of the Post Office is, but it must be very great, seeing that all the more important offices are owned in fee simple. Secondly, a company would raise new capital for new buildings and the purchase of more land instead of defraying the expense as if it were current working expenditure. Thirdly, a company would not "encourage thrift" by giving away upwards of 700,000*l.* a year to the depositors in the savings bank, by paying 2½ per cent. on deposits which are invested in a stock which yields less than 2 per cent.† Fourthly, in all sorts of ways the Post Office is not conducted as a commercial enterprise would be. For example, it spends more than a company would do in the less profitable districts.

The only argument I know of in favour of treating the so-called "net revenue" alone as a tax, thus breaks down. If any part of the gross revenue is a tax, the whole must be.

Whether the gross revenue is called a tax or not, does not strike me as being a very important question. The State revenues which are always called taxes do not appear to me to be divided by any sharp line from those which are never called taxes. If the Crown happens to have confiscated some pretender's land in the middle ages, and still holds that land, no one calls the rent of it a tax. If the Crown by the same or similar means happens to possess some manorial right or a rent-charge on some parcel of land, no one calls that a tax. But the unredeemed portion of the charges on the parishes imposed by Parliament in the seventeenth and fixed in the eighteenth century is the "land tax." Similarly, in local finance, though receipts of all kinds are very properly included in the *Annual Local Taxation Returns*, no one calls the local authority's revenue from lands and houses or even gasworks "taxes" or "rates." About the revenue from waterworks there is occasionally a little hesitation; people are apt to say that the "water rate is not a rate," or something absurd of that kind. The revenue levied for the collection of house refuse and the disposal of sewage, on the other hand, is always called a rate and regarded as a tax.

* I think this is implied in Sir E. W. Hamilton's remark (*Memorandum*, p. 37) that "the amount actually expended by the State represents direct and immediate service rendered to those who write letters or send telegrams." It would be at least equally true to say that the amount received by the State represents direct service rendered. If I put a letter in the pillar box rather than walk half a mile to deliver it by hand, it is clear that I value the service rendered at one penny at least, and if its true value is to be taken as less than a penny, it must be assumed that someone would have carried the letter for less than a penny if the Post Office monopoly had been absent. But to deal thoroughly with this question it would be necessary to enter on a discussion of the Austrian theory of value and Marshall's conception of "consumer's rent."

† The loss does not appear in the savings bank accounts; but that is the fault of the accounts. The subsidy to depositors is paid out of the interest received by the savings bank on a fund which is the result of profitable banking in previous years, and on which present depositors have no claim.

Obviously, whether a particular form of revenue is called a tax or not is only a question of degree. The water rate is more a tax than the bill for gas, partly because it is generally more difficult to dispense with the public water supply than with gas, and partly because the quantity of water taken is not measured, the payment being usually regulated by various standards in combination, such as the value of the house, number of water-closets, baths, and garden taps.

In considering the "equity of taxation" it is not desirable to adopt any narrow view of the meaning of taxation, since the action of the State must be considered as a whole. I should therefore not be inclined to exclude the whole or any part of the Post Office gross revenue from the present inquiry.

I think there is no reason for supposing that Post Office charges affect different kinds of property unequally to any extent which can be appreciated or discovered. They may, therefore, be classified along with the income tax, death duties, &c.

4. "What is equity?" is a question which has exercised the minds of philosophers for many ages, and is likely to do so for many more. It will not be finally settled, it is safe to say, by the present or any other Royal Commission. The ideas of mankind (the genus to which, after all, the species of philosophers belongs) have changed and will change, and moreover these changes do not take place at exactly the same dates in all portions of the world. But this Commission, fortunately, is not appointed to lay down rules of equity for the taxation of the inhabitants (if any) of Jupiter and Saturn, but to point out where the existing system of raising public revenues in the United Kingdom is not in accordance with the idea of equity which prevails in the United Kingdom at the end of the nineteenth century.

It will be asked at once, "Is there any 'prevailing idea of equity' as to the raising of public revenue in the United Kingdom? Are not the opinions of different classes and interests so divergent that it is hopeless to expect general agreement in any conclusions?" It is, doubtless, true that nothing can be laid down on the subject which will not be vigorously denied by some philosopher or some professor of economics. But there are, I believe, several generalisations which will be agreed to either cheerfully or with no very great reluctance by at least nine-tenths of those who are capable of understanding them.

(i.) The first of these generalisations is that when a particular means of raising public revenue, *coupled with a particular way of expending that revenue*, cannot be supposed to affect the distribution of wealth between individuals in the sense of making it different from what it would be in the absence of such State action, the question of equity does not arise at all.

If, for example, it is found that of three suburban residents Smith pays a private individual 6*d.* a week to come and remove his house refuse. Jones pays him 5*d.* a week, and Robinson 3*d.*, and then the State, in the person of an extending "urban district," steps in and takes over the business of dust-collection, performing it no better and no worse than it was performed before, and charging Smith, Jones, and Robinson a penny in the £ on their houses, which are rated at 312*l.*, 260*l.*, and 156*l.*, then no question of equity can be raised as between Smith, Jones, and Robinson. The position of each compared with that of the others remains exactly as it was, and it will not occur to them as ordinary persons to allege that the fact of the State having for the general convenience taken over a particular business is a reason for altering the distribution of wealth between them. This example is typical of the whole mass of expenditure which is now usually called "beneficial," in contradistinction to "onerous" expenditure. It is true, of course, that in no one case is what may be called the "private enterprise cost" of a particular service exactly proportionate to the rateable values of all the property in the district. It is certain that with regard to dust collection, taken apart from other municipal services, rateable value does not form anything like an exact standard. But with regard to all the various municipal services of a "beneficial" character taken together, it forms as exact a standard as any which can be obtained consistently with performing the services economically. To charge accurately for dust collection, a local authority would have to send round with each cart a weighing machine to get the weight, a dry measure to get the bulk, and a smellometer to get the offensiveness. It would have to keep each person's refuse separate, so that account might be taken of the value of any special articles in it. A departmental committee of the Local Government Board would sit from time to time to determine whether pounds avoirdupois should be multiplied by cubic feet or whether the cubic root of the pounds should be multiplied by the square root of the feet. Minute account keeping of this kind prevailed in the great houses of the Middle Ages, and survives in the kitchens and butteries of some Oxford colleges, where toast and

water is charged $\frac{1}{4}d.$, but is totally unsuitable to modern civilisation. Taking the various "beneficial" services together, the rateable value of the property is a sufficiently accurate standard. It was not adopted by any sudden resolution of the legislature on the recommendation of a Commission advised by experts, but has been gradually adopted all over the country by the spontaneous desire of the persons chiefly affected. In some cases other standards still survive. For example, though in many towns the local authority cleans the pavements and the cost is thus borne in proportion to rateable value, in others the occupier of each house is expected to clean the piece before his own premises, and the cost is thus borne in proportion to length of frontage multiplied by liability to splashing from the roadway. There is no probability that a change which has been accomplished so gradually and so universally as the abandonment of the old standards in favour of the standard of rateable value is regarded by any considerable proportion of the persons concerned as inequitable.

(ii.) The second generalisation is that when a particular means of raising public revenue coupled with a particular way of expending that revenue, does affect the distribution of wealth between individuals, it will be inequitable if it causes the distribution to be more unequal.

The average or ordinary person holds vaguely in his mind three different and wholly inconsistent principles with regard to the distribution of wealth. He believes:—

- (A.) That incomes should be equal, with some modifications to meet differences of need.
- (B.) That incomes should be proportionate to moral merit.
- (C.) That incomes should be proportioned to the value of the services rendered by the receiver.

On some occasions he follows almost exclusively one or other of these three conflicting principles. Adrift in a ship's boat on the Atlantic, or in charge of the administration of a hospital, he follows the first or communist principle. In his almsgiving to individuals he follows the second, which we may call the day-nursery principle. In his ordinary business transactions he adopts the third principle. But in regard to the raising and expending of public revenue he wavers between the three.

Now it happens that a man wavering between these three principles is certain to regard any action of the State which will increase the existing inequality of wealth as inequitable. Such action will obviously be inconsistent with the first principle. It will, if general in its operation, be inconsistent with the second principle, since there is no reason at all for believing that the rich as a class are more meritorious in as great a degree as they are richer than the poor. It will also, if general in its operation, be inconsistent with the third principle, because the very rich are very rich as a class, not so much in consequence of any services performed by themselves, as in consequence of inheriting property. Any action of the State, therefore, which increases the existing inequality of wealth, except in a very partial and unusual way, will offend the ordinary person's conception of equity in distribution, no matter which of his three principles happens at the time to have most prominence in his mind.

Whether this is, so far as it goes, a correct account of the origin of the idea that it is inequitable to cause greater inequality by State action or not, there is no doubt about the fact that State action causing greater inequality is almost universally regarded as inequitable. To show that, on certain principles, it would be necessary to tax the rich at a lower percentage on income than the poor is considered a *reductio ad absurdum* of those principles.*

(iii.) The third generalisation is that State action which reduces inequality of wealth will be inequitable unless the reduction is carried out in a fair and proportionate manner. To this generalisation universal assent will be given, except by land nationalisers. It means that no inequality of treatment shall be meted out as between individuals possessing similar amounts of wealth; to tax Sir Gorgius Midas 10,000*l.* specifically for the benefit of Mr. W. Sikes would diminish the inequality of wealth, and yet would be flagrantly unjust. This may seem an absurd example, but it is only a strong case. If a more likely one is required, take the proposal of land nationalisers for a special tax on a particular form of property, which, in this country, at any rate, is so largely held by the wealthy, that a special tax on it would probably reduce inequality. The proposal is by the ordinary person very rightly considered unjust, because it deducts unequal amounts from A., who has 10,000*l.* worth of land, and from B., who has, say, 10,000*l.* worth of ships.

(iv.) The fourth generalisation is one in which all except revolutionary socialists agree. It is that it is inequitable to disappoint legitimate expectations. Of course,

* Bastable, "Public Finance," Bk. III., Ch. iii., § 2, 2nd. Ed., p. 284.

the difficulty here is to say what are legitimate expectations, and it is quite hopeless to expect any two persons to agree absolutely as to where legitimate expectations end and illegitimate expectations begin. It is and must remain merely a question of degree. But the generalisation is not useless. It explains to a great extent the otherwise curious phenomenon that the ordinary person is so much guided in his opinion as to the equity of new progressive taxation by the nature of the scale chosen. The establishment of a slowly rising scale, which never reaches any very large percentage on any actual income or estate, is not considered inequitable by many persons who would consider a quickly rising scale, reaching a very high percentage, grossly inequitable. The truth is that the inequity is measured by the disappointment of the persons made subject to the tax. The millionaire, most other people think, ought not to have expected to continue to be taxed only at the same percentage as the man with 10,000*l.*, but nearly everyone will admit that he might legitimately expect not to be taxed at a percentage twenty times as high. Whether it was legitimate or illegitimate for him not to expect to be taxed twice as high is a question on which opinions are divided more equally.

There are, then, four tests to be applied in the consideration of the equity of alterations in means of raising and ways of spending public revenue:—

- (A.) Will the change make any difference in the distribution of wealth? If not, whether it should be introduced or not is purely a question of production, not of equity.
- (B.) Will the difference in distribution be in the direction of greater or less equality in distribution? If in the direction of greater inequality, it is inequitable.
- (C.) Will the greater equality in the distribution of wealth be brought about without unfairness as between the various individuals who lose by the change and as between the various individuals who gain by it? If not, it is inequitable.
- (D.) Will the greater equality, brought about in a fair and proportionate manner, stop short of disappointing what are regarded as the legitimate expectations of the rich?

A proposal which passes these four cumulative tests may of course be inexpedient, but it will satisfy the public conscience as an equitable measure.

5. It is usual in economic and financial treatises, as well as in parliamentary and royal inquiries, to plunge into the question of the primary and ultimate incidence of taxation, without considering at all what is meant by "incidence." But this is highly dangerous.

We do not talk of the "incidence" of the cost of papering and painting houses, or of the cost of supplying a family with butcher's meat. If the price of wheat goes up owing to a bad season, we do not discuss the incidence of the addition to the price caused by the bad season. But if the cost of sewage disposal is raised (no matter whether it is by some new requirement of the Mersey and Irwell Joint Committee, or by an earthquake or some other "act of God"), or if a frontier war brings about an increase of the tax on beer, we immediately find ourselves engaged in foggy discussions about incidence. One friend has suggested that the reason why we discuss the incidence of taxes, and not the incidence of any other kind of expense, is that, as taxes can be more easily altered by public authority than any other expenses, the question of their incidence is of more practical interest than the question of the incidence of a wet August or an earthquake, and that the appropriation of a special term for use in connexion with taxes is the result of the greater practical interest. Another says that the reason is that the rain falls alike on the just and the unjust, but that legislators intend taxes to fall on certain classes of persons, and, as a matter of fact, they always fall on other classes.

However this may be, I have no doubt that it is desirable to eschew the use of the term "incidence" of taxation. It unduly restricts inquiries into the justice and expediency of taxes, since it is always held that the "real incidence" of a tax is upon the persons who ultimately pay or provide the money for the tax. But, as I have already hinted (Question 1), persons who pay a tax are often less injured by its imposition than those who pay no portion of it. The man who goes two miles out of his way daily to avoid a bridge toll would be more benefited by the freeing of the bridge than most of those who pay the toll. It is, therefore, far better to consider the *effects* of taxation. By using this more general term, we shall find it easier to avoid the usual mistake of supposing that taxes are subject to an economics of their own, instead of having effects just like any other expense. We shall also be less likely to lose our way by attempting to travel by short cuts.

The true question then, I take to be, "Can you offer any suggestions which would assist the Commission in following out the effects of taxation"?

I would suggest:—

(i.) That the effect of a tax can only be discovered by supposing it either (1) newly-imposed or increased, or (2) abolished or reduced. This is so obvious that I will not argue it. I only mention it because when the equity of a tax is being considered, differences of opinion constantly arise and fail to make themselves understood owing to the fact that one side is considering the tax when newly imposed, and the other is considering what would happen if it were abolished. To take an example, the present land tax would be a most inequitable tax to impose, since it would not treat holders of equal amounts of property equally, and would disappoint legitimate expectations; but after it has been imposed for one or two centuries, and both the properties subject to it and those not subject to it have been bought and sold over and over again, always on the assumption that it would continue, it would be inequitable to abolish it, since the abolition would not treat holders of equal amounts of property equally.

(ii.) That "strong cases" should always be taken. It is no use to inquire what is the effect of adding a $\frac{1}{2}d.$ in the \mathcal{L} to the rates of Oxford. Ask rather what would be the effect of raising the rate from 3s. to 8s., or what would be the effect if a benevolent millionaire presented the city with property which would bring in enough income to pay all present expenses and return the ratepayers 1s. in the \mathcal{L} as well. Of course, those who have constructed theories about "economic friction" will cry out against this course, but they will do so because the shoe pinches. Nothing is more ludicrous than the argument that because a drop makes no perceptible difference in a big bucket it has produced no effect.* The little changes which occur in practice obviously must have just the same effect in kind, though not in degree, as the great changes which may be properly and conveniently imagined for the purpose of illustration and argument.

(iii.) That as no tax is levied all over the world at the same rate, all existing taxation is local, *i.e.*, levied in different places on different principles or at different rates. The local areas differ enormously in size, the United States being 3,500,000 square miles in area, and Furnival's Inn one acre. The larger the area and the more peculiar the language, religion, and manners which prevail in it, the more nearly is it safe to ignore the local character of its taxation, but in no case can it be altogether ignored. The areas dealt with by the Commission are small, and their populations are divided from each other in most cases by no differences of language, religion, or manners. Consequently the local character of the taxation is all-important, and any attempt to consider the effects of the taxes as if they were universal instead of local can only lead to misapprehension and confusion. The pernicious practice of taking averages of local rates is to be condemned on this ground. If local rates were all at the average instead of being, as they are, very much lower in some cases, very much higher in others, and substantially different in nearly all, then almost everything with regard to the effects of the taxation would be different from what it actually is. Especially in considering the equity of taxation, is it absurd to begin by assuming that people in different places are all taxed at the same rate, when, as a matter of fact, they are not.

6. (a to c.) I do not care to accept the classification suggested in sub-questions (a), (b), and (c.). It is more convenient to deal with all these taxes together. In any case it would not be desirable to classify trade premises along with houses separately from agricultural land, which is the trade premises of the farmer.

To attempt to take short cuts in a matter of this kind only leads to waste of time, and I shall therefore approach the end in view in what will appear at first sight an unnecessarily roundabout way.

I shall ask first what is the effect of a uniform and universal *ad valorem* tax on all kinds of property levied periodically for unproductive purposes either on the true capital value or the true annual value of the property. Let us not trouble ourselves with the practical question whether such a tax has ever existed or ever can exist; it is quite conceivable that it might exist in a world where all were honest, and such a world is imaginable, though not likely to be known for some time, at any rate.

Let us suppose that this tax is now imposed for the first time, and levied directly from the owners. There appears to be no reason for supposing that they will be able *at once* to charge more for the productive contribution (as Wieser calls it) of their

* The savants who disputed as to the reason why the addition of the fish to the bucket of water made no difference had a sprat rather than a whale in their minds.

capital than they could before. But immediately one or both of two things must happen. The owners must curtail either their expenditure or their savings. If they curtail their expenditure only, all that happens is that the State now spends unproductively what they spent before. If, however, they curtail their savings, two results will follow, (1) the future produce will be less per head, and (2) the division of that lessened produce will be effected on terms not so advantageous to the worker. In the first case, the Government expenditure, to defray which the tax was levied, would damage nobody but the owners of property. In the second case the evil effect would be felt by the whole community. As a matter of fact, of course, the owners would curtail both their expenditure and their savings; the evil of the expenditure would consequently be felt both by them and the rest of the community, but would be felt somewhat more lightly by the rest of the community than if it had all been met by a curtailment of owners' savings. On the whole, therefore, it seems probable that the effect of a universal *ad valorem* property tax would not be very substantially different from that of a universal income-tax.

Now let us consider the effect of a universal uniform tax on some one particular class of property, the smaller the better, let us say 2s. in the £ on the capital value of bicycles. Now here, if we think only of the majority of cyclists who own their own machines, we will at once declare that "the incidence" of this tax is on the owners of bicycles. But when we recollect that large numbers of machines are kept for hiring out, we begin to question this conclusion. We see that though he would not be able to do so at the very first, the cycle-shop man would very soon be able to charge hirers of machines more than he could before the imposition of the tax, since the relative advantages of hiring and purchase would be altered as soon as the purchaser was made subject to a tax which the hirer is not asked to pay directly. We should then alter our previous opinion, and say that "the incidence" of the tax was on, not the owner, at any rate *quâ* owner, but upon the consumer, or more accurately, the user of bicycles, and the people who benefit (*e.g.*, by having their errands done cheaper) by the fact that other people use bicycles. Then, reflecting a little more, we should see that whatever may be the case with the "incidence" of the tax, its effect reaches not only to those who use bicycles and benefit because other people use them, but also to those who would have used bicycles or would have benefited by other people using them if the obstruction of the tax had not intervened. This last class, of course, has kept its money and been able to spend it in some other way, but not to so great advantage.

To take as another example the one mentioned in sub-question (a.), let us suppose that there has hitherto been no house tax, and that a universal tax of 5s. in the £ for unproductive purposes is placed on all dwelling-houses and levied from the occupiers. Let us suppose also that the occupiers are on quarterly tenancies, all of which expire between the passing of the Act and its coming into force. The immediate effect must be a fall in house rent. All occupiers must restrict either their expenditure or their savings in some direction, and enough of them will try to reduce their expenditure in rent-plus-house-tax to make a great diminution in the demand for house room. As the number of houses has not yet been altered by the tax, the supply remains the same, and consequently the price must be reduced. But this reduction of rent, of course, reduces the capital value of houses; the capital value being reduced, some professional builders retire from the business and others become bankrupt, and the supply of houses is consequently reduced. Building stops, or proceeds at a slower rate, until building profits are restored to the ordinary level by a rise of house rent and the capital value of houses. The occupiers then have to pay more for the same accommodation, or to be content with worse accommodation for the same money.

It would appear from this that while a tax on all kinds of property is what is sometimes called "diffused" over the whole community, a tax on some one particular class of property is damaging to the consumers or enjoyers of the commodity obtained by the use of that kind of property, and not to the owners of it, except, of course, in so far as they are consumers of it. The untrained mind probably often accepts the conclusion as it stands, but the more scientific inquirer sees a contradiction. "If," he points out, "this is so, you could get a different result by taxing each class of property separately from that which you get by taxing them all together in one operation, which is absurd." To meet this perfectly sound objection, the statement with regard to the effect of a tax on a particular class of property requires amendment. Something has been omitted, which, though of trifling importance in the case of a tax on a small class of property, becomes of more and more importance as the magnitude of the class or the number of the classes taxed increases. This is the fact that a tax which checks the investment of capital in any one form of property necessarily encourages investment

in other forms. If less goes into one form, there will be more to put into other forms. Now if the amount invested in bicycles is reduced, the extra amount put into other forms of property and spread over the whole field will have so trifling an effect that we treat it as inappreciable, and say nothing about it. But the more of the total property made liable to the tax, the more important will the increased flow into other forms of property become. The extra influx, whether small or great, of course tends to decrease the return to capital in the untaxed forms of property. Consequently a tax on a particular form of property does damage the owners of property in general as well as the consumers of the commodity connected with the particular class of property.

For several reasons unnecessary to mention here,* local taxation in this country is taxation of immovables, and it is therefore desirable to consider the particular case of the effect of a universal uniform tax on all immovable property. Such a tax must differ very little in its effect on distribution from a universal uniform tax on all kinds of property. It would, of course, have the effect of discouraging the investment of capital in immovable, and encouraging investment in movable property, so that if there are any consumers who consume a disproportionately large amount of products which require for their production the use of disproportionately large amounts of immovable as compared with movable property, that class of consumers would suffer more than others. But there is little evidence of the existence of such a class, so that it may be supposed a universal uniform tax on all immovables for unproductive purposes would "diffuse" the burden of the unproductive expenditure over the whole community approximately in proportion to income enjoyed.

Now let us ask what difference will be occasioned by the tax on all immovables being local, *i.e.*, levied at different rates in different places between which migration of persons and property is possible. Suppose, for example, that the tax instead of being 2s. in the £ everywhere, is 6d. in one group of districts, 1s. in another, 3s. in a third, and 3s. 6d. in a fourth group, the total raised being the same as if all were taxed at 2s.

The important fact here is that somehow or other in spite of the difference of rate from 3s. 6d. down to 6d., the return to the marginal investment of capital will be the same in all these districts. Some people, of course, are fools enough to do anything, but there are not enough fools to affect the matter. The action of the people who do affect it is guided by common sense, and common sense tells the investor not to invest in a place where the return to capital is 3 per cent. less 3s. 6d. in the £, when he can invest in a place where the return is 3 per cent. less 6d. in the £.

How, then, is the equality of return brought about? The first answer that suggests itself to the rent-paying householder or farmer is that he, the occupier, equalises the return to capital by paying more in the highly rated than in the low rated places.

But this answer is obviously absurd. The occupiers do not as a body, move from one place to another after the manner of the ancient Israelites, but enough of them do or can move to prevent any such result. That the result does not actually occur is proved by the fact that an acute business man acquainted with every material circumstance may think it just as advantageous to occupy premises in some place where the rates for unproductive purposes are 3s. 6d., as in some other place where they are 6d. in the £. Occupiers are clearly just as well off in places where the rates for unproductive purposes have long been high as in places where they have long been low.

The second answer which suggests itself is that the consumers equalise the return by paying more for commodities in the high rated than in the low rated places. This answer is still more obviously absurd than the last. People nowadays can get many commodities from almost anywhere, and will not, therefore, pay more for them if they come from a producer or distributor who carries on his business in a high rated district. We constantly find people living in low rated districts procuring things by parcel post from high rated districts.

The true answer is that the equalisation of the returns to investment is effected by the investment of capital in immovables being stayed a little higher up in the scale in the high rated than in the low rated districts. Everywhere the most profitable known investments are chosen first, and the more capital there is to invest the lower down in the scale of profit will investment necessarily go. Investment in immovables will stop a little sooner in the high rated than in the low rated places, so that the return to the last investment may be the same everywhere in spite of the difference in the tax. We have, let us say, 10,000 houses in Oxford, where the rates are 3s. 8d., and 20,000 of

* See my "History of Local Rates in England," pp. 132-4 and *passim*. For the same reasons State taxation in the United States is tending in the same direction; see the Report of the Massachusetts Commission on Taxation just published (December 1897).

the same size in Norwich, where the rates are about 9s. Builders make equal profits in the two places simply because building is carried exactly to that pitch where the profits are equal, taking into account that the different rates will have to be paid on the houses. Similarly in two rural districts, in one of which rates are double what they are in the other, the returns to the last investment in agricultural improvement will be the same simply because investment in agricultural improvements is carried exactly to that pitch in each where the returns are the same after allowing for the difference in taxation.

Everything which tends to discourage the investment of capital in immovable property in a district tends to diminish the demand for "unimproved land" or space in that district, and this diminution in the value of space of course mitigates the effect of the discouragement to investment.

The consequence then, so far as distribution is concerned, of rates being for unproductive purposes higher in one place than another is to cause less creatable immovable property to exist in the high rated and more in the low rated, and to make the value of the land lower in the high rated and higher in the low rated places than would be the case if the rates were equal in all places.

The effect of inequality of rates for unproductive purposes, so far as production is concerned, is to diminish the productiveness of industry by causing an uneconomical distribution of capital between the various districts.

The effect of rates for productive purposes is the same as the effect of any other payment for productive purposes. It is all the same to me whether I pay a "water company" or a "local authority" for my water, and whether I pay a private individual or an inspector of nuisances to remove my house refuse, provided that I pay the same in both cases, and have the work equally well done. It is all the same to the ratepayers in general if they pay to lenders as much interest as would have been obtained by private individuals doing the work under a system of private enterprise. I have endeavoured to show, in the "Economic Journal," Vol. V., pp. 31, 32, that any equalisation of rates for purposes productive of special benefit to the particular locality would be extremely undesirable, from the point of view of production. It would also be unjust, inasmuch as there is no reason for benefiting persons who happen to own particular localities at the expense of others. If, for example, the cost of sewerage and sewage disposal were to be paid from a national fund, the creation of towns in situations difficult to drain and distant from the sea would be encouraged, and the owners of land in these situations benefited, while the creation of towns in situations easy to drain and on the sea coast would be discouraged, and the owners of land in these situations damaged.

(d.) "Taxes on the transfer of property," *ad valorem*, are too much like "taxes on property" to be worth separate discussion. A "tax on property" is levied at regular intervals, a "tax on the transfer of property" at irregular intervals. The regular tax is, of course, to be preferred. Taxes on the transfer of property not *ad valorem*, as, e.g., receipt stamps, when the charge is the same, no matter how great the property involved (after 2*l.*), are relics of barbarism, so capricious in their effect that it would be a waste of time to consider them seriously, the amount involved being so small.

(e.) I doubt if I understand this question. A tax on the profits of a particular trade would have the same effects as a tax on the particular property used in that particular trade. A tax on all trade profits would be an income tax, or something very like it. What is "trade"?

(f.) Death duties, again, are taxes on all kinds of property, levied at irregular intervals, and their effect is substantially the same as taxes on all kinds of property levied at irregular intervals. Perhaps, on account of a certain obvious peculiarity of the time at which they occur, they discourage accumulation somewhat less than annual taxes, and, consequently, are rather more favourable to the non-propertied class. (See above under a. to c.) If they are graduated, they necessarily tend to cause greater equality of wealth.

7. My views on this subject will be found at length in the "Economic Journal," January, 1895 (pp. 22-34), and the "National Review," November 1896. The gist of the matter is that the *raison d'être* of local taxation are—

(a.) To secure economical and efficient local administration.

(b.) To secure economical distribution of population and capital.

The services which should be charged on local taxation for the first only of these two reasons, vary from time to time. The central Government of the United Kingdom is far more likely now to do better than local authorities in regard to many services which in the middle ages were better performed by small local authorities.

The services which should be paid for out of local taxation for the second of the two reasons, as well as for the first, are all such as tend to increase the value of the fixed property in the particular locality where they take place. If these were paid for by general taxation, towns would grow up with a disregard of advantageousness of situation which would be extremely hampering to the productiveness of industry. (*See above* under Question 6, *a* to *c*, last paragraph.)

8. When a service is paid for out of local taxation, merely because of the first of the two reasons mentioned in the answer to Question 7, the central government should endeavour to secure that no inequalities of rating for it should be allowed to exist, except such as are necessary in order to secure good management. Grants from the central Government, if made at all, ought to be directed towards reducing the inequalities of this portion of local taxation.

No grant ought to be made for purposes which, when accomplished, and not counterbalanced by a rate, raise the value of property.

Any grants made ought to be made openly, and not by metaphorical ear-marking, which confuses the accounts both of the central and local governments. (*See below*, Question 14, last paragraph and note.)

9. Local rates ought not to be divided between owners and occupiers, but should be charged on either the owners or the occupiers. At present, in case of low-priced houses in towns, it is almost universal to charge the owner. In all other cases the occupier is charged. This is a very sensible arrangement. It is better to take the rate from the person most immediately and directly affected by its expenditure whenever you can get it from that person. This is possible whenever the occupier is a "substantial man." When he is not substantial, you must be content to take it from the owner.

So much of the rates as is raised to pay off capital expenditure ought, strictly speaking, to be paid by the owners, since it is payment for a remote benefit (that of being free from the payment of interest on the loan raised for the capital expenditure).

In the case of new occupiers, the payment will be allowed for just like any other disadvantage, but some injustice is done to old occupiers unable to revise their bargains with their landlords if new and unforeseen payments for capital expenditure are saddled upon them. The amount involved, however, is so small that it is perhaps scarcely worth while to apply the remedy, which is the creation of redeemable rentcharges for the payment of interest on loans for capital expenditure.*

10. Ground values should not be separately rated. To rate them separately would only introduce confusion, with no counterbalancing advantage whatever.

11. (*a.*) and (*b.*) The increase of an old rate, or (which is exactly the same thing), the imposition of a new rate, in any particular locality, will diminish rent in that locality by making the competition for land and other property which is not moveable and not quickly alterable in quantity less than it otherwise would be.

(*c.*) The reduction or abolition of a rate would have the contrary effect.

12. If occupiers were allowed to deduct either rates, or the cost of getting their hair cut, or any other expense, from their rents, then their rents would be that much higher.

If they were not allowed to deduct the income tax their rents would be that much lower.

13. (*a.*) This system can obviously only be applied where the properties form distinct units. I imagine that in practice it is only applied to houses and perhaps other buildings.

Rating the more expensive houses at a higher percentage must discourage to some extent the building of such houses. Where such a system has been long in operation, the supply of houses of different values will have accommodated itself exactly to the demand.

I do not feel sure whether the difference in the number of houses in each division of the scale could be called "an effect upon rent."

(*b.*) When a certain kind of property is partially exempted from the general rate, the rent of that kind of property will be higher than it otherwise would be, provided that, and in so far as, that kind of property is insusceptible of increase by human

* The occupier receives the benefit of the things provided by the capital expenditure till the conclusion of his term of tenancy, and should therefore pay the interest on the capital. But it is no advantage to him that the capital should be sunk or written off. Therefore, let a charge be created which he has to pay during his term and let the owner redeem the charge afterwards.

exertion. Obviously, if the property is susceptible of increase, as, *e.g.*, houses apart from sites of houses, the exemption from rating will encourage investment of capital in that form of property till competition reduces its value to the landlord. But if the property is not susceptible of increase, as, *e.g.*, land considered apart from buildings, fences, artificial fertility, and so on, it is equally obvious that the exemption will cause the rent to be higher than it otherwise would be.

14. It would be easy to suggest other means of raising revenue for local purposes, but it would be difficult to suggest any better means than rates on all kinds of immovable property without any exceptions or exemptions. One point which should not be overlooked is, that most feasible means of raising revenue locally have very much the same effects as rates. An octroi, for example, will reduce the desirability of a town as a place for the investment of capital and a place of residence just as a rate does.

It is probable that local authorities would often find new and harmless ways of raising revenue if it were not for a superstition which prevails in many quarters that it is wicked for an authority to make a profit, even up to such an extent as is necessary to pay ordinary interest on the capital originally expended. This superstition prevails even at the Board of Trade, which interfered a few years ago to prevent the borough of Bournemouth from making a profit out of the landing of excursionists on its pier, alleging that it was a principle with the Board that local authorities were not to make a profit out of "navigation." Thus municipal enterprise is prevented from being profitable and then denounced as a failure.*

If the Inhabited House Duty is to be maintained, it should be given to the local authorities in place of some of the present subsidies, but I should much prefer to see it abolished. The advantage it gives to persons who choose to live in lodgings and hotels is indefensible, and its scale of graduation makes it a progressive tax on large families in the very class from which it is most desirable the population of the country should be recruited.

It is probably unnecessary to argue against the outrageous proposal that the land tax should be given to local authorities. They might as well ask for the Crown lands which happen to be situate within their jurisdiction. In order to make it clear even to the person who has to pay it that the land tax has by prescription (the foundation of all property in land) become property of the State, it would be well to put a stop to further re-assessments and make the tax a permanent fixed charge on the land. The tax ceased to be re-assessable between parishes more than a century ago, and it is time the final step was taken.

As, I presume, the Commission is considering proposals for economising expenditure as well as for raising revenue, it may be desirable here to draw attention to the enormous waste which results from the insistence of the Treasury on usurious rates of interest for loans to local authorities, and the policy of the Local Government Board, which compels, or at any rate induces, local authorities to borrow money and invest it at a lower rate of interest than that which they have to pay.

Disguise it in the form of paper "terminable annuities" payable from the waistcoat pocket to the breeches pocket as best the Treasury may, there is no denying the fact that in one way or another (by the Post Office or the Supreme Court of Judicature, or some other body,) seven millions of consols are bought for the nation every year at present at a large premium, which reduces the saving of true annual charge from 2½ to less than 2 per cent.

At the same time perfectly solvent local authorities are borrowing in the open market from the public at above 2l. 13s. per cent. and paying in addition 1s. to a bank for management and 1s. for stamp duty composition. In the name of common sense then, why cannot the Treasury lend at 2½ per cent. or even 2¼ instead of buying consols, and save 14s. per cent. to the nation and the local authorities combined? Instead of doing so, it maintains a scale of rates† which deter all the most solvent borrowers from applying to the Public Works Loan Board.

The policy of the Local Government Board causes local authorities to borrow when it would be more profitable for them to part with their investments, partly in consequence of insistence on the absurd ear-marking of different moneys which is required by the

* In "The State in relation to Trade," 1883, p. 80, Lord Farrer says that Liverpool, as owner of the Liverpool docks, "taxed the trade of the country for its own benefit." But no one says that "Bristol has for many years been unselfishly subsidising the trade of the country."

† The scale embodies a futile attempt to discourage borrowing for long terms. Elective local authorities care little for a remote future, and consequently regard nothing but the annual payment (*i.e.*, interest plus sinking fund), and the lower amount charged for interest on short loans does not nearly counterbalance the larger amount required for sinking fund. Consequently they invariably apply for the longest term they think the Local Government Board is the least likely to disallow.

legislation of 1875 and 1888*, and more largely by a method of calculating the amounts in sinking funds which discourages rate-raising bodies from purchasing their own or any stock which stands at a premium. The consequence is that local authorities all take in each others' washing—they borrow with one hand and invest sinking funds, police pension funds, and other funds in a loan to some other authority, usually overlooking the fact that the stamp duty composition, the payment for management on stock issued, and the income tax on dividends or interest received on stock bought or loans made make a difference of 4s. per cent. in favour of cancelling their own stock. The city of Oxford has, or lately had, about 32,000*l.* of consols and about 28,000*l.* invested in the stock of, or in loans to, Llandudno, Peterborough, Middlesbrough, Tynemouth, Wakefield, Thornaby-on-Tees; yet in all probability the city of Oxford will shortly issue another 40,000*l.* of Oxford Corporation stock. Instead of encouraging this course of conduct the Local Government Board should in every case require the local authority which obtains permission to borrow to show good reasons for borrowing from the public instead of using (as any private individual in a similar position would do in the absence of special reason to the contrary) their own funds.

15. My answers to the preceding questions will have shown to anyone who has done me the honour of reading them, that I take a very conservative view of the system of local taxation which evolved itself in this country down to 1896 without much interference from Parliament. I regard the allegations of injustice made by the urban occupier on the one hand, and the landed interest on the other, as equally unfounded.

But approval of the system, of raising what ought to be local expenses by local rates on all kinds of immovable property (levied from the occupiers, where the occupiers are substantial, and from the owners where they are not,) by no means commits anyone to approval of the whole of the "present system" of local and (for the two must be considered together) national finance.

In the first place, supposing no question to arise as to what ought to be local, and what national, expenditure, the present system is unsatisfactory in regard to the absence of any impartial authority with the will as well as the power to change the local taxation areas whenever equity and expediency require it. That the central portion of a town should be in a local taxation area all by itself is bad enough, but that the various suburbs should each be in different taxation areas is much worse. In order to secure equity and economy every town should be treated as a whole. What is a town? In the vast majority of instances no difficulty arises in deciding whether a populous district is a town or the suburb of another town. No one, except, possibly, a town councillor of West Ham, believes that West Ham is not as integral a part of the economic town of London as Fulham or Woolwich. A man might live in Manchester for a year, and yet have entirely erroneous ideas as to what exactly was included in Salford without incurring any reproach for stupidity. Salford gets just as much and perhaps more benefit from the canal than Manchester, and pays no 1*s.* 8*d.* rate for it. Nearly every large town is divided into several areas for poor law taxation. Absurdities like these ought to be put an end to, whether the local authorities and the ratepayers desire a change or not. At present the principle of the Local Government Board seems to be that no alteration of any magnitude is to be effected unless both parties concerned

* The most important instance of this system is the separation of the Exchequer contribution account, the borough fund, and the general district account. There is no reason at all why the Exchequer contribution should not be paid direct into the borough fund, and the chief result of the present arrangement is to make some people imagine that the central Government still pays half the cost of pay and clothing of the police as before 1888. The only reason for keeping the borough fund and the general district account apart is that the borough rate was before the Agricultural Rates Act leviable on the full annual value of agricultural land, and is at present leviable on 50 per cent. of that value, while the general district rate is only leviable on 25 per cent. But this is in practice of little importance. In many towns no borough rate and in some no general district rate is levied. In Oxford, in order to prevent the necessity of a borough rate, we keep the waterworks and the market (which bring in a sum equal to a rate of 4*d.* in the £ net) upon the borough fund, and put the library and school board (which cost 2*d.* in the £) upon the general district account. Yet, according to the rule, the former belong to the general district account, and the latter to the borough fund; and the Local Government Board, in publishing the Annual Local Taxation Returns so arranges them, thereby making our borough fund appear to have an annual deficiency of 8,000*l.* To satisfy the Local Government Board we have sometimes actually to personify the borough fund and the general district fund. One of my first duties as a member of the Oxford City Council was to serve on a committee which reported that the general district fund had built a new town hall on land belonging to the borough fund, and that it was "equitable" as well as "expedient," that the general district fund "should be deemed to be the lessee" of the town hall for 50 years at a ground rent of 1,500*l.* per annum, while the borough fund should be the tenant of the general district fund as regards certain parts of the building and pay the general district fund 800*l.* a year for them. At the end of the lease the borough fund, as ground landlord, will take possession of the whole. The difficulty experienced by the ordinary mind in maintaining sound finance when the accounts are encumbered by such an accumulation of fictitious payments and repayments need not be enlarged upon.

agree to it, and as it nearly always happens that one of the two parties will at any rate gain less than the other, the difficulty of securing a change is enormous. If it were not for the fortunate fact that one political party in a town usually desires to annex one suburb and the other party another, the *morcellement* would be more ridiculous than it is.

Secondly, supposing the question of area settled, the present system is unsatisfactory inasmuch as there is no recognition of the *raisons d'être* of local taxation in the distribution between the various localities of the vast subsidies handed over by the national Government to local authorities, among whom, for the present purpose, I include voluntary school managers.

There is no denying the fact that the subsidies have been divided between the localities at haphazard.

Local authorities perform some services, *e.g.*, refuse and sewage removal, the benefit of which is almost confined to the locality. They perform other services, *e.g.*, the provision of police, which is of primary benefit to the locality, but is also of great benefit to the rest of the country and world. They perform a third set of services, *e.g.*, the provision of a night's board and lodging for vagrants, which are of no special benefit to the locality, but are of benefit to the community at large. The *administration* of these services is allotted to them by the State, because it is supposed that local knowledge and control is necessary for efficiency. The *duty of paying* for the administration of services which are of special benefit to the locality is placed upon the locality in order to secure the most economical distribution of capital and population over the country, as well as to secure economical administration. The duty of paying for the local administration of services which are of no special benefit to the locality is placed on the locality only in order to secure economical administration, and *it ought only to be placed on the locality to such an extent as is necessary in order to secure economical administration.*

If this principle were recognised, the subsidies would be distributed so as to equalise as far as is possible without removing the local authorities' motive for economy, the burden of the expenditure which is for the national benefit and not for the special benefit of the locality. In the distribution of the old subsidies before 1888 the principle was recognised, and it was attempted to carry it out by paying from the Exchequer half the cost of various services, it being hoped that the fact that the local authority had to pay the other half would prevent undue increase of expenditure. It is said that this hope was disappointed. At any rate, in 1888, Mr. Goschen proposed a plan the popular objection to which was that it would have made the local authorities too sparing in the administration of poor relief. This plan being rejected, the present system of division between administrative counties plus the county boroughs of the ancient county on the basis of the distribution which happened to prevail in 1887-8, and of division between each administrative county and the county boroughs of the ancient county on the basis of rateable value was adopted as a temporary measure, and now threatens to become as permanent as the seventeenth century distribution of the land tax.* Since then the condition of things has been made still worse by the haphazard distribution of the Agricultural Rates Act subsidy (which must in many cases pay not only for the whole loco-national expenditure, but also for a portion of the exclusively local expenditure, *e.g.*, that for local highways), and the voluntary schools grant, which is paid most largely to those localities where the cost of education is lightest. On the other hand, the principle has been again recognised in the elaborate scale under which the additional grant to school boards has been made.

What steps should be taken to re-establish the correct principle? This is a question for others than supposed economic experts. I will only suggest that poor relief and education are the particular expenses which it is most desirable to equalise so far as that can be done without removing the motives for reasonable economy. I cannot believe that it passes the wit of man to re-arrange the apportionment of expenses in such a way as to affect this end.† If the whole of the subsidies, including the agricultural rates grant and the recent education grants, could not be used in this way, the Chancellor of the Exchequer might very conveniently get rid of

* It is a land tax upside down. Instead of the locality paying a fixed sum to the State, the State pays a fixed sum (or, strictly speaking, a fixed proportion of a varying sum) to the locality.

† Population, it should be observed, is not a good basis for the distribution of subsidies, since it inevitably leads to the falsification of the census, as was illustrated in the first census of London taken under the Equalisation of Rates Act (see "Economic Review," Vol. VI. pp. 409-12), and is well-known to take place in the United States.

the resulting surplus by abolishing or reducing as far as was necessary the house tax, the railway passenger tax, and some of the numerous and pernicious taxes on the transfer of property.

Answers by Mr. L. L. Price.

Question (1).—An attempt to establish, on theoretical grounds, an absolute standard of correctness, by reference to which a classification of taxes may be approved or rejected, is beset by considerable difficulties. Such difficulties would present themselves, even if the questions, of which the solution was sought by the aid of such a classification, were pure abstract problems of academic interest; and a classification, for instance, of taxes as *direct* and *indirect*, which might be suitable for determining a hypothetical question on the influence of taxation generally, or of some particular species of tax, on the *production* of wealth, might easily prove inadequate to the solution of another hypothetical question on the influence of taxation on the *distribution* of wealth, where it became necessary to push the investigation beyond broad, apparent, immediate, incidence. When the matter under discussion is no longer of mere academic importance, but is concerned with the relations of speculative theory to actual practice, an attempt to establish and maintain a rigid unvarying standard would seem to be, not only impossible, but useless and misleading.

It would appear, therefore, that the correctness of the classification of Imperial taxation indicated in Table D. might be judged with more advantage and certainty by examining its relative suitability to the purpose in hand, than by reference to any absolute standard, were such standard, in fact, discoverable in economic treatises. As it is, for the adequate solution of theoretical problems a classification may require alteration, according to the particular problem to be attacked; and *a fortiori*, when dealing with questions of actual practice, which rarely, if ever, admit of being brought into exact accord with the nice distinctions of theory, the criterion of a good classification can hardly with certainty be said to consist of more than conformity to two conditions:—

- (a.) That it should be sufficiently broad to avoid, or at least to minimise, the difficulties necessarily attending any endeavour to bring the roughness of practice into accord with the exactness of theory.
- (b.) That it should be sufficiently definite and precise to assist in the solution of the particular practical question under discussion.

Tried by these tests, the classification in Table D. may be pronounced "correct," so far as it is possible to judge without an intimate acquaintance with the detailed processes by which the figures have been collected and arranged. The terms of reference to the Commission draw a distinction between "real" and "personal" property; but, as Sir Alfred Milner points out in the Memorandum submitted to the Commission on Agriculture, such a distinction rests on a legal technical basis, and brings together species of property, which, for the purposes apparently contemplated, though not expressed *isdem verbis*, in the terms of reference, should be kept distinct, and on the other hand it separates some kinds of property, which should be treated together.

If regard be paid to the past history of the question, as set forth in Sir E. W. Hamilton's Memorandum prepared for the present Commission, and to the immediate occasion of the appointment of the Commission itself, it can hardly be doubted that a distinction between taxation on rateable and on non-rateable property, (roughly corresponding to *immobilia* and *mobilia*), supplemented by taxation which is not "incidental to property," is calculated to assist in the solution of a problem, or problems, which have arisen in consequence of the claim that the exclusive pressure of local taxation on rateable property (or *immobilia*) demands some compensatory contribution from the Imperial Exchequer, drawing its revenues to so large an extent from non-rateable (or *mobilia*) as well as rateable property (or *immobilia*), and from taxes which apparently are not "incidental to property" at all. In other words, for the purpose of determining whether the "rates," to use a compendious description, should be, or be not, relieved from the "taxes," the separation of taxation on rateable property from the other classes of Imperial taxes seems specially suitable; and it would be difficult to find any division of taxes recognised in economic treatises, which would be equally adequate.

Nor, taking the first requisite of a good classification, would it be easy to suggest any better classification of taxes, which are not "incidental to property," than a division into taxes "levied in respect of commodities," taxes "levied in respect of incomes derived from personal exertion," and "miscellaneous taxes."

But it must be added that the classification only satisfies the condition of suitability to the purpose in hand, if it be taken for granted that that purpose is the determination of broad issues, and not the establishment of nice distinctions. For example, while the classification may be regarded as adequate, so long as the broad, apparent, immediate incidence of the taxes is alone considered, it is impossible, and it is misleading, to attempt to determine the "equitable contribution" of "all kinds of real and personal property" to "Imperial" or to "local" taxation, unless allowance be made for ultimate as well as for apparent incidence; and, in making this necessary allowance, it is hazardous to use the figures reached in a broad practical classification as if they conformed with the nice refinements of theory. The dilemma thus presented may, in actual fact, prove to be more largely apparent than real; but it certainly points to the desirability, if not the necessity, of caution.

Again, Sir Alfred Milner himself, both in his Memorandum, and also in his evidence before the Commission on Agriculture, lays stress on the difficulties attending the actual execution of the classification, and on the approximate character of the results obtained; and with these observations it is as impossible for the external student to disagree as it is to overrate their pertinence when any departure is made, or contemplated, from the consideration of broad issues.

The criticisms of Sir Robert Giffen in the Interim Report of the same Commission undoubtedly tend to emphasise the necessary qualifications, with which the interpretation, and translation into practice, of such a classification must be conducted; although it may be noted that the question of the correctness of the classification does not immediately raise the further question, to which a large part of his criticism is directed—the mode of computing the values of the different classes of properties or incomes on which the burden of taxation falls—even if such computation be necessary to the complete solution of the problems before the present Commission. Nor is the subdivision between land and other kinds of rateable property introduced into the present classification, or the disputed point explicitly raised of the nature and incidence of the burden of the redeemed land tax. It may also be noted that, according to accepted statistical principles, the figures of such a classification may be safely used, as in Sir E. W. Hamilton's Memorandum, for the purpose of comparing different periods, and indicating the relative growth or diminution of the taxation falling under the respective headings, if there is a reasonable certainty that no serious alteration has been made in the classification at each particular period.

For determining broad issues, then, involving considerations of apparent incidence alone, and as the starting point of further investigation, the classification may be regarded as correct. But further investigation seems to be necessary to any adequate solution of the questions submitted to the Commission, and the figures would require readjustment accordingly. The probable ultimate incidence of the different taxes would need some consideration. The operation of existing "grants in aid" from the Imperial Exchequer, and of more recent assignments of the proceeds of certain taxes to local authorities, would alter the proportions of the burden of Imperial taxation on rateable and on non-rateable property, and on other sources of revenue, exhibited by the figures of the Table; and the readjustment of the statistics would be attended by the difficulty to which allusion was previously made—the difficulty, namely, that the figures have been originally distributed according to a rough convenient practical classification, and can only be employed with caution and hazard on the supposition that they accord with the nicer distinctions of more precise theory.

Question (2).—While it may be possible for the external critic, with more or less accuracy, to pass judgment on the general principles, and the broad lines of a classification, it is difficult, if it is not really impossible, to arrive at any satisfactory estimate of its detailed completeness, or of the correct distribution of its several items, without the possession of an intimate acquaintance with the particular processes by which the data have been originally obtained, and with the precise nature of the statistical machinery by which their subsequent arrangement has been effected. A personal knowledge of the inner history of the statistics of Table D. would alone suffice to pronounce on the accuracy of its details; but it would appear, both from Sir Alfred Milner's Memorandum and from his oral evidence before the Commission on Agriculture, that in the case of some items of taxation it had been necessary, in default of more certain information, to proceed by the method of arbitrary division,

and in that of others to extend a distribution, based upon more or less definite data in particular instances, to cases held to be analogous. The latter of these two methods is a recognised instrument of statistical investigation, and without recourse to it many useful inquiries, yielding trustworthy results, would become impossible; but its legitimacy obviously depends on the closeness of the analogy, which it is sought to establish, while the former method of procedure by arbitrary division can only be justified, if the cases, with which it deals, constitute, in comparison with the mass of statistical material handled, *une quantité négligeable*.

Thus the distribution effected of Schedule B. of the Income Tax is confessedly arbitrary; but there seems to be no valid reason for disputing the pertinence of Sir Alfred Milner's contention that Schedule B. is rapidly becoming of inappreciable importance, and that the amount of error involved in any arbitrary division is comparatively inconsiderable. Such considerations, however, would hardly apply to the distribution of the item "Trades and Professions," in Schedule D., which is also avowedly based on an assumption that can scarcely be regarded as other than arbitrary, if that assumption could be proved, on trial, not to correspond with actual fact.

Nor can it be denied that a large use is made of the other method—that of extending results, ascertained, with more or less certainty, in the case of particular taxes, to analogous instances. For example, under the same Schedule D. of the Income Tax, the distribution of the item "Railways in the United Kingdom" is thus described by Sir Alfred Milner:—

"We know from the income tax assessments the total profits on which railways are charged. We know from the returns of local taxation their gross estimated rental. The tax on so much of the profits as is equal to gross estimated rental, 645,000*l.*, has been attributed to 'rateable property'; the tax on the balance, 388,000*l.*, to 'non-rateable property'."

Much of the criticism, passed by Sir Robert Giffen on this distribution in the Interim Report of the Commission on Agriculture, seems to be more pertinent to the question of the ultimate incidence of the taxation than to the correctness of a classification, which may be taken to aim only at exhibiting the broad features of immediate apparent incidence. But it is certainly noteworthy that the distribution thus effected, which confessedly rests to some extent on hypothesis, is extended to the analogous instances of "quarries," "mines," &c., and that in the case of the Probate Duty, while "cash," "funds," "foreign securities," and "household furniture" fall easily into the category of "non-rateable property," a certain amount of the property subject to the duty belongs wholly or in part to the "rateable" class, and in the distribution, actually effected, of the "shares of public companies," which admittedly form a large item of the class, Sir Alfred Milner adopts as his guiding principle the division previously reached in the case of "Railways in the United Kingdom" under Schedule D. of the Income Tax. Having effected, partly by the aid of this guiding principle, partly by other more definite data, the distribution of the Probate Duty as a whole, the proportions thus established are used in making the division of "personalty" in the case of the Estate, Legacy, and Succession Duties. They appear again in the distribution of the "stamps on transfers of stocks and shares"; and in the case of "contract notes" Sir Alfred Milner follows, with some misgiving, the distribution adopted in that of "stamps on transfers of stocks and shares." For the purpose of arriving at broad results, the original division of railways under Schedule D. may be substantially accurate, and the analogy of the cases, to which it is extended, may hold good; but it is obvious that the division, once adopted, governs no small number of analogous cases, and that an error of any magnitude in the governing instance, or the failure of the analogies, which it is sought to establish, might exercise a considerable influence on the general result.

It may also be noted that an apparent discrepancy exists, which might disappear on acquaintance with the inner history of the statistics, between the mode in which "railways, &c." are treated and companies other than those dealt with under the previous items of Schedule D. In the case of these other companies, it is assumed that their rateable property is already assessed under Schedule A., and that the income tax paid by them under Schedule D. may be entirely credited to "non-rateable" property; but in the case of railways another assumption is apparently made.

On the other hand, there are taxes where the data available for effecting the distribution are fuller and more reliable, and the distribution itself is made on easier and more obvious lines. Such is the case with the Customs and Excise; and in answering this question, as in replying to the first, it should be borne in mind that the issues involved in the division between lands and other rateable property, with which the

Commission on Agriculture was concerned, are not, directly at least, raised here. The Redeemed Land Tax, again, which was entered separately in the last line of the Table, as originally presented to the former Commission, is excluded from the present Table; and, unless account be taken of other taxes imposed in the past, and since removed, by the Legislature, it is probably safer to exclude the item in framing an estimate of the present burden of taxation.

Question (3).—The academic question of nomenclature, whether the net revenue of the Post Office should be called a tax, which may be answered in the affirmative or negative, according to the definition of a tax which is adopted, and the distinction which is drawn between taxation and other forms of revenue, may be distinguished from the practical question, whether, in estimating the burden of taxation, the net revenue of the Post Office should be treated as a tax. This is no mere problem of nomenclature or terminology, and it can hardly be doubted that the monopoly enjoyed by the Post Office enables it to compel those, who avail themselves of its services, (in other words, the great mass of the nation), to make the payments, which yield the net revenue. If this net revenue were not obtained, the burden of taxation in other forms would have to be increased. If it were reduced, or dispensed with, by economy of management, or reduction of charges, those, who use the Post Office, would be *pro tanto* relieved. In either case, whether the matter be regarded from the standpoint of the Government which receives, or of the individuals constituting the mass of the nation who pay, the net revenue of the Post Office seems to fall naturally under the description of taxation by monopoly, and is appropriately treated as a tax in computing the burden of taxation. It does not appear to come appropriately under any one of the previous headings of the table, and any division of it between the different headings would be arbitrary. It therefore seems to be most conveniently and appropriately classified as a "Miscellaneous" tax.

Question (4).—The ultimate standard, to which, in the last analysis, theoretical considerations appear to conduct, as affording the best test of the "equity" of a tax, or system of taxation, is its accord with relative "ability to pay." The discussions of the text books agree in pointing to this general conclusion, which is also dictated by plain common sense. The differences of economic theorists, and the difficulties of fiscal practice, arise in the interpretation of the test.

Where "ability to pay" can be measured by definite specific *benefit* received from some particular act of administration, and not merely by that vague notion of a proportion of the general benefit derived by the citizens of a community from its efficient government, which led earlier writers to propound what is sometimes known as the "social dividend" theory of taxation, considerations of equity certainly seem to suggest the adjustment of the relative burden of a tax to the proportion of *benefit* respectively received. And it may be noted that, when in the case of a particular tax, or group of taxes, such an adjustment has been carried into effect, the equitable arrangement of the other parts of a fiscal system may be considered with little, or no, reference to the burden imposed by the tax, or group of taxes, which has thus been treated.

In matters of *local* taxation more opportunity is afforded for the measurement of "ability to pay" by specific *benefit* received than that presented in the collection of the Imperial revenue, and recent developments of local administration have tended in a direction favourable to the application of the principle. The discussions, for example, which have lately been raised on the question of "betterment," may perhaps indicate a more general extension to this country of the methods of taxation by "special assessment" adopted in the United States of America, and theoretical considerations may certainly be advanced in support of the equity of such "special assessments," although, in actual practice, difficulties may arise, of which theory, from its very nature, takes little or no notice.

Where, however, a definite or approximately definite measurement of specific *benefit* received is impossible, or difficult of application, it becomes necessary to fall back on the ultimate test of "ability to pay," and a rough measure of this is afforded by the amount of *income* or the value of *property* enjoyed. On the whole, it may be said that the great practical difficulties of a property tax point to an income tax as the more preferable mode of taxation according to "ability to pay," and it may be noted that the occurrence of serious practical difficulty in collection is almost certain to lead to inequality. Most writers would agree that an income tax is theoretically one of the most equitable that can be devised, but that it is beset by certain practical difficulties, which, although less serious than those arising in the case of a property tax, are yet sufficiently important to render it necessary that for the attainment of

equity it should be supplemented by other modes of taxation. It depends, almost of necessity, to some extent on the honesty of the taxpayer, and it is practically impossible, as it is certainly inconvenient and uneconomical, to reach by its means the smaller incomes.

Considerations of equity, again, would, in accord with the results of more recent economic speculation, point in the direction of *graduation* of this as of other taxes. But there are no theoretical considerations, by which it is possible to determine in practice the precise amount of graduation, which will be perfectly equitable, and some of the most obvious practical difficulties of the income tax are avoided by taxing a large amount of income at its source, such as interest on the Government debt, and dividends on shares in public companies, and salaries of officials—a method which is incompatible with progressive taxation. By “degressive” taxation, as it is called, by allowing partial or total exemptions, that is, in the case of incomes falling below a certain level, an amount of graduation may be introduced, without departing from the general rule of *proportional* taxation, and it may be the case, that, supposing higher incomes were taxed at a progressive rate, theoretical considerations of equity would suggest a relaxation of this rate, or what is known as “regressive” taxation, when a certain point had been reached.

But that precise point theoretical considerations could not determine, and for these, as for other reasons, considerations of equity seem rather to favour the establishment of a mixed system of taxation, in which the income tax would be supplemented by other taxes; by taxation on commodities falling—if the approved English method of selecting a few commodities of large consumption, and imposing a low *specific* tax, be followed—with inevitably greater weight on the poorer classes, who do not contribute to direct taxation; by death duties, which intercept property as it passes from one person to another, where it is more easily possible, within certain limits, to apply a principle of graduation, and by other modes of raising revenue. Theoretically, income affords an equitable test of “ability to pay”; practically, an income tax is liable to result in inequalities, which are corrected, it may be roughly and imperfectly, by assigning to it a place of importance in a mixed system of taxation.

In the case of *local* taxation, the *house* (or, more correctly, the land or tenements), which a man occupies, whether for residence or for business, affords the most available indication of “ability to pay.” In no inconsiderable number of cases the *house* or tenement occupied corresponds roughly with specific *benefit* received; and, historically speaking, its important place in local taxation seems to be due to some confusion in the minds of legislators between *benefit* received and “ability to pay.” It is also a rough indication of *income*, and it admits of the adoption of some amount of graduation. But in practice, like income in the case of Imperial taxation, it seems an imperfect measure; and, while the income tax is supplemented, and its imperfections roughly corrected, by other forms of Imperial taxation, local taxation is confined, practically, to the *house* or *business premises* (in urban districts) as the single test of “ability to pay.”

Theoretical considerations of equity, again, undoubtedly show that certainty of taxation is a primary desideratum, and, in Adam Smith’s language, a small amount of uncertainty is a greater evil than a large degree of inequality, for uncertainty almost inevitably results in inequality. But certainty is most easily attained by taxing what is visible and tangible, and the *house* (or land or tenement occupied) is undoubtedly a visible tangible test of *income* and of “ability to pay”; while what is generally known as personalty is, comparatively speaking, invisible, and also admits of removal with far less difficulty beyond the reach of the local tax-collector.

The *house* or *tenement* thus suggests itself as an equitable standard, but broader considerations of equity conduct to the desirability of supplementing its imperfections; and, in the absence of any system of mixed taxation, such as that prevailing in the Imperial taxes, and in view of the inevitable drawbacks and economic objections attending the local taxation of commodities, and of the difficulty of reaching by any machinery of local collection in visible income, considerations of equity seem to point to “grants-in-aid,” or assignment of the proceeds of certain taxes, or some similar contribution from the Imperial Exchequer, as a means of securing an adjustment of the burden of local taxation (considered alone) to “ability to pay.”

Question (5).—In determining the general question of the *real*, as distinguished from the *primary, apparent* incidence of taxation it is hardly possible to pass with safety beyond the broadest considerations. The possibility, like the probability, of shifting the incidence of a tax undoubtedly depends on the degree in which competition is

present and active, and the process is as certainly arrested, or prevented, by the existence of "friction."

On the one hand, there is a considerable measure of truth, and no less an amount of pertinence, in the statement that the burden of a tax is likely to rest where it is first imposed. To shift it requires an effort, which may, or may not, be within the power, and, if within the power, may, or may not, form part of the active desire, of the person on whom the tax is primarily laid. Recent economic speculation has certainly tended to emphasise the importance and reality of economic "friction," which will at least retard, if it does not prohibit, the process of shifting.

On the other hand, there can be little doubt that, to some extent at least, the burden of taxation, wherever the tax, or taxes, are first imposed, will be gradually diffused throughout a competitive society. The process may indeed take a long while to accomplish; and here, again, recent economic speculation, which has brought into a new prominence the interaction of "mutually determining influences," suggests that shifting forwards may occasion some amount of compensatory shifting backwards.

Between these two hypotheses of the accord, and disagreement, of *primary* with *ultimate* incidence, cases occur where it is obvious that some shifting takes place, but it seems equally obvious that it is confined to a certain distance. It is a generally accepted doctrine of economic treatises that the main burden, at least, of taxation on commodities falls in ordinary cases on the consumers; but it is also possible that the conditions of supply and demand may be so affected by the imposition of a tax, or may be of such a character at, or prior to, its introduction, that part of the burden may fall on the producers. To some extent, again, it seems probable that in some cases the burden of old taxation is "capitalised," and that the new purchaser of property discounts, in the purchase-money, the taxation imposed on the object of purchase, and thus, escaping its burden for the future, compels the vendor to bear the whole weight in a diminished price.

In judging, then, of the *real* as distinguished from the *apparent* incidence of taxation, the safer plan seems to be to start with the hypothesis, that, in the absence of distinct evidence to the contrary, the main burden of the tax will remain where it is first imposed, and to proceed to argue that in the ordinary circumstances of a competitive society some portion at least will be diffused, but that at each successive shifting the extent and success of the movement will depend on the conditions of supply and demand, on the amount and activity of competition, which is present, on the character and degree of economic "friction," which is operative. These conditions require separate scrutiny in each particular case; but it may be broadly asserted, on the one hand, that, wherever the tax comes in contact with monopoly, there it is likely to rest, for monopoly, to the extent to which it is effective, is the negative of competition; and on the other it may be urged that a distinction should be drawn between that *commercial* competition of dealer with dealer, which is more easily established, and calculated to stimulate and permit more rapid and extensive shifting, and that *industrial* competition of producer with producer, which is at once more sluggish in its action, and more liable to be hindered by economic "friction."

Question (6.)—(a.) The primary incidence of the Inhabited House Duty falls on the occupier, and it is probable that to a very large degree the real incidence of the tax corresponds with its primary and apparent incidence. Some, at least, of the reasons, which may be adduced in support of the theory that the burden of local rates is shifted from the occupier, do not apply to the case of the Inhabited House Duty. The occupier is unable to remove, or diminish, the burden, to any practical extent, by changing his abode. He cannot move to another district, where the duty is lower, for it is an Imperial tax, levied on uniform principles throughout the country. He may also be held to be unable to shift the burden to any material extent by moving into a house of lower value; for his house accommodation is, within narrow limits of increase or decrease of requirements, a fixed item in his standard of comfort; and he will probably need a more powerful motive than the payment of a slightly diminished Inhabited House Duty before he takes the unpleasant, and, it may be, difficult, step of changing his abode or manner of life; and regarding the mass of occupiers as a whole, it is improbable that the payment of duty at an increased rate on houses of higher value induces an appreciably large number to move into tenements exempt from duty altogether, or into those taxed at a lower rate. The more probable assumption seems, therefore, that the chief, if not the entire, burden of the Inhabited House Duty falls on the occupier, and that the real corresponds with the primary incidence.

(b.) In the case of rates levied on houses, and on trade premises, the primary incidence also rests with the occupier, and an effort is needed to shift the burden. But the opportunities are greater in number and easier of achievement. Some amount of movement, at least, is possible from more to less highly rated districts, and thus the burden of the rates may be partly shifted from the shoulders of the occupiers.

It is probable that this movement from district to district is more easily effected in the case of the occupiers of residential houses than in that of those who are prosecuting a business or trade, for in their case departure from a particular district may imply the surrender of a valuable connexion; and from this point of view it seems likely that the burden of rates upon houses may be more rapidly and extensively shifted than the burden of rates on business premises.

It can hardly be doubted, again, that, where a choice is open, the occupier, selecting his residence, and the trader, deciding on his business premises, pay some regard to the amount of the *existing* rates, and accordingly, so far as the rates fall on the *ground* on which the house or trade premises are built, some part at least of the burden of existing rates is then shifted to the landlord. Similar considerations apply to the burden of *future* rates, so far as they are likely to enter into the forecast of the average man; and at the expiration or renewal of a tenancy an opportunity is afforded for striking a new bargain, the terms of which will be affected by the amount of the rates then actually levied or considered probable.

But the pertinence of this reasoning depends on the activity and reality of the competitive forces which are present. The choice by the trader of suitable business premises may be more narrowly circumscribed than that of the residential occupier; but, on the other hand, he may be more awake to economic considerations, and keener to take advantage of favourable opportunities for driving a bargain. In any event, the shifting of the burden of taxation requires an effort which the occupier may, or may not, be able or desirous to make; the house or premises may be held on a lease of some duration, during the continuance of which no opportunity is offered for shifting the burden of rates newly imposed; and in many urban tenancies a number of stages may separate, and more than one "middleman" intervene between the occupier, on whom the rates are primarily levied, and the ground landlord; and, while competitive forces may prove the more powerful in some of these cases, they may be overcome in others by economic friction. So far, therefore, as the rates fall on the *ground* on which the houses or trade premises stand, it is probable that the real incidence to some extent corresponds with the primary incidence, and that to some extent also the burden is shifted to the immediate, the remoter, and, finally, the ultimate landlord; but theoretical considerations can hardly determine *a priori* the precise degree in which the burden will be distributed.

So far, again, as the rates fall on the *houses* or *trade premises*, as distinct from the *ground* on which they are built, the primary incidence rests on the occupier, and according to the keenness or weakness of the demand for building accommodation, and the amount of foresight and alertness he himself possesses and exhibits, he will be able to shift a less or greater part of the burden on to the builder. The builder will in ordinary cases expect to secure an average profit; and *in the long run* building operations will be contracted, if average profits are not realised, while the continuance of abnormal profits will *in the long run* attract increased competition to the building trade. Similarly, the occupier, or trader, will *in the long run* be disposed to seek a less expensive house, or less commodious business premises, if the burden of the rates be increased, or to move to a less highly rated district; and thus *in the long run* the demand for house or business accommodation of a certain quality, or in a certain locality, will decline. The conditions of supply and demand may in this way affect the distribution of the burden of the rates, but it is to be noted, on the one hand, that houses and trade premises are commodities which it is not easy to increase or diminish with any rapidity, and, on the other, as was remarked before, that expenditure on house accommodation is, within limits, elastic, and that similar considerations apply also to some extent to trade and business premises.

On the whole, so far as concerns the rates falling on the *ground* on which the houses or trade premises are built, the presumption seems to be that part of the burden will be shifted, and ultimately, though in diminished quantity, reach and rest with the ground landlord, while, so far as the rates falling on the *buildings* themselves are concerned, the presumption is rather that their real incidence coincides with their primary and apparent incidence. But it does not appear to be probable either that the whole, or even the main part, of the rates on the ground are shifted to the ground landlord, or that the occupier is never able to shift part of the rates on the buildings to

the shoulders of the builder. The onus of making the necessary effort rests primarily in either case with the occupier, and his success depends on his character and circumstances.

(c.) The primary incidence of rates levied on agricultural land, like that of those imposed on urban houses and trade premises, falls on the occupier. But the opportunities of readjusting the rent are more numerous where middlemen, like the builder, are infrequent, where yearly tenancies are the rule, and leases of even short duration are uncommon; and, setting aside his house, to which the considerations affecting urban residencies to some extent apply, the farmer, regarding his land as an instrument of profit, can hardly fail to recognise that, if the rates form a heavier charge, the rent must *ceteris paribus* take a smaller share. The possibility of shifting the burden depends here, as elsewhere, on the varying conditions of supply and demand, on the extent to which tenant and landlord respectively are influenced by pure economic motives, and are able and willing to drive a good bargain. But it certainly seems that the presumption inclines in favour of the removal in the main of the burden of rates on agricultural land to the landlord, and that the primary does not correspond with the ultimate incidence. Where leases of some duration exist, the process of shifting is suspended during the continuance of the lease. Where tenants are not rack-rented, the motive, as the opportunity, for shifting the burden is not present. Where tenants are unintelligent, or unable, or unwilling, for various causes, to move to other districts, or, if necessary, to other occupations, economic "friction" retards, and may even prohibit, the operation of competitive forces; and it is on the hypothesis of competition that any presumption of the transfer of the rates is founded.

(d.) Taxes on the transfer of property are *pro tanto* an obstacle to the transfer. They add to the expense of the transaction, and fall on whichever party may prove to be economically weaker. The more probable presumption seems to be that the vendor is likely to be more anxious to sell than the purchaser to buy, and that, therefore, the former bears, at any rate in the majority of cases, the larger portion of the burden. But the reverse may occur; or the real incidence of the taxes may be distributed in varying proportions.

(e.) Taxes on trade profits may be imposed generally, or on some particular trade. They fall primarily on the trader, and an effort on his part is needed to shift the burden. If they are specially levied on some particular business, and that business is of the nature of a monopoly, the real incidence of the tax will tend to accord with the primary incidence. For the burden can only be shifted by surrendering the monopoly, on the assumption that the most advantageous use of their position has been previously made by the monopolists. It is possible, indeed, that the imposition of the tax may supply the stimulus required to prompt a more profitable policy, and that previously the monopolists had not been awake to all the advantages of their position; and in this case part of the burden of the tax may be transferred to the consumers or customers. It is also conceivable that the imposition of the tax may bring about a manipulation of the monopoly that will place the consumers in a better position than that which they previously occupied. But these consequences are more accidental than normal, and the more probable presumption remains that the burden of the tax will rest with the monopolists.

In the case of trades, where competition prevails, the opposite presumption holds good. The traders will endeavour, probably with success, to shift part of the burden, it may be to consumers, it may be to wage-earners, it may be to those engaged in auxiliary industries, which supply the materials used or the machinery employed. Of these classes it seems probable that the consumers will be most largely affected; though it should be noted that the ultimate effects may differ according to the nature of the trade,—whether its productions obey a "law of *increasing*," or a "law of *diminishing* returns." In the latter case, the imposition of a tax may supply a motive for contracting, and in the former, for extending, the scale of production; and it is on the varying conditions of supply and demand, which would thus be variously affected, that the distribution of the real incidence of a tax will depend.

If, lastly, taxes be imposed generally on trade profits, the opportunity of shifting to an untaxed trade will not be present; but it may be noted that it is by no means certain, as the older economists would generally have held, that the imposition of a uniform tax will produce an uniform effect. Its ultimate results will depend on the reaction respectively occasioned by the different circumstances of different industries.

Finally, it may be observed that *extraordinary* profits are of the nature of a differential advantage, and that taxation tends to rest on the possessors of differential

advantages when once it reaches them. So far, indeed, as rates on business premises considered in (b) above rest on the trader, they form a burden on profits, which will be shifted, or not, in accordance with the presence, or absence, of the conditions just examined.

(f.) Death duties diminish the *corpus* of the inheritance, and claim a share for the State. In a sense they may be regarded as analogous to taxes on the transfer of property; but the transferor cannot feel their burden, and the transferee cannot shift it to anyone else but himself. Just as a purchaser will probably discount a tax on the transfer of property in making his bargain, so the amount of an inheritance may be discounted by an expectation of death duties. There is some reason for thinking that they do not so much impose a burden on individuals as embrace a favourable opportunity for claiming a portion of wealth for the State.

Question (7).—It is not easy to frame any criterion for distinguishing the purposes, for which taxation should be raised locally, from those, for which it may be more appropriately levied by the central Government, which will not involve some cross-division. A large and increasing amount of local expenditure, for example, is “beneficial” rather than “onerous” in character. It is devoted to the execution of public improvements, or to the furtherance of objects which directly conduce to the public welfare; and, where it is possible to apportion the taxation to the amount of specific benefit received by particular individuals, or by the dwellers in definite districts, it would seem indisputable that the expenditure on such objects should be met by taxation raised locally. The local taxpayers, who in this case are *ex hypothesi* the persons immediately affected by the expenditure, are thus interested in securing economy no less and no more than efficiency.

More doubt, however, arises where the nature of the benefit, and the area affected, are less easy to determine. For some local expenditure, which is unmistakably of a “beneficial” rather than “onerous” character, may yet be devoted to objects, the benefit accruing from which extends to a larger area than that immediately affected, or the efficient execution of which might be hindered by the urgent appeal of considerations of economy to residents in the actual locality, while the contributors to Imperial taxation, realising the pressure less vividly, would be less likely to neglect considerations of efficiency.

It may, for instance, be the case that the benefit of some public improvement, effected in certain poor districts, would be considerable, and, though primarily affecting the residents, would indirectly be of real advantage to the community generally, or at any rate to a larger area than that directly concerned; and similar considerations may apply to cases where no actual “improvement” is contemplated, but merely administrative acts or the execution of a policy. In such instances some such arrangement as an “equalisation of rates,” or some contribution from the resources of the central Government, would seem to be dictated both by considerations of equity and by those of practical expediency. Where the area of probable benefit is fairly defined, but is larger than that immediately concerned, the former alternative is suggested; but, where the benefit exceeds to the whole community, which is interested in efficient execution, the latter is recommended by the circumstances of the case.

Again, it may be expedient, or even necessary, for the attainment of satisfactory results from certain public expenditure of a local character, that uniformity of administration and simultaneity of action should be secured; and the most effective mode of achieving this object may be for the central Government to raise the revenue required and to direct the expenditure. It may indeed exercise control over expenditure without providing the whole, or even a portion, of the revenue; but its powers of efficient control are *ceteris paribus* likely to vary with the extent of its possession of the purse.

On the other hand, although central control may command a higher standard of general administrative ability, and a greater width of experience, and may be comparatively free from the more petty considerations of economy, and the narrower and less enlightened views of the common interest, which may on some matters of more than mere local importance exert an undue influence on the electors, or administrators, of local government, it is, nevertheless, more rigid and uniform. It is unable, from its very nature, to make experimental trial, save on rare occasions, and within comparatively narrow limits, of the effects of differences of administration in different districts; and it can only adapt its policy to the varying needs of particular localities with difficulty and imperfection. It does not possess the local experience, which is often needed even to suggest the most suitable and effective policy, and it is not actuated by the immediate personal interest, or amenable to the influence of the

intimate personal motives, the constant presence of which may be required to secure real efficiency and to obtain genuine economy. Even local administration may suffer from undue routine, but central administration is, with rare exceptions, more prone to uniformity, and more averse to engage in promising experiments; and, while economy of management may sometimes increase with the scope of the undertaking, which permits of stricter and more perfect system—of a more extensive and effective division of labour, and a more advantageous purchase and employment of materials and machinery—it remains true that, the smaller the size of the enterprise, the more real and active, the more satisfactory and effectual, is likely to be the personal control of the *entrepreneur*.

While, therefore, in cases of beneficial expenditure, the advantage of which can be specifically assigned, the presumption is in favour of taxation raised locally, in cases where the benefit is not generally diffused, a balance must be struck between the need of uniformity and the advantage of variety, between the prospect of economy prevailing over efficiency through the undue influence of immediate interest, or of efficiency conflicting with economy through the lack of local experience or control, and between the degrees, in which the particular locality and the central Government are, as a matter of actual fact, directly concerned. In such cases the appropriate distribution of the duty of raising the revenue required may be found at any point between wholly local and entirely central taxation, and in the majority of instances, perhaps, the balance inclines in the direction of mainly local taxation, supplemented by some contribution from the Imperial Exchequer.

In the case, lastly, of expenditure, the taxation requisite for which may be described more strictly as “onerous”—as necessary indeed to the public interest, but not as directly conducive to the receipt by the taxpayers, whether individually or collectively, of distinct advantage—while considerations of economy and efficiency do not cease to be pertinent, comparisons of equity, and of ability to pay, would seem to be more conspicuously needed. And, owing to the inequalities attending the absence of a mixed system of local taxation, the presumption appears clearer in favour of meeting some portion at least of the expenditure by Imperial taxation. But even here the presumption is not of universal application, and sometimes, if not often, it will be the case that the interest chiefly concerned is that of the locality and not that of the general community, and that, while the latter is involved only to a small extent, a great preponderance of weight rests with the former.

Question (8).—In considering in question (4) the tests to be applied in determining the equity of a tax, or system of taxation, it was seen that in matters of local taxation the house, or building (or, more correctly, the occupation of land and other tenements) was taken as a practical visible test of “ability to pay”; but that the attainment of equity suffered from the circumstance that this test (and, in urban districts, in the main the house or business premises alone) formed, practically speaking, the sole standard of local taxation, while, in the case of the Imperial Taxes, the necessary imperfections of the Income Tax were corrected, it might be roughly and imperfectly, but probably with substantial justice, by the contributions of other taxes to that mixed system of revenue, of which the Income Tax formed one very considerable item. So far, indeed, as local expenditure is directed to purposes, the fulfilment of which results in definite, specific benefit, the house (or land or tenement occupied) is a good rough test of the proportion of benefit reaped, but, so far as the test of benefit received is inapplicable, and it is necessary to have recourse to the ultimate test of “ability to pay,” it seems desirable to supplement rates levied on houses and other occupancies by taxation raised from some different source or sources. The taxation of commodities for local purposes by local authorities is, by general admission, uneconomic. The direct taxation of invisible personalty for local purposes by local authorities is, as experience shows, very uncertain and difficult. The policy remains of contributing to local expenditure from the central exchequer; and it is a policy, which, despite of certain obvious drawbacks, it seems hardly possible to avoid without abandoning the attempt to secure substantial equity.

Question (9).—In view of the considerations advanced in answer to question (6-b.) on the real incidence of rates levied on houses and trade premises, a division of the rates between the owners and occupiers of real property would appear more equitable than the assessment of occupiers alone. The argument does not apply with as much force to *agricultural* as to *urban* property, but it is not irrelevant. In the case of urban property, however, it has very considerable weight. If, as it is, the occupiers bear the main burden of the rates, considerations of equity would certainly suggest an

endeavour to elicit some direct contribution from the owners. If, on the other hand, some portion at least of the real incidence now falls on the owners, considerations of equity do not oppose the suggestion that a portion of the rates should be explicitly demanded, and manifestly levied, from the source which now invisibly, or at least obscurely, contributes. In any event, it is certain that to shift the burden of taxation requires an effort, and can only be effected as opportunity occurs; and it is therefore more probable that the incidence of taxation will fall where it is intended, if it be directly imposed, than if it be indirectly obtained through the more or less effective medium of another party.

Practical difficulties, no doubt, present themselves in distinguishing, as theoretical equity might suggest, between occupiers, who are subject to long leases and have had less frequent, or no, opportunities for transferring, at the conclusion of a new bargain, part, or the whole, of the burden of new or unforeseen rates, and occupiers, who have already enjoyed, and embraced, such opportunities, and in dealing with the different varieties of tenure, and the less or more numerous "middlemen" who may intervene between the immediate occupier and the ultimate owner. In other words, inequity may conceivably attend the uniform treatment of so-called "occupiers" and "owners"; and in some cases, as it is, the immediate owners directly pay the rates. But, setting aside particular questions of practical, though by no means unimportant, detail, general considerations of theoretical equity certainly seem to point to a division of the rates between the owners and occupiers of real property.

Theoretical considerations, however, can scarcely determine the proportions in which the rates should be thus divided. On the practical grounds of existing Scotch experience, and of simplicity of assessment, an equal division may be suggested; but, on the other hand, it may be tentatively affirmed that, probably in the case of urban, and certainly in the case of agricultural land, some portion of the incidence is shifted under existing circumstances, and that, accordingly, it would be more equitable that the division should, to some extent, incline in favour of the owner. A different distribution might on such grounds be conceivably recommended in the case of *agricultural* land from that adopted in the case of *urban* real property; but, on the other hand, with the longer tenancies of urban property, another consideration, favouring the landlord, tells in the opposite direction, for he does not derive the same immediate advantage from local administration and expenditure as that secured by the occupier. He may possibly enjoy, at the termination of a lease, the results of an improvement to the expense of which he has not contributed; but it is also possible that, before he enters into the reversion, the chief benefits of the improvement, and not the cost of meeting it, may be at an end. For these reasons a division, both in the case of *urban* and in that of *agricultural* real property, in which the part borne by the owner is to that borne by the occupier as one to two, may, theoretically, be more equitable than an equal distribution.

Question (10).—Similar considerations to those noticed in reply to the last question would point to the desirability of explicitly and directly imposing a portion of the burden of local taxation on ground values; and they derive some additional strength from the argument that these ground values afford a conspicuous illustration of "unearned increments," which it is desirable to reach by taxation, wherever it is possible. In answer to, or qualification of, the latter contention, it may be urged, with no little force, that injustice is involved in selecting for special taxation a particular species of "unearned increment," when other less obvious and tangible, but no less real and extensive, varieties are allowed to escape, that in the peculiar case selected it is difficult and hazardous to apply the nice theoretical distinction of what is "earned" and what is "unearned" to the rough confusion of practice, and that the present possessors of ground values are not necessarily the actual receivers, but only the purchasers at a full price, of "unearned increment." To these theoretical objections to a special tax on ground values as examples of "unearned increments" must be added the practical difficulty, advanced by experts before the Town Holdings Committee, of separating the value of the ground from that of the building upon it; and these considerations appear to turn the scale against the separate rating of ground values, especially if the owners of such values are reached by a division of the rates between owners and occupiers, according to the method, suggested in *Question (12)*, of allowing a deduction, by each successive tenant in turn, of a portion of the rates, similar to that at present pursued in the collection of Income Tax under Schedule A.

Question (11).—The manner, in which the rent obtained by an owner of land, or rateable hereditaments, would be affected by the increase of an old rate, the imposition of a new, or the reduction or abolition of a rate, would depend:—

- (1) on the nature of the tenure;
- (2) on the conditions of supply and demand prevailing in the case of land or rateable hereditaments.

If the tenancy were for a long term of years, and the change in the rates occurred during its continuance, and could not reasonably have been foreseen at its commencement, the rent would be left unaffected until its termination.

When opportunity for a readjustment of rent occurred, the conditions of supply and demand would determine the manner in which the rent would be affected. If, as is generally the case, the rates were paid by the occupier, and levied primarily upon him, with him also would rest the onus of shifting the burden, and the first option of transferring the boon. If, as is sometimes the case, the owner had previously paid the rates, he would bear the brunt of the burden of an increase, and would reap the first-fruits of the benefit of a decrease.

But the extent of the ultimate shifting would depend on the conditions of demand and supply, and on the economic circumstances and calibre of either party. If the occupier were the weaker, he would bear the main part of the increased burden, and lose the greater portion of the relief. If the owner were the stronger, he would succeed in securing a lion's share of the relief, and in transferring a preponderance of the burden.

The imposition of a *new* rate would probably operate as a more powerful motive in inducing the occupier to attempt to shift the burden than the increase of an *old* rate with which he was already familiar. The benefit derived from the *reduction* of a rate would similarly be, in all probability, less eagerly disputed than that obtained by its *abolition*. In this, as in the first case, the change effected would be likely to be greater in magnitude, and would less easily escape notice. It would, therefore, seem to be more calculated to stimulate the operation of economic motives and competitive forces, while the *vis inertiae* opposing the effort necessary to shifting would be more powerful where the change was less in amount, and more readily avoid effective detection.

Again, it seems more probable that the *reduction* or *abolition* of a rate would be likely to produce less effect on the rent than the *increase* of an old or the *imposition* of a new rate. The removal of a burden would not, in all probability, so powerfully stimulate the efforts of the other party to obtain a share of the relief, as its imposition would urge the party, on whom it primarily fell, to shift a portion to other shoulders. Here, again, the motive prompting to action is keener, and the *vis inertiae* opposing change is less, in the one set of cases than in the other.

But in no case can benefit be reaped, or injury avoided, except on the hypothesis of economic superiority; and theoretical considerations will not determine whether the landlord or the tenant, the owner or the occupier of land, or of rateable hereditaments, is, generally speaking, economically the stronger or the weaker party. Rent is, theoretically described, a payment for a differential advantage, and when once taxation has reached differential advantages, it has a tendency to remain; but, to attain this result, an amount of economic activity may be required, which may prove impossible under the circumstances. An examination of the special circumstances of particular cases can alone determine whether or not this amount of activity is present; and, on this point, it does not seem to be possible to add anything to the general considerations advanced in answer to Question 6 (*b* and *c*) above.

Question (12).—Similar considerations to those advanced in answering the last question apply to the determination of this. But it may be noticed in addition that the power of deducting the whole, or a portion, of a rate would, during the continuance of a tenancy, were the provision applied to existing tenancies, operate entirely for the benefit of the tenant, and would be, strictly and really, a deduction from the rent. At the close of a tenancy, when an opportunity for striking a new bargain occurred, the conditions of demand and supply might enable the owner to shift part of the burden, or even, in exceptional cases, to transfer the whole, but the onus of making the necessary effort would rest with him and not with the occupier.

Question (13).—(*a.*) The immediate consequence of rating property on different scales of duty according to its value would probably be an additional stimulus to the occupier to transfer the burden to the owner. The scale of the duty may rise or fall with the increase of value, and the more probable assumption is that it will rise. On

the hypothesis of free competition the tenant is already paying a higher rent for the more valuable property, and the occupier of the less valuable is giving a lower rent to his landlord. Rent, being theoretically a payment for the use of a differential advantage, tends to equalise the economic position of the occupiers of properties of different value. A rate, increasing in scale with the value of the property, is a disturbing factor, and presses with more than proportionately greater weight on the occupiers of the more valuable property. It, therefore, supplies a powerful motive for endeavouring to shift the burden. Assuming that the occupiers are partly or wholly successful in transferring the incidence of the rate to the owners, it will form, to the extent to which they succeed, a deduction from the rent of more than proportionate amount in the case of the more valuable property, which *ex hypothesi* was yielding a proportionately, but not more than proportionately, higher rent. The rate will, therefore, tend to lessen the differential advantage of the more highly rented and valuable property, and to improve the relative position of the less valuable.

If the scale of the duty falls, and does not rise, with the value of the property, it will tend to increase the differential advantage of the more valuable property, and, while there will be a less powerful inducement to the occupier of this to shift the rate, the tenant of the less valuable property will feel a yet keener anxiety to transfer a burden which falls on him with disproportionate weight. The rate, as before, will be a disturbing factor; and, assuming that its incidence is transferred from occupier to owner, it will place the owners already favoured in a yet more advantageous position, not indeed absolutely, but relatively to their less fortunate brethren, who possess the less valuable property.

(b.) The imposition of scales of duty, differing according to the character of the property, or the purposes for which it is used, will tend to induce a diversion of property from the use which is more highly rated to that which is rated less highly, and it will constitute an additional advantage to property of a character which is less, and a new disadvantage to property of a character which is more, onerously rated. It can hardly fail to exert an effect on rent, and will tend to diminish relatively that of the property which, whether it be due to its character, or to the purpose to which it is applied, is charged with the heavier burden, and to increase relatively that of the more favoured property. But in either case, on the hypothesis of competition, the incidence of the rate can hardly fail to fall in the long run on rent; for rent is a payment for differential advantage, and a rate of this nature introduces a new and obvious differential advantage or drawback.

Answers by Mr. G. H. Blunden.

Prefatory Note.

In presenting the subjoined answers to the questions submitted to me by the Royal Commission, I wish to mention that they had already been completed, and were being copied when Sir E. W. Hamilton's Memorandum reached my hands. In these circumstances I have thought it to be the most convenient course to embody my observations upon that document in the form of an appendix. Footnote references to this appendix have been attached to the answers where necessary.

I have thought it desirable to deal with some of the questions at considerable length in order to avoid the somewhat inconvenient alternative of referring the Commission to passages in my published writings. The subjects were, in these cases, too complex to admit of brevity without sacrifice of intelligibility. I have, moreover, considered it due to the Commission to explain my answers where they could not be made self-explanatory by a simple statement. If, however, I had received Sir E. W. Hamilton's Memorandum in time, I could probably have curtailed some of the answers without disadvantage by signifying my assent to his reasonings where they coincided with my own.

If I can further assist the Commission, I shall be happy to respond to any intimation to that effect.

Q. 1. Is the classification of Imperial Taxation, indicated in the accompanying Table, a correct classification; if not, what alterations can you suggest?

A. The classification adopted in Table D. is, in my judgment, an immense improvement upon that adopted in the similar Table submitted to the Royal Commission on

Agricultural Depression, as well as upon those in Mr. Goschen's tables and Mr. Paget's return. It is almost identical with that in Table VII. of my own series (Statistical Journal, Vol. LIX., p. 656), and I do not think much further improvement is possible at the present time. If it were possible, it would be highly advantageous to show the real or ultimate incidence of the several taxes, as I have attempted to do with regard to rates in Table VI. of the series above referred to. Without this it seems impossible to break through the misleading association of the house tax with "property"—an association which has been a fruitful source of error in the past. The house tax is the only item in the list which is, in any real sense, incidental to the *occupation* of property, and I am disposed to suggest the omission of the word "occupation" from the first heading, and the transference of the yield of the house tax to the column headed "Taxes levied in respect of Commodities."* I shall deal with the incidence of the house tax in my answer to Question 6, and it is only necessary to add here that occupation and consumption are, in relation to houses, economically the same thing.†

Q. 2. Assuming the classification, is it complete, and are the several items correctly distributed?

A. Apart from the treatment of the house tax, referred to above, I am of opinion that the distribution of the items would be improved by the following alterations:—(a.) The transfer of the railway duty to the "Property" columns; (b.) The total omission of the land tax; (c.) The allocation of a small portion of the income tax on quarries, mines, &c. to the "Personal Exertion" column; and (d.) The omission of the Post Office profit. The reasons for these suggestions are:—(a.) The incidence of the railway duty appears to be mainly, if not wholly, upon the shareholders; and the duty therefore falls into the same category as the income tax on railways. (b.) I regard the land tax, as, in Mill's phrase, "a rentcharge in favour of the public."‡ The force of the reasons for classifying it as a national property, and not as taxation, appears to me overwhelming. The charge is perpetual, and fully secured; one half of the original total has been sold by the State on terms which implied a proprietorial character, and has been treated as property by the buyers; and the buyers have in many cases been persons, other than the owners of the residues of the charged properties, who invested in land tax exactly as they might have done in ground rents or rectorial tithes.§ The true analogy appears to be to the tithe or to a perpetual rentcharge, and the receipts from the land tax should no longer be classed with the tax revenues in the Budget, but with those from the Crown lands and the Suez Canal shares.|| (c.) A large proportion of the mines and quarries of the United Kingdom are worked by private persons and firms, and in these cases the assessments include not only the return on the capital invested, but also the "wages" of the managing proprietors. Perhaps 50,000*l.* of tax would suffice to cover this. (d.) See answer to next question.

Q. 3. In particular should such an item as the net revenue of the Post Office, be treated as a tax, and if so, under which of the heads specified in the Table?

A. The net revenue from the Post Office should not, in my opinion, be classed as taxation. The charges do not appear to me to be higher than would be made if the business were still in the hands of private persons or corporations, and I regard the surplus as profit and not as taxation. Professor Seligman has discussed this question at some length ("Essays in Taxation," p. 295, *et seq.*), and I am disposed to regard his analysis as scientific and his conclusions as sound. I judge that he regards our Post Office charges as "prices" and the surplus as profit.¶

Q. 4. In considering the equity of any tax or system of taxation what tests should be applied?

A. Equity in taxation is usually defined in terms denoting equality of sacrifice. But this does not carry us much farther, the authorities being divided in opinion as to whether this involves progressive taxation or merely a proportional system. In either case it is obvious that equality of sacrifice, as applied to individuals, is quite unattainable. Such equality is certainly not to be attained by the use of any single gauge or measure, such as income, or house rent, and still less by that of consumption. But although the pursuit of equality can never be wholly, or even very largely,

* This has been done by Sir E. W. Hamilton on pp. 49-50 of his Memorandum.

† I concur in the views on this point set out in Sir E. W. Hamilton's Memorandum, page 38, &c.

‡ Principles of Political Economy (People's Ed.), p. 494.

§ See Bourdin's *Land Tax*, 3rd Ed., pp. 67, 77, 80 and 81; and Pitt's Speeches, Vol. III., p. 268 *et seq.*, especially p. 272. See also App. III., Ch. 3.

|| See answer to Question 6 c.

¶ See App. I., par. 1.

successful, the quest is not therefore to be abandoned. In general taxation for national purposes the exaction of contributions *in proportion to ability* should be aimed at, ability being measured, until more perfect criteria can be devised: (1) by the amount of each contributor's property; (2) by his income; and (3) by his expenditure on dwelling-house accommodation.* Equity demands, as a matter of course, that there shall be no exemptions of, or omissions to tax, particular classes or individuals. In local taxation the element of benefit is more conspicuous, and as the degrees of benefit resulting from the expenditure of the monies raised by such taxation are more obviously variable, and therefore more susceptible of estimation, the apportionment of certain classes of local taxation amongst the benefited parties appears to be necessary on equitable grounds.† The application of these latter observations will be pursued in my answers to Questions 9 and 10.

Q. 5. Can you offer any suggestions which would assist the Commission in determining the question of the real incidence of taxation as distinguished from its primary or apparent incidence?

A. The first point for consideration in this branch of the inquiry is, I think, whether the particular tax which may be brought under discussion is a general tax or a special impost peculiar to one class of subjects; or, again, one falling somewhere between these two categories. Where the payment of a tax is incidental to the occupation of land or buildings, the nature of the occupation, *i.e.*, whether for residence or business purposes, is a factor of absolutely vital importance. The bearing of these primary considerations will become apparent as I proceed.

Q. 6. Could you, for example, state your view as to the real incidence of:—

- (a.) The Inhabited House Duty;
- (b.) Rates levied on houses and trade premises;
- (c.) Rates levied on agricultural land;
- (d.) Taxes on the transfer of property;
- (e.) Taxes on trade profits;
- (f.) Death duties.

A. (a) The Inhabited House Duty:—The real incidence of this tax is normally and generally upon the occupier.‡ The essentials of the theory may be very briefly stated. Houses are (1) commodities, and (2) necessities of life. The occupier is the consumer. There appears to be no reason for supposing that he is any better able to shift the tax on his house than he would be to shift a tax on corn or bread. Adam Smith and Mill held the view, stated shortly, that a small portion of the tax fell finally upon the ground landlord; the rule of incidence governing the case of agricultural land being held to apply to so much of the tax as was proportionate to the ground rent or ground value. Several living economists have expressed similar views. Ricardo, on the contrary, expressed the opinion that “in ordinary cases the whole tax would be paid both immediately and finally by the occupier.”§ This view appears to have received little or no support from succeeding writers until it was re-stated and (for the first time) elaborated by me in the *Economic Review* for October 1891.|| It was, however, at the same time receiving a fresh and full embodiment in the work on “The Shifting and Incidence of Taxation” which Prof. Seligman published in the following year; and it has likewise been more recently affirmed by Dr. N. G. Pierson.¶ There seems to be no valid reason for the supposition that the theory of taxes on agricultural land has any relation to a house tax. The site of a house is, so to speak, absorbed by the building, and it appears to exercise no modifying influence upon the character or incidence of a house tax. I entirely accept Mill's dictum that a house tax is, in its effect upon the occupier, virtually a tax upon income, measured by a particular branch of expenditure.** My experience and observation lead me to believe that this view is largely and increasingly held by the occupiers of private dwelling-houses who are payers of the Inhabited House Duty, and that the exaction of the tax has no more influence on rent than the income tax has on wages and profits. Shops pure and simple are not

* I approve also the present system of taxation of luxuries, regardless of ability.

† See answer to Question 9.

‡ See App. I., par. 2. I find myself in entire agreement with Sir E. W. Hamilton upon this very important matter.

§ Principles of Political Economy (Gonner's edition), p. 182.

|| Cliffe Leslie had however said something very similar. See *Essays in Political Economy*, 2nd Ed., p. 400. Professor Thorold Rogers also approximated to it in his speech on local taxation in the House of Commons, March 23rd, 1886; and Dr. Fleeming Jenkin likewise, see App. I., par. 2.

¶ See App. I., par. 2.

** Principles of Political Economy (People's Ed.), p. 503.

chargeable to the Inhabited House Duty, and those possessing residential accommodation are charged at rates of duty one-third lower than the rates applicable to private dwelling-houses. This reduction of rate is not, in the majority of cases, sufficient to wholly exonerate the business portion of the premises from charge, and the question of real incidence would be of interest were not the tax so very light. If all shops were taxed the shopkeepers would usually be able to add the tax (except so much as might be applicable to attached residences) to the prices of the goods sold, as in the case of local rates. But as mere shops are exempt the occupiers of combined premises must bear the whole tax themselves. In the latter class of cases there is a small measure of taxation of trade profits.

6 (b.) Rates levied on houses and trade premises:—I hope it will not be considered out of place if I suggest here, that rates are not levied on houses. They are levied, even when paid by the owners, upon specified *persons*, in respect of the *occupation* of the houses. They are not payable for periods during which the premises are unoccupied, and if the occupier fails to pay, there is no remedy (except under compositions) against the owner or succeeding occupier. No charge whatever rests upon the property in any case.* So far as private dwelling-houses are concerned, the real incidence of local rates is the same as in the case of the Inhabited House Duty, viz., on the occupier.† The essential difference between land rates and house rates has been well stated by Mr. M'Neel-Caird as follows:—"Dwelling-houses on the other hand, are not instruments of production, but necessities of life. Demand and supply in each locality, determine their rent; but the question of its amount is not embarrassed by any consideration on the tenant's part of produce to be raised or profit to be made by their use."‡ An increasingly large number of householders rightly regard the rates they pay as a sort of income tax, and not as an increase of the rent or price of the house. But the theory of incidence here propounded is in no degree dependent upon their so doing. Dealing with commodities which are also necessities of life, Professor Seligman observes: "Prices may rise considerably without appreciably affecting the demand. The demand for absolute necessities of life is not apt to diminish much unless the people starve. The effect of a tax on such commodities would rather cause a diminution in the more elastic demands for comforts, or for the less absolute necessities."§ When elaborating this point on a former occasion, I said:—"In estimating the proportion of occupiers who would remove to inferior houses if the rates were substantially increased we may safely eliminate the majority of those who are able to save any considerable portion of their income, the diminution of the rate or scale of future savings being a smaller evil than the loss of comfort and convenience which would result from the alternative course. We may also exclude those whose means enable them to enjoy luxuries which they value less than the luxury of a good house; and those who, having no luxuries to surrender, yet prefer to give up some other necessary or decency of life in order to retain the use of a house of the class to which they have become accustomed. The surrender of some portion of their customary house accommodation is, for many reasons, repugnant to the feelings of the great majority of householders, and would only be resorted to under the strongest pressure, and in a small proportion of cases. Apart from the loss of accommodation and amenities involved, the trouble and expense of removal are not to be overlooked. But a still more powerful deterrent exists in the feeling that removal to an inferior house is a proclamation of poverty to the world. Whatever we may think of the sentiment, there can be no doubt that it is widely prevalent, and would cause a retrenchment upon privately consumed necessities, such as food and fuel, to be preferred in many cases where there are neither luxuries nor savings to surrender.|| There remain those who have been especially extravagant in the matter of house accommodation, and who naturally turn their thoughts in this direction whenever retrenchment is necessary from any cause; those also who in estimating the value of the comforts and luxuries they enjoy give their extra house accommodation a low place; and those, finally, who are already on the extreme

* I find this quite clearly and correctly stated in Sir E. W. Hamilton's Memorandum, p. 37.

† See App. I., par. 2.

‡ Local Government and Taxation in Scotland: Cobden Club Essay, 1875.

§ Shifting and Incidence of Taxation, p. 148. See also App. I., par. 2.

|| All this was ignored by Adam Smith, who also assumed a stationary demand rather than a growing one. Ricardo, however, breaks away from Smith on this point, observing that "if the tax be moderate, and the circumstances of the country such that it is either stationary or advancing, there would be little motive for the occupier of a house to content himself with one of a worse description." Gonner's edition, p. 182. Ricardo follows Smith in abnormal cases.

“ verge of pauperism.”* The disturbance of rents by the removal of these sections to inferior houses or to the workhouse would not in any case be equal to the rise of rates which caused it, and would usually be much less appreciable. But even this effect would only be temporary. Low-class houses would probably suffer no depreciation; whilst the rents of medium-class and high-class houses would gradually regain their original levels through the check or stoppage of building until the demand had once more overtaken the supply.† It is sometimes assumed that the builder of houses is under the necessity of gauging the rent-paying capacity of the prospective tenants of the houses which he proposes to build. This is surely a gratuitous supposition. Is it not more consonant with fact to say that the builder finds that a demand exists for houses of certain classes, and that he meets it, just as a butcher or baker meets the demand for food? He buys land and bricks, just as the baker buys flour; and, whilst paying the market price for what he buys, receives the market price for that which he sells. The letting of the land to him, or of the house by him, instead of its purchase or sale, is immaterial, the economic effect being the same in either case. There is no rigid limitation of rent-paying capacity. The rents paid by the artizan and labouring classes range from a tenth or twelfth to a third of the entire income, according to the locality and other circumstances.‡ This proves the existence of considerable elasticity in the case of the poorest classes. But how much more elastic must the capacity of the middle and upper classes be when their luxurious expenditure and savings are taken into account? High rates and high rents so frequently co-exist as to practically disprove the unvarying and indissoluble converse relationship sometimes suggested.§

There are, of course, exceptions to the general rule laid down in the foregoing passage. These are found to arise from the absence of competitive conditions, such as in the cases of (a.) congested areas in the central portions of the metropolis, (b.) exceptionally advantageous suburban sites, and (c.) stagnant or dwindling towns. In the first two exceptions the burden of the rates will ultimately be wholly or partially transferred to the owner of the ground value according as his monopoly is found to be relative or absolute; whilst in the third case this result will depend upon the extent and duration of the excessive supply of houses in the particular locality.

The real incidence of the rates on shops and other business premises would appear to be mainly upon the consumers of the goods made or sold therein. So far as the nature and circumstances of the trades permit, the tax is no doubt re-charged by the traders to their customers in the prices of the goods or charges for work done. But the power to do this is limited by outside competition, and the tendency towards uniformity in prices consequent thereupon. Unless compensated by local advantages, any excess of rates beyond a general average may fall primarily upon the traders and ultimately upon the property owners in the affected locality.|| In the case of mills and manufactories for the production of goods for export, and in trades subject to severe foreign competition, it is probable that the real incidence of rates is to some extent upon wages also.¶

6 (c.) Rates levied on agricultural land:—Subject to the following qualifications, I concur in the general opinion that their real incidence is upon the property. (1.) I concur in Mill’s dictum, more recently urged by Sir R. Giffen and some others, that the older rates on land have assumed the nature of a rentcharge in favour of the State similar in effect to the Land Tax. Speaking of the Land Tax, Mill says:—“ Wherever and in so far as income derived from land is prescriptively subject to a deduction for public purposes, beyond the rate of taxation levied on other incomes, the surplus is not properly taxation, but a share of the property in the soil, reserved by the State.”*** He proceeds, in a footnote, to apply this observation to the local rates on land, and says:—“ As much of these burdens as is of old standing ought to be regarded as a prescriptive deduction or reservation, for public purposes, of a portion of the rent.” There seems to be no escape from the conclusion that the remission of the poor rate,

* Local Taxation and Finance (*G. H. Blunden*), p. 51.

† See App. I., par. 2. In advancing localities, the check is either not experienced, or is so slight as to be unobservable.

‡ Mr. Spender (*The State and Pensions in Old Age*, p. 11) states that one-half is a “ by no means uncommon ” proportion amongst the very poor in London.

§ A long study of the facts has led me to conclude that the very high rates in London, and some of the large provincial towns, have had absolutely no effect in lowering rents or preventing their rise.

|| Although Professor Bastable does not commit himself upon the question of the incidence of house rates, I find myself in entire agreement with him as regards shops, &c.; See *Public Finance*, 2nd Ed., p. 420.

¶ I believe this opinion has been expressed by Cliffe Leslie, but I do not remember to have seen it elsewhere.

*** People’s Edition, p. 494 (*Principles of Political Economy*).

or a substantial portion of it, would, if the other circumstances remained unchanged add to the selling value of the property a sum approaching the capital value of the remitted tax. To effect this at the cost of the payers of general taxation would be equivalent to a present by the State to the landowners for the time being of this capital sum, inasmuch as they would be able to realize it by selling, and thus appropriate to themselves the entire future advantage. The buyers and their successors would not share this advantage, because of its having been discounted in the price. Mr. Edwin Cannan has lately expressed his views upon this point in his usual fearlessly vigorous fashion. He says :—“No one is brought up in the belief that he is to inherit land or houses free of poor rates. No one buys land or houses without knowing that such things exist. The man who sells consols and buys land, and then clamours for remission of rates, is no better than a thief.”* (2.) In times of exceptional or prolonged disturbance of agricultural prices and rentals, such as that experienced in recent years, the process by which the tax is normally transferred from the first payer to the property is liable to arrest, and the real incidence would be temporarily upon the occupier. (3.) There seems to be no reason for supposing that the rule of incidence applicable to agricultural land extends to the farm-houses. On the contrary, the rule applicable to dwelling houses generally would operate here, as elsewhere, and to this extent the rates payable by farmers will usually fall finally upon themselves.†

6. (d.) Taxes on the transfer of property :—I have given less attention to this branch of the great subject of incidence than to some other branches. I am, however, disposed to agree with Professor Bastable, rather than with Adam Smith and Mill in thinking that some portion of the tax will fall on the buyer. Sales are not, as the older economists imply, generally due to the necessity of the seller, but to the expectation of advantage by both buyer and seller. It is, therefore, reasonable to assume that they will share the attendant disadvantage of a tax on the transaction.

6. (e.) Taxes on trade profits :—If the tax is assessed on trade profits in common with all the other branches of income, as in the case of the income tax, it will remain where it is first laid. But peculiar taxes on particular trades, such as the tobacconist's license duty, will usually fall upon the trader's customers. The element of uncertainty attaches to the case where a tax is imposed upon a trade of a more or less monopolistic character, such as that of innkeepers. If this trade should now be regarded as a monopoly, owing to the extreme reluctance of the magistrates to grant new licenses, the tax must be regarded as falling upon the profits of the persons carrying on the trade.‡

6. (f.) Death duties :—These cannot be shifted. They fall on the property either (1) as an exaction of a part of the capital itself, or (2) by diminishing the net income for a number of years.

Q. 7. Is it possible to frame any criterion whereby the purposes for which taxation should be raised locally can be distinguished from those for which taxation should be raised by the central Government?

A. No single criterion for this purpose can be framed. But there are distinctions which to some extent may serve as criteria. (1.) Taxation for providing or maintaining local advantages or services should be always raised locally. This distinction would mark off the paving, cleansing, and lighting of streets, sewerage and sewage disposal, refuse removal, water supplies, cemeteries, markets, municipal buildings, baths, parks, libraries and museums, and street improvements, as purposes for which the taxation should always be local. (2.) Public money which is of necessity expended by local authorities and officials, in cases where the results cannot be measured or tested by a national authority, should also be raised locally, unless overwhelmingly strong evidence of grave injustice can be adduced in opposition. This determines the case of poor relief in its various forms. (3.) In the matter of elementary education we have the modifying consideration that the results can be tested and, in some sense, measured; but opposed to this is the element of voluntarism, permitted and even encouraged by law, which would make it unjust§ to throw the whole of the school taxation of the country upon the country as a whole. If voluntary subscriptions greatly diminished, there would be no strong reason to oppose to the transfer of the

* National Review, November 1896.

† These qualifications appear to have received from Sir E. W. Hamilton a somewhat inadequate degree of attention. I ought also to have referred in the text to the view urged by Professors Thorold Rogers and Cliffe Leslie, Mr. Purdy, and Mr. Palgrave, that poor rates lower wages, not rent.

‡ Cf. Seligman's "Shifting and Incidence of Taxation," pp. 164 and 168.

§ I mean unjust to those who tax themselves to a really substantial extent for the support of voluntary schools.

whole charge for efficient secular elementary education to the taxes raised by the central Government. The whole cost of the local administration of justice, and, perhaps, that of the maintenance of the police forces also, might, I think, be charged upon the national revenues without serious disadvantage. Security should, of course, be taken for efficiency and economy.

Q. 8. Should the two kinds of purposes and the expenditure on them be kept distinct or should the expenditure for local purposes be partly borne by the central Government?

A. The two kinds of purposes and the expenditure on them should certainly be kept distinct, and the expenditure for local purposes should only be partly borne by the central Government after a case has been made out for a departure from the established practice. My reasons for this view are already stated in my reply to the previous question.

Q. 9. Should local rates be divided between owners and occupiers of real property, and if so, in what proportions?

A. I am strongly of opinion that all the existing local rates should be equally divided between the occupiers and the owners of the rated premises or property. As regards agricultural land, I have never heard or read any reply to the numberless suggestions which have been made that the apparent incidence should, to this extent, be made to correspond to the normal real incidence. Scottish experience of this system has, I believe, been wholly favourable. As regards urban rates, and those borne by householders in rural districts, quite other grounds have to be urged. "About two-fifths of the entire sum raised by rates in England and Wales are expended in poor relief and elementary education. If to these be added the further expenditure out of the rates on lunatic asylums, hospitals, public health and vaccination, the proportion will be raised to about one-half of the whole. These expenses, to which that for police should, perhaps, be added, are incurred in the discharge of moral obligations and public duties, and a considerable portion of the cost is borne by the general taxation of the country. It follows, therefore, that the local taxation needed to defray the balance of the cost should be imposed as nearly as possible in conformity with the principles which regulate the distribution of the burden of the national taxes."* This would mean the entire exoneration of the poorest ratepayers, and a substantial reduction of the contributions of the less poor and of the lower middle classes, in respect of the local taxation for these purposes. It would also mean the exaction of a much larger measure of contribution from some kinds of property than is now secured by local taxation. The equal division of the rates for these purposes (called by Sir A. Milner "onerous" rates)† would not, of course, effect a close adjustment between the weight of the burden and the ability to bear it in individual cases, or even as affecting large classes; but it would, if made effectual, contribute substantially to the removal of that "over-burdening of the poorer classes" of which Prof. Seligman, a warm admirer of the British national fiscal system, has spoken,‡ as resulting from our system of local taxation.§

In Scotland, the poor, school, and highway rates are equally divided between owners and occupiers, and the system appears to give general satisfaction. As recently as 1889, the method of equal division received fresh legislative sanction, the Scotch Local Government Act of that year enacting that county rates for new purposes and increases in the old ones beyond the average of the previous ten years shall be equally divided.

Turning to those rates which are more largely in the nature of payments for services rendered and advantages conferred, we enter a region in which the "benefit" theory becomes much more generally applicable than in relation to the "onerous" rates. The rates of which I am now speaking are mainly urban, those for rural highways being the most important exception. The great advantage these latter confer upon the owners of the estates served by them is sufficiently obvious, but the case is largely covered by my earlier observations as to rates on agricultural land. (See Q. 6 (c).)

The heaviest of the non-"onerous" rates are those for the paving, cleansing, and lighting of the streets, sewerage and sewage disposal, and public improvements. A very large proportion of the expenditure for these purposes takes the form of payments

* Local Taxation and Finance, p. 75.

† I find this is Mr. G. H. Murray's phrase. I had forgotten its origin.

‡ Economic Journal, December 1894. See also Cliffe Leslie's Essays, 2nd Ed., pp. 404-5; and Jevons' "Match Tax," p. 40.

§ This "over-burdening" is aggravated by the circumstance that rental has ceased to afford a reasonably accurate measure of either "ability" or "benefit." The poor pay away a far higher proportion of their income in rent than the upper and middle classes, although they too often live in slums which would be considered unfit for the domestic animals of the other classes.

in respect of principal and interest of loans, or, in other words, of capital outlay. It has long been regarded as a flagrant injustice that a single generation of occupiers should not only bear the whole charge for maintenance and interest but that also for repayment of principal; whilst the property-owners, who alone are permanently benefited by the outlay, escape scot free. The provision of main sewers and sewage disposal works especially is as much a part of the laying out of a building estate as that of the minor sewers which are a recognised charge on the owners. Whether a town consists of one estate or many is immaterial, the character of the outlay being the essential point. Apart from capital expenditure, considerable outlay is incurred in sewerage work which is in the nature of estate maintenance, and the rates for interest and maintenance, as well as that for repayment of principal, should, I submit, be wholly borne by the owners. The public outlay on the lighting, paving, and cleansing of the streets, not only adds to the comfort of the occupiers of the houses, but also raises the letting and selling values of the adjacent land and buildings. Were the work not done at all, the houses would not command equally high rents, and there seems to be little room for doubt that under the existing system the tenants are twice taxed for these developments of civilization, first to meet the outlay of the public authority, and secondly in extra rent upon their own improvements.* The cases of street improvements, the building, freeing and maintaining of bridges, and such works as the Thames Embankment are, so far as they cannot be met by "betterment" assessments, still more clearly advantageous to the owners of property, and such as to call for the application of the principle of division of the rates.

In none of the foregoing cases is it possible to work out the just proportions in which the division should be made with any degree of precision; but I am persuaded that if, in order to secure simplicity, the division is to apply uniformly to all rates, nothing less than an equal division will meet the equitable claims of the occupiers.

Q. 10. Should ground values be separately rated for local purposes, and if so, on what principles?

A. The separate rating of ground values is, in my opinion, extremely desirable, provided that the practical difficulties can be sufficiently overcome to allow of successful administration. I am not one of those who think that this development of our rating system would prove no more difficult and costly in practice than the portions now applicable to houses inclusive of their sites. The invaluable criterion of rental, adjusted by competition to the true annual value, which alone makes the present system workable, would be absent from a site-tax system. If sales of sites, with or without buildings, were sufficiently frequent and sufficiently distributed as to locality to afford a good basis of fact in arriving at the capital values of all sites at all times, there would be no need to object to a selling value basis for the new tax. But I am bound to say that I do not believe these conditions anywhere exist, and that they are distinctly absent in London and other leasehold towns. The alternative of hypothetical valuations by experts appears to me inadmissible, having regard to the astounding disparities constantly revealed in evidence of this class in the law courts and elsewhere, and in view of the costliness of such a method. I am, however, not without hope that some way out of the difficulty may be found which is not at present apparent to me. Failing this, I am disposed to recommend that the taxation of ground values should be effected by (1) giving occupiers who are tenants for short terms the right to deduct one-half of the rates from the rents; and (2), in cases of leaseholds and perpetual chief rents and feu duties, by giving a similar right of deduction to the holders of intermediate interests. I would suggest that the proportion of the total rate or rates to be deducted by these persons should be that (not exceeding one-half) borne by the lease or chief rent to the rateable value of the whole property.

May I state here my views as to the theory applicable to the taxation of ground values? (1.) I am of opinion that this class of property at present escapes, in the great majority of cases, all share of contribution to local taxation. This exemption appears to be unintentional and accidental, as well as inexpedient and unjust, and therefore to require revocation. (2.) The reasoning of my answer to Question 9, as to "onerous" rates, of course, applies to urban land, but I think there are special reasons for making the contribution to be exacted from this class of property a substantial one.

* Palgrave (*Local Taxation of Great Britain*, p. 67) says on this point:—"Thus the improvement of the locality would be effected with the tenant's money, to his immediate as well as abiding prejudice." He considers that the taxation of occupiers for general district, sewerage, drainage, town improvement, roads and bridges, paving and lighting, and sanitary purposes inflicts great injustice, and he approves the suggestion that the rates for these purposes should be equally divided, *Ibid.*, pp. 13, 24, and 64 *et seq.*

I need not dwell on the arguments which have become familiar in relation to "unearned increment." But I would like to suggest that a very considerable portion of the increase of value usually referred to under this description is directly due to the expenditure of local public funds raised by rates. This happens in two ways: (a.) When a building site in a town or its suburbs is sold or leased, it is sold or let with an endowment of advantages and improvements created by successive generations of inhabitants, acting as an organised society, at great cost. This cost has been borne by a long succession of occupiers, but the advantage largely accrues to the owners, who have contributed nothing. The endowment consists of some or all of the following items: street improvements, bridges and approaches, ferries, open spaces and parks, sewers and sewage disposal works, waterworks and gasworks for public purposes, markets, municipal buildings and estates, museums, art galleries, libraries, schools, baths, fire stations and equipment, and cemeteries and streets repaired, improved, and lighted since their first formation. (b.) The site is sold at a price which also includes the value of the expectation that all these advantages will be maintained at the public cost for ever. The argument is greatly simplified by supposing that a town is built entirely on one estate. It is evident that if the estate or any part of it be sold or leased the seller or lessor will realise and appropriate the value imparted to the property by both the accumulated publicly-acquired advantages and the expectation of maintenance and further improvement at the public expense which the existing laws cast upon the occupiers. The money value of all this must, of course, vary in different towns, and will be difficult to calculate. But that it exists, and is realisable, hardly admits of doubt. If the rulers of the town had the legal power, and it were practicable, to treat with the landowner on equal terms, and to bargain with him for the use by the occupiers of his land of everything created by the townspeople acting as an organised society, and for the maintenance in the future of such advantages thus conveyed as involve continuous or recurrent expense, there can be no reasonable doubt that the landowner would be glad to compound for the enfranchisement of his land by the payment of a share of the enhancement of value or rental to the town.

If I am right in believing that a considerable portion of the great jump in the rent or value of urban and suburban land which results from its conversion from agricultural to residential uses is to be thus accounted for, the scale of contribution suggested above,* which might appear at first sight to be unreasonably high, will not be found inequitable. It is, I think, unfortunate that the definition of the term "private improvement works" should have been so narrowly restricted, and that the local authorities should be unprovided with other means of recovering outlays and levying contributions beside those of the general district rate and the so-called private improvement rate. Were the scope of the latter enlarged, so as to cover all sewerage and sewage disposal works and public water supplies,† the necessity for so high a scale of deduction from ground rent would partly disappear. But this would not suffice by itself. Equity would still require that the owner of each *new* building estate should pay a composition to the local authority for participation in the endowment of improvements and advantages created and maintained at the public expense. If this were partly in the nature of a capital payment at the outset, the character of the payment would be better understood, and the odium attaching to the levying of a high rate of taxation would be avoided.

Q. 11. Under what conditions and in what manner would the rent which could be obtained by an owner of land or rateable hereditaments be affected, if at all, by—

- (a.) The increase of an old rate.
- (b.) The imposition of a new rate.
- (c.) The reduction or abolition of a rate.

A. This question is partly answered in my replies to Questions 6b and 6c. It is necessary to distinguish the cases of (a) agricultural land; (b) houses; and (c) shops and other business premises. The rent of land would, in normal circumstances, be lowered by either the increase of an old rate or the imposition of a new one, and would be raised by the reduction or abolition of a rate. The rent of a dwelling-house would, in normal circumstances, be unaffected by either circumstance. The rent of a shop might be somewhat affected, upward by the last, and downward by either of the others. In the first and third cases the effect would probably not be immediate, and might, owing to other circumstances, not be very noticeable when it did occur.

* See answer to Question 10, last sentence of par. 1.

† There are precedents for charging *owners* with the cost of public water supplies in the private Acts in force in Liverpool, Newcastle, and Bury (Lanc.); and possibly in other cases.

Q. 12. Under what conditions and in what manner would the rent which could be obtained by an owner of land or rateable hereditaments be affected, if at all, if an occupier by whom a rate had hitherto been paid were empowered to deduct the whole or a portion thereof from the rent in the same manner as he is now entitled to do in the case of Income Tax (Schedule A.) ?

A. If land rents were nicely adjusted at the time of the grant of a right of deduction to the occupier, the change would cause them to rise, but under present conditions such a result would probably not be very general. House rents would not be permanently affected by such a change, provided that the house owner, when not the freeholder, had a corresponding right of deduction. In towns possessing an ample supply of houses the temporary effect would be very slight, if felt at all; in towns inadequately supplied the effect might be to cause a more prolonged rise of rents. Shop rents would probably be similarly governed by the state of supply and demand, but might permanently rise to some slight extent. This rise would, if experienced at all, probably not be general.

Q. 13. What is the effect, if any, upon rent of rating property :—

(a.) On different scales of duty according to the value of the property.

(b.) On different scales of duty according to the character of the property or the purposes for which it is used.

A. (a.) The effect of charging different scales of duty according to the value of the property would be, *if the differences were considerable*, to induce some occupiers to endure an inferior class of houses. For a time low-class houses would be appreciated, and high-class houses depreciated, but this effect would gradually disappear. The plan suggested is already in operation in the case of the Inhabited House Duty and in that of rates on houses of values below the compounding limits. The effect is scarcely perceptible in the former case owing to the lowness of the scales of duty.

(b.) The Scotch plan of "classification" is of little effect in areas in which the holdings are chiefly of one class. But where operative, the effect would be to raise farm rents and possibly shop rents also; the rise being at the expense of the occupiers of private dwelling-houses. In Scotland, the method only applies to the occupier's half of the parochial rates, the owners paying the other half according to a uniform scale. This limitation gives the method a justification which it would not otherwise possess.

Q. 14. Can you make suggestions to the Commission as to any methods of raising revenue for local purposes, otherwise than by means of rates ?

A. After many years' careful consideration of this question from many points of view, I have come to the conclusion that the best method of raising revenue for local purposes, otherwise than by means of rates, would be the creation of a new tax which should fall equally upon the income or annual value of every description of income-yielding property, whether personal or real, visible or invisible. Shortly before I received the list of printed questions from the Secretary to the Royal Commission, I completed an essay in which this course was proposed and the outlines of the contemplated fiscal machine were drawn. This essay was submitted to the Editor of the "Economic Journal," and at once accepted for publication in the December number of that organ. It will, I hope, appear in time for submission to the Royal Commission, and I need not, therefore, enter into details here. It will be observed that the suggestion is to tax the annual product, and not the capital value; and the scheme follows the income tax model as far as possible. Assuming that the exemptions, abatements, and deductions now operative in the case of the income tax, were extended to the suggested new tax, a rate of sixpence in the £ might be expected to yield a revenue of ten millions a year.*

Another suggestion may be thought deserving of consideration, viz., that the money value of all new liquor licenses should be secured to the local authorities at the time of the grants. At present, the grant of a new full license is equal to a gift of, in many cases, from 5,000£. to 10,000£., which can be at once realised by the sale of the premises to which the license attaches. This value, created by the act of a public authority, should clearly be retained by that authority for the public use. Perhaps it would be advisable to secure the annual value rather than the capital value, in order to avoid complications in the event of the license being subsequently withdrawn. It would be as easy to obtain tenders expressed in terms of annual value as in terms of capital value.

* See Appendix 3.

I have already, in my answer to Question 10, suggested that future sewerage and sewage disposal works should be charged for as private improvements; and that *new* building sites should be charged with a composition for pre-existing improvements and advantages created at the public expense. Another mode of relieving the public rates will be suggested in the answer to the next question.

Q. 15. Does any point not included under any of the foregoing questions occur to you on which having regard to the terms of reference to the Commission you wish to express an opinion?

A. I am of opinion that a very serious and wholly unnecessary waste of local revenue is at present going on owing to the imperfections of the legislation governing compounding for rates. It appears to me to be perfectly just and reasonable that, if the public interest requires the payment of the rates on houses and other tenements of small value by the owners, the latter should perform the duty without reward, as is done by the importers of tea, spirits, wine, &c.; by British brewers and distillers; and by tenants of houses, lands, &c., in the case of the property tax (Income Tax Schedule A.). As a matter of fact, small houses let much better when the rates and water rent are included in the weekly or fortnightly rent, and the system is advantageous to the owners, even without any compounding allowance beyond a deduction for empties and lost rents. I submit that the maximum allowance for all purposes, under both the Poor Rate Assessment and Collection Act of 1869 and the Public Health Act of 1875, should be cut down to 15 per cent., but that the owner should have the option of electing in advance to forego the composition and to claim instead an allowance on the actual empties. In Gateshead, where the Corporation raised 60,252*l.* by means of rates in 1895-96, and notwithstanding that the Corporation induced the owners of compounded property to accept an allowance of one-third instead of one-half under the Public Health Act, 1875, the loss by compositions (exclusive of poor rates) amounted to 6,603*l.* I judge that not more than one-fourth or one-fifth of this sum was properly applicable to empties, and that the remainder was a gratuity to the compounding owners at the expense of the non-compounding ratepayers. I am informed that judicial decisions have converted the word "may" in the proviso to section 211 of the Public Health Act, 1875, into "must," and that the compounding owners in Gateshead could have insisted upon their legal right to a deduction of one-half had they been so minded. As it was, the gratuity (taking it at 4,500*l.*) was equal to the produce of a rate of 4*d.* in the £ over the whole borough.

The only other matter upon which I propose to offer an opinion is the urgent need of a Provincial Valuation Act, framed mainly upon the lines of the Metropolis Valuation Act. The absence of such an Act makes the actual levy of the rates operate most unjustly upon certain classes of the ratepayers in many localities. The chief sufferers in recent years were the occupiers and owners of land, but the Agricultural Rates Act has now made their case less important. The co-operation of the surveyors of taxes would now be welcomed by most of the overseers and assessment committees, as calculated to strengthen their hands and to secure uniformity. The position assigned to this officer under the Metropolitan Act should not be weakened in the Provincial Act, as proposed in Mr. Sclater Booth's latest Bill, the need for a strong official being greater in the provinces than in London.* I could give illustrations of the injustice of the present system due to this legislative failure, if desired. I enclose a copy of a leading article on this subject contributed by me to the "Manchester Guardian" of January 7th, 1890.†

G. H. BLUNDEN.

APPENDIX 1.

OBSERVATIONS UPON SIR E. W. HAMILTON'S MEMORANDUM ON LOCAL TAXATION.

The points upon which I find myself in agreement with the writer of this extremely able official paper are so numerous that it would be tedious to go over them seriatim. I am able to give my unqualified assent to the great bulk of his statements and conclusions, and I trust that the spirit of my observations may not be misunderstood if I confine them to those points as to which the agreement is not complete.

* Mr. Albert Pell strongly urges this view in the "Journal of the Royal Agricultural Society," 1895, pp. 631 and 634. If I remember aright, he opposed it (in company with Mr. C. S. Read) 20 years ago.

† Appendix 2.

1. Post Office Surplus.—I am unable to discover any essential difference of character by which the charges of the Post Office for the carriage of parcels and for telephone services may be distinguished from those of the railway and telephone companies for the like services. I regard these charges as falling into the same class as railway and steamship companies' charges for the carriage of passengers, freight, and mails; and I think the Post Office charges for the carriage of letters and the transmission of telegrams must be similarly classified. The charges of those local authorities which possess waterworks and gasworks, for domestic and trade supplies of these commodities, are not officially classified as rates or taxes, although, in the case of water, the charge is not proportioned to the consumption. Influenced by the latter fact, and by the monopolistic character of Governmental postal, telegraph, and water undertakings, Professor Seligman originally classified the charges in these cases as taxes (*see* "Quarterly Journal of Economics," April 1893). But he has since changed his views upon the subject, and now classifies them as prices (*see* my answer to Question 3).

2. The Incidence of the Inhabited House Duty, and of the Local House Rates.—I think it a matter for congratulation that this subject has been so largely and successfully freed by Sir E. W. Hamilton from the state of complexity and confusion into which it had fallen in recent years. Much of the confusion was caused by the disregard of the fundamental and vital distinction of house rates from land rates, which all the older economists had been careful to emphasise. More confusion was created by the careless (not to say reckless) description and classification of these imposts as "taxes on real property." Sir E. W. Hamilton not only avoids these errors but strongly emphasises the necessity for a more careful discrimination in these respects. But I hope he will allow me to say that, after his clear recognition of the close analogy between the house duty and the local house rates, and of the fact that these imposts "are taxes not differing economically from the duties in respect of consumable articles,"* I am a little disappointed to find him, further on, placing only one-half of the house rates under the heading of "taxes in respect of commodities."† These rates being "a tax in respect of a commodity which is a necessary of life,"‡ and being also payable by the occupiers in the first instance without any legal right of recovery, I find it very difficult to discover how, in normal circumstances, the occupier can shift any portion of the burden whatever. The former duty on corn in this country, and all such taxes on commodities which are necessaries of life (other than houses) elsewhere, have invariably been held by economists to fall wholly upon the consumers. I am, therefore, at a loss to understand why, assuming a normal demand, any exception should be made in the case of houses. I have always been careful to allow that under abnormal conditions the incidence may be partly, or even wholly, upon the owners; and I have similarly insisted on the necessity of distinguishing the case of shops and other business premises from that of private dwelling-houses. Sir E. W. Hamilton is himself led by the course of his argument to say (page 39):—"It would seem, therefore, to follow that such rates must fall on the occupiers"; and although he proceeds to say that "this is not a necessary consequence," the reason given relates only to shops, regarding which I am in substantial agreement with him. Two reasons are given on page 38, which appear to me to have more validity in relation to dwelling-houses. In these the rates are contrasted with the Inhabited House Duty by reason of (1) their variability, and (2) their effect when the rate in the pound is unusually high. The first of these reasons will be found, on examination, to merge into the second; and this, in its turn, may be quite fairly said to relate, as pointed out by Ricardo, to an exceptional condition of affairs in particular localities. Happily, high rates do not, in the great majority of British towns, prevent the rapid growth of population and wealth, or the maintenance of an active demand for new houses.§ I have, therefore, felt justified in regarding the existence of a steady demand as the normal ruling factor in working out my theoretic views upon the subject. As the result of a long and close consideration of this question, I have arrived at the conclusion that the difference (generally only slight) between my views and those of Adam Smith, J. S. Mill, and Professor Bastable is mainly due to my having taken a condition of growth and advance as the normal one, whilst they have apparently assumed a stationary or decaying condition as the basis of their arguments. Professor Bastable, it is true, says: "Even in an advancing locality the shifting may be on the ground rent.—The increase of house rent that checks building thereby reduces the demand for building ground, and consequently lowers its value."|| But this rising of both rent and rates has been

* p. 38.

† p. 46.

‡ p. 53.

§ See answer to Question 66.

|| Public Finance, 2nd Ed., p. 420.

going on for many years in nearly all the larger British towns and urban districts without the resulting check to building which he assumes as a necessary consequence. Instead of lowering ground values, these have continued to rise, even in the most heavily rated towns, in a persistent fashion strongly indicative of freedom from fiscal hindrances. Professor Edgeworth ("Economic Journal," March 1897) agrees that "dwelling-houses belong to the general category of consumable products";* but he dissents from the opinion that they are "absolute necessities of life" of which it can properly be said that "prices may rise considerably without appreciably affecting the demand."† As, however, he allows that this view is correct "in the case of the dwelling-houses of the labouring classes in certain localities";‡ that "the occupant in the "suburbs has in general to pay the entire tax";§ that "when the demand of the "consumer, the occupier, is perfectly inelastic, he will bear the whole tax";¶ that "there is an essential difference between the effects of a tax on ground rent and a tax "on occupation rent";|| and, finally, that "taxes are very apt to rest where they strike";¶¶ it would appear that the difference between his views and my own arises from his disposition to regard as exceptional the conditions which I regard as normal or actually prevalent in a preponderating degree. I am content to accept his dictum that "the law of value for house accommodation is (for long periods) essentially the same "as for corn."***

I am disposed to think that even if the views of Adam Smith, J. S. Mill, Professor Bastable, and Professor Edgeworth are to prevail over those of Ricardo, Professor Seligman, and Dr. N. G. Pierson†† (with which my own substantially agree), the resulting apportionment of the local rates between owners and occupiers would still place more than one-half of the final burden on the occupiers; probably not less than three-fourths. Whilst thinking it right to dwell upon this subject at some length with the object of assisting in the work of accurate tabulation so courageously undertaken by Sir E. W. Hamilton, I am prepared to agree in recommending the equal division of all rates as a fair and reasonable working arrangement.

3. The Tables on pages 44 to 51.—As the Table on page 45 is not used as a step in the series of calculations, and as it conflicts with the facts, it might be advisable to omit it from any reprint for public use. Similarly, the whole of the figures on page 46 proper are so considerably upset by those in the footnote as to make it worth while to reconstruct the whole of the calculations based upon them. Sir E. W. Hamilton has anticipated my objection to the classification of the house duty as a tax on property; and, if my answers to Questions 2 and 3 are admitted to be correct, the elimination of the Land Tax and the Post Office surplus will also be necessary. Finally, I am hopeful that fuller consideration will bring both Sir E. W. Hamilton and the Commission as a whole to the conclusion that at least three-fourths of the rates on houses should be treated as at present a charge on the occupiers as urged above. Allowing for differences of area, these points largely explain the divergent results shown in Table J. (page 47) and Table VI. of my own series ("Statistical Journal," December 1896); and those also revealed by a comparison of Table N. (page 50) with my Table VII. The mode of calculation pursued in working out my Tables will be found explained in chapters 2 and 3 of the paper to which they are appended.

4. Concluding Remarks.—Paragraph 5, p. 52, appears to me to need a slight emendation. For four centuries the ancient English system of distributing local taxation was based on "ability measured by property."†† In the seventeenth century this was modified by the substitution of taxes on householders proportioned to rental or annual value for taxation of personal property.§§ The non-assessment of stock-in-trade under this new rule was much more probably deliberate, and less the result of accident, than is generally supposed. It was the necessary complement of the exoneration of the farmer's cattle and crops. Instead of the words, "Hence annual value of visible property displaced 'ability' as the measure of contribution," I suggest that it would be more correct to say that, "annual value became the standard by which the 'ability' of householders was to be measured." The next paragraph is also a little too wide. The exemption of stock on lands from chargeability to the

* Op. Cit. p. 66.

† p. 52.

‡ p. 62.

§ p. 64.

|| p. 67, note and text.

¶ p. 67.

¶¶ p. 66.

†† See, as to Dr. Pierson, "Economic Journal," Vol. 6, p. 435. I have ascertained that the figure 3 on p. 436, line 10, should be (as the context shows) a 2. See also "Economic Journal," Vol. 7, p. 52 and p. 61, note 6. I may also mention the late Dr. Fleeming Jenkin as one of the authorities who held the same views on this subject as Professor Seligman and myself. See Papers, Vol. 2, pp. 116 and 117.

‡‡ Cf. Dowell's History of Taxation, Vol. 1, pp. 59 *et seq.* and 130; and Seligman's Essays in Taxation, p. 44.

§§ Cannan's History of Local Rates, p. 50 *et seq.*

land tax removed what was then much the largest class of personal property outside the area of assessment. Apart from this, the paragraph is a welcome contrast in the matter of accuracy to some previous official documents and utterances on the subject of the land tax. I desire also to express my concurrence in the observations in the succeeding paragraph, but with the reservation as to the Land Tax contained in my answer to Question 2.

The foregoing observations are offered, not as criticism, but as a contribution to the discussion of the extremely difficult problems reviewed in Sir E. W. Hamilton's Memorandum. I should like to be allowed to add that I consider the memorandum to be one of the ablest official papers ever written on the subject of local taxation.

G. H. BLUNDEN.

APPENDIX 2.

ARTICLE contributed to "THE MANCHESTER GUARDIAN," Tuesday, January 7th, 1890.

When the Metropolis Valuation Act was passed, 20 years ago, it was the intention of the Government to proceed without delay to extend its operations, subject to such modifications as might be necessary, to the remainder of England and Wales. But nothing whatever has been done, and that chaos of rates, authorities, and areas of taxation, so forcibly described by Mr. Goschen in his speeches as President of the Poor Law Board, remains still unsubdued into anything resembling an ordered system. So long a period has elapsed since the question was prominently before the public, that it may be worth while to recall the main points in respect of which reform is required. In order that a system of valuation may be just and fair, it is absolutely essential that there shall be uniformity of method and equality of treatment: (1) as between one person and another in the same parish; (2) as between parish and parish in the same union; and (3) as between union and union in the same county. Unless these fundamental principles be secured, it is obvious not only that any ratepayer may be required to pay more than his fair share of the rates levied in his parish, but that the parishes in any union may be contributing in unfair proportions to the common charges of the union, and that the unions may in like manner be required to contribute too large or too small a quota of the county rate. Now, as a matter of fact too notorious to need proof, these necessary and inevitable results of the absence of uniformity and equality do actually follow in a large proportion of the parishes of England and Wales outside the capital, and in a lesser degree in the bulk of the remainder. That this should be so will occasion no surprise, when it is stated that the overseers (to whom the preparation of the parochial valuation list is confided) have no means whatever of ascertaining at first hand what rents are paid for the properties they are required to value. Very rarely, indeed, professional valuers are called in, but then only to deal with special classes of property, such as railways, mines, and mansions, it being no easier for the valuer to ascertain the rents of houses and lands than it is for the overseers. In some of the larger towns this defect is remedied by procuring copies of the triennial property-tax valuations. The latter are based upon the actual rents in all cases of *bonâ-fide* annual tenancies at rack-rent, the amounts being returnable by the individual occupiers, under penalties for fraud or evasion. Where these copies are regularly procured and acted upon there is seldom much room for criticism of the resulting valuation list, but even in these cases there are a sufficiently large number of holdings not rented at rack-rents or not rented at all to furnish considerable scope for difference of opinion between the valuing authorities for local and for Imperial purposes. In the great majority of provincial parishes no regular system of ascertaining the rents is attempted by the overseers.

The inequality of the assessments of individual ratepayers is, however, by no means the only matter needing attention. It not unfrequently happens that in a union where the majority of the parish valuations are fairly well made one parish will be a flagrant exception, and, by the undervaluation of the property within it, will shift a portion of its burdens to the shoulders of the ratepayers in the other parishes of the union. A further difficulty arises from the absence of a uniform scale of deductions from gross value for the purpose of arriving at the rateable value. From these causes it has come about that the County Rate Basis Committees all over the country have declined to accept either the gross or net value column of the poor-rate assessments as the basis for apportioning the county rates amongst the several unions in the respective

counties, but have instead adopted the property-tax assessments as the basis for this purpose. A good deal of friction and inconvenience also results from the existence of two independent valuations with distinct revising authorities, double appeals being necessary in order to secure a rectification of rates and taxes in cases of reduction of rent, with sometimes a conflict of judgment in the end. The whole of these defects are met, and in the main overcome, so far as London is concerned, by the provisions of the Metropolis Valuation Act, which amalgamates the proceedings of the overseers for preparing the valuation list with those of the surveyor of taxes in the preparation of the property tax assessment, and the valuation thus jointly produced stands good, subject to appeal, for all rates and taxes, whether local or Imperial. It may be asked why the benefits of this measure have not been extended to the provinces, and the answer appears to be that the delay is chiefly due to the objection of provincial rating authorities to the position assigned in the Metropolitan Act to the surveyor of taxes. The point is one which only arises in connexion with holdings for which no rack-rent is paid, inasmuch as the rent is in all other cases the basis of valuation, and is binding on all parties. In those cases where the occupier is also the owner, or is a beneficial occupier under a lease, provision for a difference of opinion is necessary, and in the Metropolitan Act this is secured by giving the surveyor of taxes an effectual right of objection to the figures of the overseers, with the power to substitute other figures, subject to appeal. This appeal may either be made by the overseers or the ratepayer, or by both; but the overseers claim that the position should be reversed, and that the surveyor of taxes should be required to appeal, and produce evidence for all objections made by him to their lists. In the last of Mr. Sclater-Booth's abortive Valuation Bills this point was conceded, but as the Bill was not proceeded with, it would appear that this was in other quarters considered too great a sacrifice of existing Crown rights of taxation. It would, indeed, be a very serious innovation to transfer the onus of proof from the person taxed (upon whom it rests at present) to the taxing authority, and it may fairly be said that while it is comparatively easy for the former to prove an overcharge, it would often be very difficult for the latter to produce evidence of under-assessment. To some extent such a change would not only jeopardise the Imperial revenues from the property tax and house duty, but also that from publicans and beersellers' licences, by placing them mainly under the control of officers owning no responsibility to the Crown.

Lest this statement should appear to cast any reflection upon gentlemen such as those who in Manchester and the other large towns fill the office of overseer with credit, it must be pointed out that in the small towns and rural districts the overseers are necessarily drawn from a very much less independent class of persons. In many small towns, favour and discrimination are by no means unknown, and in rural districts, where the overseers are chiefly drawn from the farming class, the influence of the squire is necessarily more or less felt. The overseers are an unpaid body, often changed year by year, and having no special training for their duties; and when an assistant overseer is elected by the ratepayers and paid out of the rates, the fear of giving offence is frequently more potent than the desire to be impartial in determining his attitude in particular cases. Whilst it must be admitted that the surveyor of taxes is prone to take a "prerogative view" of his duties, he has the advantage of being entirely independent and free from the fear of his more powerful neighbours, whilst he rarely remains sufficiently long in one place to acquire any strong prejudices against or preferences for particular individuals. Probably less objection would be entertained to his acting as the official assessor if the tribunal for hearing appeals were a representative instead of a nominated authority, as in the case of the present local commissioners of taxes. In Scotland, where the county and borough authorities appoint the official assessors, their choice almost invariably falls upon the surveyor of taxes, and arrangements are made with the Board of Inland Revenue for the devotion of a portion of his time to the performance of the duties of the office. This plan works extremely well, and has received the approval of many authorities upon the subject; but it is possible that the responsibility felt by the assessor to his local employers somewhat mitigates the rigour with which he discharges his duties to the Crown in his other capacity of surveyor of taxes. However that may be, his special training and official advantages will probably always carry considerable weight. In London the officer of the Crown is placed at a considerable disadvantage, as compared with his present position in the provinces, in having to submit to the adjudication of the assessment committees of the unions upon all appeals in matters of value; and the objection on the part of the Inland Revenue Department to the application of this portion of the Metropolitan plan to the

provinces would be as great as that of the overseers to the predominance of the Crown surveyor in the preparation of the list. Possibly the County Councils will be called upon to undertake the hearing of valuation appeals by means of local committees, and if the continued existence of the present bodies of local tax commissioners in an age of representative institutions is not found desirable, no better tribunal than the County Council could be found to replace them. Mr. Ritchie will, in dealing with this subject, have the assistance of a most competent authority, in the person of his new private secretary, Mr. T. H. Elliott, whose paper on "Taxation and Rating," read before the Manchester Statistical Society in February, 1888, may still be in the recollection of some of our readers. After 20 years' experience of the working of the London Act, there should be no great difficulty in framing a thoroughly satisfactory measure for the provinces, which would put an end to a state of things now little short of scandalous.

APPENDIX 3.

Article contributed to the "Economic Journal," December 1897.

A NEW PROPERTY TAX.

I.—INTRODUCTION.

The direct taxation of property, for national and local purposes alike, has been largely and constantly resorted to in this country from a very early period. Whilst it was, for national purposes, supplemented by the customs, the feudal revenues, and the Crown lands, "the property tax remained for centuries the sole local tax."* During the 13th, 14th and 15th centuries the assessments usually took the form of rough valuations of farm stock, crops, and other movables, although rents were sometimes included.† In the 16th century lands were gradually added,‡ and, in that which followed, the rating of householders in respect of their dwelling-houses very largely took the place of assessments of "goods."§ The growing multiplicity and diversity of the forms of personal property made its direct assessment exceedingly difficult, and the practice of including it in the valuations fell into almost complete disuse. In 1660 the excise was introduced into the national revenue system, and numerous other novel fiscal expedients were subsequently brought into requisition. Prior to the imposition of Pitt's "triple assessment" in 1798, the taxation of property for national purposes had fallen off considerably from the scale of earlier times, and the intention of this measure was to lay "a general tax on persons possessed of property, commensurate as far as practicable with their means."|| The "shameless evasion" of this assessment compelled Pitt to have recourse, in the following year, to an income tax, and he drew up a list of the chief branches of income to be taxed. In this list the profits of "skill and industry" occupy the last place, as an addendum to the "profits of capital employed in domestic trade."¶ It appears to have formed no part of Pitt's original intention to tax the earnings of industry and skill, but the difficulty of separating these from interest of capital in the case of persons engaged in trade seems to have led to their ultimate inclusion. In spite, however, of the fact that "wages" have been charged to the income tax for the greater part of a century, it still remains the fact that the great majority of the taxpayers, even where these are themselves owners of property, refuse to accept the equal taxation of incomes from earnings and from property as just or reasonable. It must be said that so long as nearly three-fifths of the Imperial tax revenue are raised by customs and excise duties, the sentiment of aversion felt for the direct taxation of earnings will continue to possess a solid foundation of reasonable justification.

A new tax, which shall be largely productive and yet not burdensome to the poorer classes, is one of the most pressing needs of the present time in the region of public finance. Notwithstanding the great reforms of our revenue system effected within

* Seligman's "General Property Tax," reprinted in "Essays in Taxation," p. 44.

† Dowell's "History of Taxation," Vol. i., p. 59, &c.

‡ *Ibid.*, p. 130.

§ Cannan's "History of Local Rates," p. 50, *et seq.*

|| Pitt's speeches, quoted in "Dowell's History of Taxation" Vol. ii., p. 221.

¶ *Ibid.*, p. 225.

the last half century, much yet remains to be done. In the department of Imperial taxation, two defects stand out with especial prominence; these are: (1) the high rate and unequal incidence of the income tax, and (2) the continued existence of the breakfast-table duties. The recent inquiry into the financial relations of Great Britain and Ireland has had one important result in securing the practically unanimous assent of all parties to the proposition that the Imperial taxes, leviable throughout the whole of the United Kingdom are unduly burdensome to the poorest classes of the people.* The trend of opinion points to the probability that an effort will be made before long to remedy, or at least alleviate, this condition of fiscal affairs; and it certainly appears that the first step to be taken in order to attain that end is the repeal of the duties on tea, coffee, cocoa, and dried fruits. The material reduction of the rate of the income tax at an early date is not less urgently needed, and is only hindered by the feeling that this tax affords the only sure means of obtaining a substantial contribution from the well-to-do sections of the community. The severity with which it bears upon the middle, and especially upon the professional, classes, has been admitted alike by the chief modern economists and by the greatest financial experts.† Since 1894, moreover, it has been no longer possible to excuse the continuance of the oppressive incidence of the tax upon precarious incomes by reference to the assessment of real property on the gross value. The allowance of a liberal scale of deductions for repairs has quite rightly removed this old-standing grievance; but it has, at the same time, taken away the last vestige of excuse for the continued assessment of incomes from personal exertion on the gross amount. So long as the income tax was regarded as a temporary impost, and was charged at a low rate in time of peace, the hardships and anomalies arising from its operations were endured with tolerable patience. Since, however, the tax has assumed a position of permanence in our fiscal system, the wisest policy would appear to be to endeavour to remedy the more glaring and most oppressive defects in its structure. The necessity for a reduction of the rate of the tax does not rest solely, or even mainly, upon the ground of the excessive weight of its pressure upon the middle classes. Considerations of high national policy point to the advisability of reserving a wide margin of expansiveness for time of war or other serious and unprovided for emergency.‡ This margin has, in recent years, been perilously encroached upon, and is at present curtailed of its proper amplitude.

If we turn to the department of local taxation, we find the need for new sources of revenue even more urgent still. Professor Seligman, whose admiration for British fiscal progress is such as to make him an extremely friendly witness, speaks of this branch of our revenue system as follows:—"Even in England, where so many reforms have been made in the national revenue, the whole system of local taxation, with its absence of special assessments,§ its exemption of non-productive realty or land held for speculative purposes, and its imposition in the first instance on the occupier, means the relative overburdening of the poorer classes."|| The claims of the agricultural interests for relief of local taxation having been fully conceded, it is unnecessary to make more than a passing reference to this aspect of the question. The matter which now demands attention is the crushing burden upon the occupiers of houses in London and the large provincial towns. This will, it may be hoped, be partially remedied in the course of a few years by measures for the taxation of ground values, for betterment assessments, and for the equitable division of the rates between occupiers and owners. But something more than these measures appears to be required. There has long been, and still is, a widely-felt desire that those descriptions of personal property which now escape local taxation should be laid under contribution;¶ and, although there is much to be said in opposition to the suggestion, many proposals have been made for carrying it into effect. These have all proved impracticable, except so far as the transfers effected in 1888 and subsequently have thrown local charges upon the income taxpayers.** If invisible personalty is to be required to contribute to the funds of the local authorities, it is eminently desirable that the taxation to be imposed for this purpose shall be direct and specific, and that it shall be imposed equally upon every class of income-yielding property. Any

* See, generally, the Debates in the House of Commons on Financial Relations and Budget, 1897.

† See, amongst other references, Mill's "Principles" (People's edition), p. 491; Mr. Gladstone's "Financial Statements," pp. 50 and 432; and Mr. Goschen's Budget speeches, 1883 and 1889.

‡ Cf. Mr. Gladstone's Budget speech, 1853; and Mr. Goschen's ditto, 1888 and 1889.

§ i.e., for betterment.

|| "Economic Journal," Vol. iv., p. 639. See also Cliffe Leslie's Essays, 2nd Ed., pp. 401, 405.

¶ Cf. Mr. Goschen's Budget speech, 1888.

** This latter point is dealt with at some length in my paper on "The Distribution and Incidence of Rates and Taxes," in the "Statistical Journal" for December 1896.

further allocation of the death duties or the beer and spirit duties to local uses, which is unaccompanied by an increase of the rate of the transferred tax or taxes, will almost certainly not fall upon the payers of this taxation, but upon the payers of the income tax and the breakfast-table duties.* It is only by the imposition of a new tax, or an increase of the rate of an old one, and the specific application of the proceeds to the purpose in view, that the actual ultimate destination of the transferred charge can be traced and determined. The suggestion contained in the title of this paper, by which the reform of both local and Imperial taxation may be secured with perfect certainty as to the ultimate effect, will be more fully elaborated in the next chapter.

II.—DESCRIPTION OF PROPOSED NEW TAX.

A very brief study of the subject will, it is believed, suffice to convince an unprejudiced inquirer that any new taxation by which it is sought to raise a large additional revenue in the United Kingdom must necessarily take the form of property taxation. Death duties at once suggest themselves, but only to be dismissed from consideration. Apart from the fact that this form of property taxation has been lately brought into requisition, and utilised to the full extent for which public opinion is at present prepared, it should be remembered that these duties are less scientific, less certain, and less just in their operation than a property tax such as that which at present forms a part of the fabric of the income tax. The death duties may be, and often are, legally evaded. They are also unequal in their incidence, owing to the irregularity of the periods at which they fall due. A series of successions at short intervals may easily cause the duties to operate harshly and oppressively. The plan of taxing the property in proportion to the annual income which it produces, or is capable of producing, secures the highly important elements of certainty as to amount, regularity as to time of payment, and equality of incidence. The income tax, so far as it falls on property, possesses these merits, but the structure of the tax is such that it cannot be applied to property alone. The necessity of charging the earnings of personal exertion (wages) along with income from property (rent and interest), has restricted the use of the tax within the limits applicable to the first-named class of incomes. Suggestions have been made with the object of confining the application of the income tax to incomes from property. But the great present, and still greater potential, value of the tax in its existing shape has rightly prevented their adoption.† The proposal submitted in this paper is for the creation and imposition of a new tax on rent and interest, using the terms in their full economic sense. The design of the proposed new tax follows, as far and as closely as possible, the lines of the income tax, in order to secure the maximum of unity and correspondence in the administration of both. The chief deviations from the income tax model are: (1) the omission of the whole of Schedule E. (salaries and pensions of officers of the Crown, public bodies and public companies); (2) the omission of professional incomes, salaries of employes and other personal earnings from Schedule D.; (3) the division of the incomes of private traders, merchants, manufacturers, mine owners, ship owners, &c. into two parts, and the inclusion of that part only in Schedule D. which represents interest on capital; and (4) the similar treatment of the incomes of farmers, nurserymen, and other occupiers of land assessed under Schedule B. The one really serious difficulty to be surmounted in the filling in of this outline and giving it an effective character centres in the third of these deviations, and it is probably due to its existence that no effort to frame a tax of the kind herein suggested has ever before been made. It will undoubtedly be a delicate administrative function to assess to the new tax those persons who fall into the category there set out. But the difficulty does not extend to those concerns which are carried on by limited companies, railway companies, joint stock banking and other companies, and similar bodies and corporations. In all these cases the remuneration of those charged with the direction and management of the business is already distinguished from the profits applicable to the payment of dividends and interest. The rapid absorption of private businesses by limited companies has already narrowed the area of the difficulty, and the diminution may be expected to continue still more rapidly in the future. A large measure of guidance in the assessment of private traders to the new tax would moreover be afforded by the income tax returns and assessments, it being assumed that the management of both taxes would be conducted side by side by the existing officials and commissioners.

* This latter point is dealt with at some length in my paper on "The Distribution and Incidence of Rates and Taxes," in the "Statistical Journal" for December 1896.

† See my article on "The Position and Function of the Income Tax in the British Fiscal System," "Economic Journal," Vol. ii., p. 637.

It would probably be necessary to resort to rule-of-thumb methods of calculation to some extent at first; but such a method is already in use in the assessment of incomes from farming, and is found to be very little objected to by those affected.

Assuming that the exemptions, abatements, and deductions now operative in the case of the Income Tax were extended to the New Property Tax, the amount of the net assessable income or annual value might be expected to work out as follows:—

TABLE No. 1.

Estimate of Assessment to the New Tax.

Income Tax Schedule	Net Assessments, Year 1894-95. £
Schedule A. - - - - -	159,203,019
Schedule B. - - - - -	3,675,450
Schedule C. - - - - -	38,644,997
Schedule D., Part I. - - - - -	21,600,000
Schedule D., Part II. - - - - -	162,000,000
Total - - - - -	<u>385,123,466</u>
Add, for growth since 1894 and for minor adjustments, say	14,876,534
Estimated net sum assessable to new tax - - - - -	<u>£400,000,000</u>

A comparison of these figures with those given on pp. 109 and 123 of the Inland Revenue Blue-book for 1895-96 will show that under Schedules A. and C. they exactly agree, the needful adjustments being of a minor character. Under Schedule B. it is necessary to compute the income by a calculation from the duty at the rate of 8*d.* in the £. For the new tax it is here assumed that one half of this income should be assessed as interest on capital. Under Schedule D. a deduction of about 3,000,000*l.* is made in Part II. to cover the remuneration of personal services in the management of privately-owned mines, &c., and incomes not derived from property included under the head of "Other Profits." The greater portion of Schedule D., Part I., and the whole of Schedule E., as assessed to the income tax, relate to "wages," as distinguished from "rent" and "interest"; but there is at present no statistical information available from which the proportions may be ascertained in the former case. Recourse has therefore been had to an estimate quoted by the present writer in an article on "The Income Tax" which appeared in the "Economic Journal" for December, 1892 (p. 646). This placed the interest on capital employed in private businesses (exclusive of mines, &c.) at 21,600,000*l.*, a sum probably well within the mark when the estimate was framed, 10 years ago, and not less so at the present time. The total thus arrived at for the new tax would probably be somewhat enlarged by the necessary minor adjustments and by the withholding of the allowance in respect of life insurance premiums. It would be still more largely augmented by the growth of taxable incomes since 1894. There is little room for doubt that the net income assessable to the new tax would, if the lines here laid down were substantially adhered to, reach a total of 400,000,000*l.*; and that a rate of 5 per cent., or 1*s.* in the £, would yield a revenue of 20,000,000*l.* a year. But if the imposition of such a tax were to be decided upon and undertaken at the 5 per cent. rate, it should be accompanied by a substantial diminution of the rate of the income tax, say to 3*d.* in the £, which would reduce the actual addition to the taxation of property to 7*d.* in the £, or about 3 per cent. If a further portion of the proceeds of the new tax were applied to the reduction of local taxation, it is probable that property would share in this relief likewise, although the extent of the relief so obtained cannot be estimated in advance.

One of the advantages which the imposition of the new tax would afford would be the opportunity for the release of the estate duty and the beer and spirit duties from the existing partial allocation to local uses. The application thereto of an equivalent portion of the new tax would be attended by several advantages, viz., (1) the managers of the imperial finances would no longer be embarrassed in the manipulation of the fiscal resources of the nation by the existence of the local lien; (2) the taxes now partially allocated are such as from their nature it is desirable the Imperial Government should retain entirely in its own hands, and the proposed new tax is, owing to its character, much more suitable for the purpose of meeting local needs; (3) the existing doubt as to the classes of taxpayers by whom the cost of relieving local taxation is

borne would be removed; and (4) the local authorities would secure a regular and reliable augmentation of their revenue in place of fluctuations and uncertainty. This suggested transfer of the local lien from the estate, beer and spirit duties to the new tax, would not affect the amount available for the remission of taxation as the result of the imposition of the new tax. Putting this at 20,000,000*l.*, it would be possible to lower the rate of the income tax to 3*d.* at a cost of ten and a half millions; to abolish the duties on tea, coffee, cocoa, and dried fruits, at a cost of four and a half millions, and to devote a further sum of five millions to the relief of local taxation. This hypothetical disposition of the proceeds is formulated as a graphic means of indicating how large a readjustment of our fiscal system might be effected by this means at the cost of an additional contribution of 2½ or 3 per cent. from the annual product of property possessed by persons whose incomes exceed 500*l.* a year, and still smaller payments by those whose incomes range downwards from this point to 160*l.* a year.* It will be seen that we have here, in outline, the design of a new tax of great productive capacity which, without touching the poorer classes, would be so widely and so equitably spread over the realised wealth of the country that the ratio of burden would be very light. As the whole of the necessary machinery for its administration is already in active operation, and the present processes for the assessment and collection of the income tax would largely suffice for both, the initial difficulties would be reduced to a minimum, and the percentage of cost of administration would certainly be extraordinarily small.

III.—THE TAXATION OF PROPERTY IN THE UNITED KINGDOM.

It has been for many years a widely desired object that the taxation "borne by" or "falling upon" property, and especially real property, should be tabulated and set out in statistical form. Several attempts have been made to comply with this desire, but the difficulties of the undertaking have not, in either case been overcome, and the results have been extremely unfortunate. Mr. Goschen's Report on Local Taxation, 1870 (House of Commons, Paper 470 of 1870), is, perhaps, the most important of these compilations, and clearly illustrates the point. In the body of the report (p. 30 of folio reprint, No. 201 of 1893), we find a statement of the imperial taxes "falling on real property" in England and Wales, the total amounting to 5,677,000*l.* But in this total is included land tax, 1,082,000*l.*, and house tax, 1,062,000*l.*, neither of which falls on real property or any other kind of property. The percentage of imperial taxation "borne by real property" is put at 12·17, but if these two items are omitted, the percentage is reduced to 7·57. The land tax is not in any real sense a tax at all, but is itself a property. The true analogy is to the tithe, or to a perpetual rentcharge. This has been quite clearly pointed out by Mill,† and, more recently, by Sir R. Giffen;‡ but it is not generally known that the land tax was from 1802 till 1853 saleable by the Crown, not merely to the owners of the residues of the charged properties but also to strangers. There were 2,073 such sales to strangers, the land tax being converted into fee-farm rents payable out of the charged estates; but it is probable that some of these charges have since been bought out by the owners of the residues. There are also 247 cases in which the land tax has been sold by the Crown to persons interested in the charged properties; but by request of the purchasers the tax is still collected and paid over to them or their representatives or assignees. In both of the above sets of cases the charges created are still freely saleable. There are, moreover, other cases of land tax converted into rentcharges, but their number is not known. These features stamp the land tax with the character of property in a manner which appears to admit of no dispute. The house tax falls almost wholly, if not entirely, upon the occupiers of the houses, and is of the nature of a tax upon their incomes. This view has been uniformly held by all the economists who have referred to the subject, and can hardly be said to be disputed. Similarly, in dealing with local taxation, the whole amount of the "rates" is described in Mr. Goschen's report as "taxes on real property."§ But on reaching this portion it becomes apparent that, although the expressions "falling on" and "borne by" are used in the headings of the Tables without qualification, they are not to be understood to mean that the rates and taxes in question are paid or ultimately borne by the owners, but that they are measured out to the payers in proportion to the annual value of the premises occupied by them, without regard to the problems of ultimate

* The property of persons whose total incomes do not exceed 160*l.* a year would be exempt from the tax.

† "Principles" (People's edition), p. 494.

‡ Agricultural Commission, Second Report, p. 47; see also his "Essays in Finance."

§ Page 81.

incidence. Referring to the figures of local taxation, the report proceeds:—"It should not be forgotten in this comparison that the amount of taxation borne by real property is overstated. The profits of railways, canals, &c. are rated, and supply a very considerable sum, which ought not to have been included in the amount derived from taxes on real property; and, further, it has been conclusively proved that a great proportion of the rates, especially in towns, does not fall upon the owner, but is paid by the occupier, *i.e.*, the consumer of the houses." This observation is equally applicable to the house tax, and explains the method of compilation applied to Imperial and local taxation alike. Sir Alfred Milner explained his adoption of the same method of compilation in a series of tables prepared by him last year as follows: "I do not think that in these tables we were looking at the person out of whose pockets the tax came, but at the kind of property on which the taxation was levied."* If the word "measured" is substituted for "levied," as is evidently meant, the limitations of the value of the statistics so compiled will be apparent to those who have given the subject of the incidence of taxation some attention. Similar errors of description and computation were made in a return called for by Mr. Richard Paget and presented to the House of Commons in 1885†; but in this case, as in the case of Mr. Goschen's report, the subsequent raising of the rate of the income tax has brought up the total of imperial taxation of visible property to a figure equalling or exceeding that erroneously stated in the return. As regards local taxation, the situation is reversed, and the overstatement is now greater than before. In a Table appended to a paper read before the British Association last year,‡ the present writer endeavoured to show the actual distribution of the burden of the imperial taxes under certain heads. It therein appeared that for the year 1894-95 the per-centages were: on land, 3; on other rateable property, 10·4; on non-rateable property, 16·2; on consumers' income, 64·9; and on the earnings of personal exertion, 5·5. The total contribution from property amounted to 29·6 per cent., but as the new death duties had not then taken full effect the present proportion will probably reach 32 per cent. In another Table of the same series, the ultimate incidence of the local rates in England was worked out thus: real property, 12·6 per cent.; personal property, 12·1 per cent.; and on occupiers' and consumers' income 75·3 per cent. The Agricultural Rates Act has now reduced the contribution from real estate to less than 8·0 per cent., and from real and personal property together to about 20·0 per cent. Of the total taxation of the country, local and Imperial, the proportion borne by property would appear to be about 30·0 per cent. It must, however, be remembered that although these figures are believed to represent quite fairly the proportion of the taxation of the country which falls upon property as such, a portion of the taxation falling upon consumers and occupiers will also descend upon incomes derived from property. How much this may amount to there is no means of estimating, and the inquiry must therefore remain incomplete in this particular direction.

IV.—THE NATIONAL INCOME.

Turning back to the income tax statistics, and taking up another thread of the inquiry, some interesting comparisons may be drawn from the materials there placed at our disposal. In 1894-95 the total *net* income charged with tax in the United Kingdom (after making the necessary adjustment under Schedule B.) was 525,689,820*l.*; and of this sum no less than 385,123,466*l.* was, as we have seen, of the nature of "rent" and "interest," and 140,566,354*l.* of the nature of "wages." Property, therefore, furnished nearly three fourths of the aggregate income actually charged with income tax. Proceeding a step further we get:—

TABLE No. 2.

Amount of Income charged with Income Tax (including Abatements)—

	£
Total net assessments, 1894-95	525,689,820
Statutory abatements after adjustment, Schedule B.	60,829,621
Life insurance allowances	3,085,302
	<hr/>
Total income of persons liable to tax	£589,604,743

* Royal Commission on Agricultural Depression; reply to Q. 63,253.

† H. of C. Paper, No. 345.

‡ See "Statistical Journal" December 1896.

ROYAL COMMISSION ON LOCAL TAXATION:

The net assessment of property bears to this total the proportion of 65 per cent.; out it is necessary to add to the former a corresponding sum for abatements and life insurance, and although this can only be guessed at, it will probably bring up the proportion to two-thirds. It thus appears that property yielded two-thirds of the income of the persons assessed to the income tax, and paid nearly three-fourths of the tax actually charged. No doubt the application of the method of "stoppage-at-the-source" renders it necessary for many property owners to claim repayment, and a slight lowering of these proportions is required on this account.

In order to find the aggregate income of the nation it is necessary to make a calculation of which some important elements must necessarily be based to some extent upon conjecture. The following figures are offered with this reservation:—

TABLE No. 3.

The Aggregate Income of the Nation. Year 1894-95.

	£
Total income of persons liable to income tax (Table No. 2)	589,604,743
Add exemptions, Schedule A.	13,178,103
" " B.	9,504,158
" " C.	2,000,000
Untaxed interest from foreign investments	30,000,000
Manual labour wages (Sir R. Giffen's estimate)*	633,000,000
Other incomes exempt from tax (ditto)†	100,000,000
Total	£1,377,287,004

TABLE No. 4.

Aggregate Income of the Nation from Property.

	£
Net assessments, 1894-95, as in Table No. 1	385,123,466
Add exemptions and abatements, Schedule A.	14,669,001
" " B.	5,715,000
" " C.	2,000,000
" " D.	8,000,000
Income of non-income tax-paying classes derived from capital and not accounted for above	30,000,000
Untaxed interest from foreign investments	30,000,000
Total	£475,507,467

This total will, it is believed, be found smaller than any similar total compiled in recent years, the net income tax assessments being taken as the basis instead of the gross as in other calculations, and the income falling under Schedule B. being here properly worked out. The last item but one is here taken at one half the amount of Sir R. Giffen's estimate of 1878, which was followed in the return of 1885. Notwithstanding the growth of capital since 1878, and the raising of the limit of exemption from income tax, the present writer is unable to follow these authorities in adopting so high an estimate. The income from foreign investments which eludes the income tax was estimated by Sir R. Giffen in 1878 to amount to 40,000,000*l.*, and by Mr. Bowley at 46,000,000*l.* for 1891.† In the return of 1885, this item is placed at 30,000,000*l.*, and this figure has been adopted in this paper.

V.—CONCLUSION.

It is now apparent that, taking these figures as correct, the proportion which the income of the nation from property bears to the whole national income is 34·5 per cent. We have previously made out the proportion of the total taxation of the country, Imperial and local, which falls upon property, as such, to be 30·0 per cent. Whilst the taxation of property, and especially of realty, has been greatly overstated in previous computations, owing to the practice of including the local rates, the house

* Labour Commission Evidence (whole Commission), p. 472.

† Quoted by Mr. Bowley, "Statistical Journal," 1895, p. 247.

‡ "Statistical Journal," 1895, p. 248.

duty, and the land tax amongst the taxes falling thereupon, the fact that some part of the customs and excise taxation falls upon incomes from property has hitherto passed unnoticed. It does not, however, suffice to compare the proportions of income and taxation; it is necessary also to consider the taxable capacity or ability represented. The bulk of the property of the country is owned by persons of the income tax-paying classes, and a very large part of it by those whose incomes exceed 500*l.* a year.* On the other hand, 59 per cent. of the adult male labour wages in the United Kingdom do not exceed 25*s.* a week, and the bulk of the wages of women and young people may probably be taken to possess an equally restricted taxable capacity. Without labouring the point, it is submitted that, having regard to the relatively high degree of taxable capacity possessed by the bulk of the income from property, the existing fiscal arrangements of this country favour realised wealth at the expense of earnings. If to the 30 per cent. falling upon property, 12 or 15 per cent. were added to cover the taxes on consumption and occupancy payable out of the income from property, the resulting proportion would still leave some room for a readjustment in favour of earnings.

In the description of the proposed new tax, a 5 per cent. rate was used to illustrate the great possibilities realisable by its adoption, but neither this rate, nor the suggested disposition is in any way essential. The new tax could be quite appropriately levied at a lower rate to provide for the relief of local taxation, or either of the other suggested ends, singly. If used, in the first instance, solely for the reduction of the rate of the income tax, it would be found that a remission of 5*d.* in the latter could almost be provided for by the imposition of a 6*d.* property tax.

It is recognised that the proposed new tax is, like every fiscal expedient yet invented, open to objection. The difficulty of accurately charging the interest on the capital employed by private traders must be fully admitted. Its existence would make it necessary to apply the new tax to this class of income somewhat leniently, and to provide ample means of appeal. But this class is, after all, not an important one from the fiscal point of view, the estimated assessment amounting to only 21,600,000*l.* out of a total of 400,000,000*l.* The advantages which it is believed may be gained by the adoption of such a tax are, however, so great as to entirely outweigh this defect. It is also claimed that the design of the suggested impost is drawn on lines which are both theoretically conformable with the demands of economic science and capable of practical application by means of the most perfect portions of the fiscal machinery of the nation.†

G. H. BLUNDEN.

Answers by Mr. C. H. Sargant.

ANSWER TO QUESTION 5. (Suggestions as to real incidence of local taxation.)

In endeavouring to supply answers to certain of the particular cases put in Questions 6 to 13, inclusive, I found that it was necessary to perpetually refer to, and bring the particular cases within, certain general principles or propositions as to the incidence of Imperial or local taxation which appear to have met with more or less general acceptance in discussions of this nature, but never to have been definitely formulated. It was at once unsatisfactory to assume in each case the validity of one or more of these propositions without any definite statement of them, and at the same time impossible even to state, still less to attempt to prove, the propositions in question on each occasion when they were used. I have accordingly endeavoured to formulate certain propositions or assumptions as to the incidence of taxation, which I found that I was from time to time using; and the remainder of the answer to this question is the result.

It will be noticed that in some cases a statement of the problem in question, and some attempt at a proof, form part of the proposition; and I am fully conscious of the incompleteness of these propositions with regard both to matter and to form. But I have, in fact, found that the attempt to express definitely under general heads the arguments that I was impliedly using in various particular cases has been useful to me individually by way both of suggestion and elucidation. And I have therefore the less scruple in submitting the result to the Commission.

* See above, Ch. iv., para. 1 and 2.

† See my articles on "The position and function of the Income Tax in the British fiscal system," "Economic Journal," December 1892; and "A Progressive Income Tax," *ibid.*, December 1895.

1. In the case of existing property incapable of free increase (land for example) the burden of any taxation thereon necessarily falls on the owner of such property at the time when the taxation is imposed or anticipated. This is obviously so if he retains the property. And it is no less clearly so if he disposes of the property, since any purchaser or lessee will, to the extent of the burden cast on the property, give a correspondingly less price or rent than he would have given prior to the date of the imposition or anticipation. (It may here be remarked that in using the phrase "imposed or anticipated," or any similar phrase, in this and the following propositions, it is intended to denote that one of the two dates which is the earlier.)

2. In the case of property yet to be produced, and which can be produced under circumstances of free competition* (new wearing apparel, for example), the burden of any taxation falls on the person who after the imposition or anticipation of the taxation requires the production of the property, that, is the consumer; indeed, this person may be regarded as the "owner" of the property the production of which he requires. But of course the taxation may prevent the production of the article.

3. In the case of property coming partly under the first head and partly under the second, *i.e.*, property much of which already exists, but which is from time to time consumed, and the consumption of which is or has to be from time to time replaced (the structures of houses, for example, or food supplies, of which there are large stocks in hand which can be identified and taxed), the burden of any taxation that may be imposed falls on the owners of stocks existing at the date of the imposition or anticipation of the taxation, if or so long as the taxation prevents production. But if production is not prevented at all, or when production has ceased to be prevented, then inasmuch as the price of the property to be produced will have risen to the extent of the taxation, the price of existing property of the same kind will be similarly enhanced also, and the tax will be shifted from the owner of the already existing stock to the subsequent ultimate purchaser or consumer.

So far the cases considered have been kept comparatively simple by assuming (*a*) one single absolute owner of any particular property, in the case, for instance, of land or houses an absolute fee simple owner; (*b*) taxation at a single definite moment, and not, as is in general the case, recurrent taxation at successive annual, semi-annual, or other periods; and (*c*) uniform taxation over the whole of a State, between which and any adjoining State there is little, if any, free competition, not (as is often the case) special local taxation or rating over a comparatively small area, with which other adjoining or similar areas are in more or less complete competition. One or two of the chief alterations and complications of result arising from (*a*) the division of the interests in land and houses, (*b*) the recurrent character of Imperial and local taxation, and (*c*) the variable character of local taxation, will now be stated.

4. By virtue of mortgages, charges, grants of rentcharges and the like, all sorts of charges on, and more or less secured interests in, land and houses (meaning by a house, both site and structure) are from time to time created and are operating at the same time, that is affecting the disposition of the income thereof in any single year. None of the owners of these interests can properly be regarded as the owner of the land or house in question for the purposes of taxation. The owner of land or houses for these purposes is the person entitled (subject to any such partial interests) to enjoy or dispose of the occupation and beneficial user thereof, and enjoying the full amount of any gain, and bearing the full amount of any loss, in fact *the owner of the margin*.

5. By virtue of wills, settlements, leases for lives and years and the like the right to enjoy and dispose of the occupation and beneficial user of land and houses often becomes vested at any one time in different persons *for different successive periods*. In any such case the owners of any land or house are the persons so entitled in succession, each such person being the owner thereof either at the time or in anticipation for the period for which he has or will have the right (whether subject or not as stated in Proposition 4 to any capital or annual mortgage money, interest, rentcharge, rent or the like) to enjoy and dispose of the occupation and beneficial user of the land or house; and will, therefore, for the period in question, enjoy the full amount of any gain, and bear the full amount of any loss. In fact, the owners are the successive owners of the margin for the time being for the periods for which they will so enjoy such margin. For instance if a house has been let by a fee simple owner on lease for 21 years either at a rack-rent, or (in consideration of a premium) at less than a rack-rent, the lessee is *for, the period of the lease* the true owner of the house, having for that time the right to occupy and use it, or to dispose of the occupation and user thereof, and would by a sudden

* Taxation on a patented or monopolised product would appear to fall on the owner of the patent or monopoly.

appreciation or depreciation of property in the locality have his lease made either a beneficial or onerous one; while the lessor has during the period of the lease merely the right to receive a fixed rent, together with the expectation or vested right of becoming the owner again at the end of the lease.

6. Imperial and local taxation are, as a rule, imposed not in one lump sum, but by annual or other periodic instalments. Nevertheless, so soon as an Imperial or local tax has been once imposed (or once definitely anticipated) its recurrence at least, and often its increase, are in all ordinary cases anticipated. It is obvious, therefore, that in the case of a fee simple owner, the result of the imposition of the taxation is to cast on him a burden equal to the capitalised present value of the whole annual taxation, if he is an owner of land only, or of that part of the taxation attributable to the site at least (the taxation on the structure may be thrown on the occupier as consumer, *see* proposition 2), if he is the owner of a house. In the case of persons who at the date of the imposition or anticipation of the taxation have vested interests in succession in the ownership thereof as herein-before defined, a burden is cast equal to the capitalised present value of the annual taxation during the successive periods for which they are respectively so entitled at the date of the imposition or anticipation. And where the recurrent taxation is based on annual value for the time being, and (as is generally the case in letting for building purposes) a progressive increase in annual value is anticipated, the burden cast on the owner or successive owners at the time when the property comes to be disposed of, and in respect of which a deduction will be made by a purchaser or lessee, will be in respect of a progressively increasing taxation. For the purchaser or lessee will receive a part only, instead of the whole, of the increase in annual value that might otherwise have been anticipated, or in other words the progressive net rental that will be payable by a tenant who has to bear the progressively increasing tax will be less than he would pay if the tax remained stationary.

7. In the particular but very general case of short occupation tenancies, such as annual tenancies, the annual tenant (though ordinarily spoken of as the occupier as distinguished from the permanent owner) must, in fact, be regarded as the *temporary owner* for the duration of his tenancy, that is, till the expiration of the year or so at the end of which either party can terminate the tenancy and so obtain an adjustment of the terms of tenancy; and the lessor must be regarded as the owner only from and after that time. Many persons, notably Mr. Goschen in his Draft Report on local taxation, have laid great stress on the disinclination of either party to take the initiative in revising the terms of tenancy, and so on the tendency of any fresh burden on, or benefit to, the actual occupier to stick where it is imposed or conferred beyond the year or so for which, according to the above view, the occupier is to be regarded as owner. But for various reasons, into which it would be impossible to go here, there appears to be, at any rate at the present time, a much readier adjustment of burden and benefit between occupier and permanent owner, even in the case of agricultural tenancies, than Mr. Goschen supposed. And in the case of town tenancies (with which I am mainly concerned) the main reasons which tend in the case of agricultural tenancies to retard this adjustment do not appear to exist. In my view, annual occupiers must, like lessees, be considered for purposes of taxation as owners for the currency of their annual tenancies and for that period only.

8. The case has now to be considered, not of constant taxation over the whole area of a State, but of varying local taxation or rating over distinct local areas within the same State, and in competition. Assume that at the various prices or rents asked for land in these districts there is a practical equilibrium at any one time, that is, that there is an equal demand in each district, and then assume a sudden increase of local taxation (without equivalent return) in one of these districts. It is obvious that the effect of this increase will be to throw an extra burden on the successive owners of land in the district in question, and that intending purchasers and intending lessees (intending to take on the usual terms, *viz.*, that they are to pay rates) will deal after the increase only upon the terms of paying a price or rent lessened to the equivalent of the increase. And, in the particular case of land to be developed for building purposes, the increase of prospective rate for which these purchasers or lessees will have to be compensated, will be the increase of the prospective rate, measured, not only on the rental value of the land, but on the rental value of the structure also. In other words, "differential" rates (which may be defined as the excess of local taxation, or, perhaps more correctly, of the burden of local taxation in heavily or averagely rated districts, over "constant" rates, that is, the local taxation or the burden of local taxation in the most lightly rated districts), so far as imposed or anticipated at the time when land is about to be developed for building purposes, and to the extent of the rental or rateable value not merely of the site but also of the intended structure, are thrown by anticipation

on, and operate in diminution of, the price or rent that can be obtained by the owner of the site.

For simplicity's sake it has been assumed in the foregoing discussion, and it will be assumed in general, that the rates considered are (as is undoubtedly the case to a greater or less extent with Inhabited House Duty, poor rates, and education rates) merely onerous, and not in any degree remunerative. In fact, however, many rates are merely payments for services rendered, and may be remunerative to an extent much exceeding the amount actually contributed. It is obvious that the same considerations that govern the determination of the incidence of an onerous rate govern that of the incidence of a remunerative rate, and the following rule easily follows:—9. So far as any benefits result from the expenditure of any rates, these benefits go in general to the same persons on whom the burden falls, and either, (a) if less than the burden, diminish the burden to that extent, (b) if equal to the burden, cancel it and leave everyone in the same position as if there had been no rates, or (c) if greater than the burden, confer the excess of benefit on the same persons and to the like extent on whom and to which the ultimate burden would have fallen had there been one. Of course, in cases where there are successive owners, and the benefit of rates results over a period longer than, or different from, that during which they were raised, this rule may have to be modified, as in the case of a sinking fund to defray the capital expenditure on a permanent improvement. But these cases can be considered separately.

ANSWER TO QUESTION 6. (The real incidence of certain particular taxation.)

(a.) *Inhabited House Duty.*

This (though in form a tax) is practically a "constant rate" and a purely onerous rate.

The only case which has practically to be considered at the present day is the application of land for building purposes *since* the imposition of the duty.

In this case the duty, so far as levied on the annual value from time to time of the site, is thrown by anticipation on the person or persons being at the time when the site was disposed of for building purposes, the owner or successive owners of the site, and operates by way of diminution of the price or rent he or they will obtain.

So far as levied on the annual value of the structure, the duty is thrown on the successive inhabitants of the house as the "consumers" of the house, and operates by way of increase of the rent payable by them.

The incidence would also appear to be the same in the case (which is rather an unpractical one with regard to this particular tax) of houses built before the imposition or anticipation of the duty, at any rate by the time (which would not be long deferred) when any check that the imposition of the tax might have caused to the production of new houses had been removed by the rise of the gross rents of structures to an extent equal to the burden of the tax, so that the net rent earned by a structure would be the same as before.

In the above answer no account has been taken of three comparatively unimportant tendencies of the Inhabited House Duty, the first two of which certainly, and the last of which probably, tend to throw by anticipation a small part of the constant rates, even in respect of the structure of houses, on to the owners of the sites. These are (1) the tendency of the tax to make occupiers inhabit smaller houses or tenements, (2) the tendency of the tax to make the more roving classes live abroad, and (3) the tendency of the tax to promote the building of shops or professional chambers or offices rather than residential houses in places where these purposes compete, and so on the whole to interfere with what might otherwise be the most advantageous development of land. So far as they go, it appears to me that the first two of these tendencies certainly, and the last of them probably, operate to diminish the prices or rents that can be obtained for building sites. But the conjoint operation of these causes is probably very small, and certainly almost incapable of accurate estimation. And I have accordingly neglected them in the above answer, and propose to neglect them, and any other small similar tendencies of the kind, in my subsequent answers.

(b.) *Rates levied on Houses and Trade Premises.*

"Constant Rates" on houses and trade premises, so far as onerous, have an incidence similar to that of Inhabited House Duty; that is, so much thereof as is levied on the annual value from time to time of the site is thrown by anticipation on the owner or owners of the site at the time when it was developed, and so much thereof as is levied on the annual value of the structure is thrown on the "consumers" of the house or trade premises.

It must be noticed, however, that, while the "consumers" of a house are the successive occupiers thereof, the consumers of trade premises are the persons demanding the goods for the production or distribution whereof the trade premises are built and used.

The above incidence of constant rates seems, as in the analogous case of Inhabited House Duty to be the same whether the constant rates were imposed or anticipated before or after the development of the site for building. For, as these constant rates apply equally to every site in the kingdom, future houses and trade premises will have to bear them wherever built, and gross rents for structures will be forced up till net rents are the same as before the imposition or anticipation of the constant rates. Inasmuch, however, as there is probably a more effective competition between different countries in respect of trade premises than in respect of dwelling-houses, the slight tendency noticed in the case of Inhabited House Duty to throw a portion of it even in respect of structures on the owners of building land may be more accentuated in the case of land adapted for development for the purpose of trade premises.

"*Differential Rates*," so far as onerous, and so far as existing or anticipated at the date of the development of land for houses or trade premises, are in respect of both site and structure thrown by anticipation on the owner or successive owners of the land at the time when it comes to be developed, and operate by way of diminution of the price or rent obtained by him or them.

Differential Rates, so far as onerous, and as first imposed or anticipated *after* the building of houses or trade premises, fall on the owners or successive owners of the house or trade premises (*i.e.*, of the property comprising both site and structure) at the time when these rates are first so imposed. There is nothing to enable the then owner or owners of the house or trade premises to get rid of the differential rates so imposed even as regards the structure. For, unlike the case of constant rates, structures can be built in other neighbourhoods to escape the differential rates, and in the same neighbourhood sites which are, still uncovered and compete with the covered sites on equal terms are, as has just been seen, lowered in value to the extent of the differential rates so imposed or anticipated on the value both of the sites and of the structures intended to be built thereon.

(c.) *Rates levied on Agricultural Land.*

These appear to me to fall practically exclusively on the owner or successive owners of the land at the time when they are first imposed or anticipated.

As regards rates of the nature of hereditary burdens, or even rates to the amount existing or reasonably anticipated at the date of the last letting, this is almost obviously so. The intending occupier or lessee can give so much in all, and to the extent to which he will have to pay rates is unable to pay rent also.

As regards rates imposed during an existing occupation, the occupier (or temporary owner for the term of his occupation) has undoubtedly to bear them down to the time when his occupation terminates or is terminable. The only question appears to be how soon after that period these fresh rates are, if the occupation still in fact continues, shifted on to the landlord or permanent owner. Mr. Goschen, in his Draft Report, expressed the view that this shifting was a matter of difficulty, and evidently thought that it would take a long time. I am inclined to think that, at any rate at the present time, the difficulty is much less and the time much shorter than Mr. Goschen thought, and that even in the case of agricultural land.

The view expressed in the first paragraph of this answer is (having regard to the definition previously given of ownership as including occupation for the term certain of that occupation and no more) that fresh rates are shifted immediately occupation *may* be, though it is not in fact, terminated. This view is probably quite correct as a statement of tendency—as a statement of what actually occurs it may need more or less correction with regard to fresh rates, as Mr. Goschen's view is more or less completely accepted.

In the above remarks no account has so far been taken of the incidence of the rates in respect of so much of the rental or rateable value of agricultural land as may be due to the expenditure of money on permanent improvements, a question very analogous to that of the incidence of the rates in respect of the annual value of the structure of trade premises. It is clear that the *differential rates* on these permanent improvements must, like the differential rates on the structure of trade premises, fall by anticipation on the owner of the land at the time when these improvements were made. But are the *constant rates* on these permanent improvements, like the constant rates on the structure of trade premises, entirely or mainly thrown from the landowner on to the consumer,

i.e., the purchaser of the agricultural produce? I am inclined to think that foreign competition in agricultural produce is so much keener and more real than that with regard to trade premises, and still more than that with regard to dwelling-houses, that even these constant rates practically become differential for this purpose, and cannot be shifted from the landowner to the consumer to any considerable extent.

(d.) *Taxes on the Transfer of Property.*

These fall on the owner or successive owners of the property at the time when they are first imposed or anticipated. There appears to be no method by which they can be shifted on to anyone else. Their burden will, of course, vary in proportion to (1) the rate per cent., and (2) the average frequency of transfer of the property.

That they do, in fact, fall on existing owners at the date of imposition or anticipation seems to be recognised by the practice of many companies or borrowers, who pay a lump sum by way of composition of such duties. This would not be done if the burden could be thrown on an unascertained class of future purchasers.

I cannot think that, as suggested by Professor Sidgwick,* any considerable part of taxes on the transfer of property falls with more weight on traders as such, and so may be regarded as a tax on trade or production, in which case the part in question would be thrown on the consumer.

(e.) *Taxes on Trade Profits.*

These taxes, if imposed on trade profits alone, and not on all kinds of income also, would appear clearly to fall on the ultimate purchaser or customer.

If imposed on trade profits together with all other kinds of income these taxes would appear to fall wholly or mainly on the owners of property.

There are, however, many other considerations to be taken into account, which might, more or less, alter the ultimate incidence of these taxes, as, for instance, (1) the extent to which trade on either of the above suppositions might leave the country, in which case *some* burden, but not necessarily a burden equivalent to the tax, might fall on the consumer obtaining the products of trade under hampered conditions; or (2) the extent to which saving might be affected by these taxes, and the creation hindered of capital for extension of trade, in which case also there would probably be an increase of prices to consumers.

(f.) *Death Duties.*

These taxes fall directly and immediately on the owners of property, and there seems to be no method by which they can be shifted on to anyone else.

All classes may, however, ultimately be more or less affected by them, if they result in any discouragement of the accumulation of capital by saving.

ANSWER TO QUESTION 7. (Criterion for distinguishing purposes for which taxation should be raised locally.)

There is not, I think, any serious difference of opinion that taxation should be raised locally for *local purposes*, and for local purposes only, that is, for purposes which are for the benefit of present and future inhabitants of the locality as such. And, if all purposes for which taxation is levied could be definitely divided and classified either as "local" or "Imperial," there would not, I think, be any dispute (apart from any question of hereditary burdens which it is impossible to deal with within the compass of this answer) that the whole of the former class of purposes should be met by local taxation, that is, by the taxation of the present and future inhabitants of the locality as such; and the whole of the latter class of purposes should be met by Imperial taxation. But, in fact, many works and services, such as main roads and bridges, criminal prosecutions, police protection and the like are performed for the benefit, partly of the inhabitants of the localities, and partly of the nation at large. And in other cases, particularly those where services have to be provided by the inhabitants of a locality as a body for part of those inhabitants, as in the case of education or poor relief, the services though rendered exclusively to inhabitants may either not be limited in result to those localities (since educated children may spread themselves over the Empire at large) or may for the credit of the nation at large (which is a kind of national benefit or purpose) be fixed, as in the case both of education and of poor relief, at a higher and more expensive standard than the inhabitants of localities would by themselves be prepared to adopt.

* Principles of Political Economy (1883), Book III, Ch. 8, p. 572.

In all these cases (and I think that all the cases mentioned on pages 24, 25 and 26 of Sir Edward Hamilton's recent Memorandum, are cases in which the relief of local taxation from Imperial resources is justified by considerations of the above nature) it seems right that local taxation should be aided from general or national taxation, and the only question is the extent to which this aid should go. This question is (apart from the consideration of hereditary burdens) one depending on proportionate degree of benefit, and is one of detail and administration, as to which I am not competent to express an opinion.

ANSWER TO QUESTION 8. (The expediency of keeping expenditure for local and national purposes distinct.)

It would seem quite impossible in the nature of things to keep the expenditure for many local purposes quite distinct from that for national purposes, as many works and services subserve both purposes. In these cases, therefore, a contribution by the central Government, and (in most cases) an expenditure by the local authority of the aggregate fund, subject to such supervision by the central Government as may be necessary, appear to be the only practical methods of supply and expenditure.

Where local purposes are clearly distinguishable from national purposes, there it would in general appear to be advisable that both the supply and the expenditure of the funds raised for these purposes should be in the hands of the local authority, that is, that they should transact their own business. Indeed, it is in general for the transaction of this business that they are created.

ANSWER TO QUESTION 9. (The division of rates between owner and occupier.)

I take a very definite view that *in towns*, and particularly in large towns, such as London, where there are often several interests in each house, rates should not be divided between owner and occupier (or, as I should prefer to call them for this purpose, "permanent owner" and "temporary owner"), but should, as at present, be entirely paid by the occupier, except in those very numerous cases (such as furnished houses, flats, weekly or monthly tenancies, and small tenements) where the difficulties of collection from the actual occupiers make it convenient for the local authority to treat the landlord as the actual occupier and to rate him solely or primarily.

My main reasons for entertaining this view may be briefly summarised as follows:—

- (1.) The ultimate incidence of rates is the same whether the occupier pays or the owner or both. The question who should be rated is, therefore, mainly one of convenience.
- (2.) It is inconvenient that both owner and occupier should be troubled with the ascertainment and payment of rates. This is particularly the case where there are several interests in houses, between each of which payments or allowances in respect of rates would have to be made: for every plan for dividing rates divides them not merely between the actual occupier and his landlord, but between the parties to all superior tenancies, though I doubt whether this is so in large Scotch towns, such as Glasgow, Edinburgh, &c.
- (3.) If one person only should pay, then (except in the excepted cases above referred to, where convenience of collection prescribes the contrary) that person should be the annual occupier or temporary owner. For it is for his benefit, as the inhabitant for the time being, that the great bulk of the rates is expended for purposes as recurrent and temporary as his own occupation or temporary ownership. And there is no apparent hardship in this, even should he be thought to actually bear the rates, since there is nothing unjust or unscientific in taxation on expenditure as measured by style of living.
- (4.) If, where there are several interests in houses, a proportion of the rates in the £ is to be deducted on each payment between successive interests, the effect will be to rate mere annuitants or rent chargers, and to relieve to this extent the real owners, *i.e.*, *the owners of the margin*.
- (5.) The result of the proposal mentioned in the last head would be to make every rent received in respect of every interest in houses a variable one, and so to drive cheap or trust capital out of houses as an investment, and to necessarily raise rents.
- (6.) If any division of rates between owner and occupier is to be applied to existing contracts (and all proposals that I have seen on the subject contemplate this) there will necessarily be much hardship and loss inflicted on a prudent class of investors.

In country districts also I consider that the present system is the fairest and best, and that the whole of the rates should be borne by the occupier or temporary owner rather than by the landlord or permanent owner. But obviously some of the reasons given above do not apply at all to country districts, and others apply with less force to country districts than to town districts.

I should add that in this answer I am dealing merely with the payment by owner and occupier of such part of the taxation for local or kindred purposes as has to be raised and met out of the rates, whatever that part may be. The part that has to be paid out of national taxation or national funds is paid neither by owner nor occupier as such.

I should also add that the foregoing part of this answer does not apply to that comparatively small part of the rates which goes to pay the sinking fund for the repayment of capital borrowed for permanent improvements. Theoretically, and in default of contract to the contrary, I consider that whatever its ultimate incidence, this small part of the rates should be primarily imposed on the persons to benefit, that is, the persons who will by virtue of their present and future right to enjoy or dispose of the occupation, reap the benefit of the permanent improvement. But, practically, this part of the rates is so small, and would be so extremely difficult to calculate, that (as is done now in the case of the sewers rate) occupiers would in all cases where they agree to pay the bulk of the general rates, agree to pay this part also; and, this being so, I see no reason for any statutory interference with an arrangement for the mutual convenience of landlords and tenants.

ANSWER TO QUESTION 10. (The separate rating of ground values.)

The only proposals with which I am acquainted for rating ground values are (1) those propounded by Mr. Fletcher Moulton in the autumn of 1889, and (2) those embodied in certain recent resolutions of the London County Council, and about to be laid before the Royal Commission. Both these sets of proposals appear to me to be open to the following fatal objections:—

- (1.) They would rate owners of fixed rents in respect of an expenditure, the benefit of which accrues primarily to the owners of marginal rents, or in other words, to the persons having the right to the actual beneficial occupation and enjoyment of the property rated. They would in fact *rate the wrong man*.
- (2.) They would be most difficult to work in practice, for while the annual value of a house site and structure together is easily ascertainable with reasonable precision, there would be great difficulty in ascertaining the annual values of the site and structure separately, particularly if (as would rather appear to be the case) the annual value of the site is to be ascertained, not with reference to its use in connexion with the building actually on it, but with reference to the use to which it might be put if vacant.
- (3.) They would prevent secured interests in houses from being arranged so as to yield a fixed income, and so would drive cheap or trust capital out of house property and raise rents.
- (4.) As applied to future contracts, they would fail of their purpose and hamper building, inasmuch as they would impose on developers of land for building purposes, and builders and the persons claiming under them, a prospective liability in respect of the rents forming the reward for development and building, with the result that such rents would rise and the rate be ultimately thrown on the occupier, if (as I presume will be the case) the rate is to be a constant one, *i.e.*, applying to the whole kingdom.
- (5.) As applied to existing contracts, they are markedly confiscatory.

And the recent proposals of the London County Council appear to be open to this further very serious objection (which is one not as between the different owners of a single house, but as between the different sets of owners of different houses), namely,—

- (6.) As between two houses of the same rateable value, but one of which comprises a small structure on a valuable site while the other comprises a large structure on a much less valuable site, an excess of rating will be thrown on the owners and occupiers of the smaller house in relief of that thrown on the owner and occupiers of the larger house, although in most cases it would be the inhabitants of the larger house that would derive the greater benefit from the rates.

ANSWER TO QUESTION 11. (How far rent is affected by the increase, decrease, or imposition of a rate?)

The answer to this question is obviously covered by the answers I have already given to Question 6 (a), (b), and (c).

As regards houses and trade premises, the increase or imposition of a "constant rate," so far as such increase or imposition is onerous, reduces the net rent otherwise obtainable from a tenant who is to pay the rates (1) permanently to the extent of the extra burden in respect of the annual value of the site, and (2) temporarily, while building is checked and the annual value of structures is rising to meet the extra burden on the annual value of the structure, to the extent of a gradually diminishing part of this extra burden; and perhaps permanently to the extent of some small portion of this extra burden.

As regards houses and trade premises, the increase or imposition of a "differential" rate, so far as such increase or imposition is onerous, reduces the net rent otherwise obtainable from a tenant who is to pay the rates, to the extent of the extra burden in respect of the annual value of both site and structure.

As regards building land, the increase or imposition of a rate, whether constant or differential, so far as such increase or imposition is onerous, reduces the net rent otherwise obtainable from a building tenant as stated in the two foregoing formulæ, but substituting for "structure," "anticipated structure."

As regards agricultural land, the increase or imposition of a rate, whether constant or differential, so far as such increase or imposition is onerous, reduces the rent otherwise obtainable from a tenant who is to pay the rates to the full extent of the burden.

As regards all the above kinds of property the reduction or abolition of a rate, so far as such reduction or abolition is beneficial (*i.e.*, does not involve the loss of an equal or greater benefit), operates in exactly the contrary way to that above stated; that is, increases the rent otherwise obtainable from a tenant who is to pay the rates to the like extent to which that rent would have been decreased by a corresponding increase or imposition of the rate so far as onerous.

ANSWER TO QUESTION 12. (How rent would be affected by occupiers being allowed to deduct rates.)

A deduction by the occupier of the whole or a portion of the rates would not of course be quite equivalent to a reduction of rates to that extent, since the total rates levied in respect of the property generally would remain the same, and the only alteration would be in the primary incidence of these rates.

In my opinion, this alteration in the primary incidence would not make any alteration in the ultimate incidence, except so far as existing contracts were disturbed without appropriate compensation. Rents would, I think, rise to the extent to which the landlord paid rates instead of the tenant. Indeed, as before pointed out, in towns, and assuming that the process of deduction were carried out between all successive interests, ground rents, improved rents, and other secured rents would in future building rise in order to compensate for their not yielding a fixed income, and so being worth a smaller number of years' purchase; and so rack rents would be increased beyond the amount of rates of which tenants would be nominally relieved.

Perhaps I should add that the phrase in the question "under what conditions" seems to suggest a reference to the view sometimes entertained that a benefit of this kind to the tenant could or could not be appropriated by the landlord according to whether there was or was not a brisk demand for houses, or that the incidence of an increase or decrease of rates is determined by the state of supply and demand in the market for houses (*see*, for instance, Mr. Goschen's Draft Report, p. 168 of his collected reports and speeches on local taxation). This view does not appear to me to be sound. If a brisk demand for houses enables a landlord to throw an increase of rates on a tenant and still to obtain the same rent as before, he could presumably have obtained an extra rent had rates remained stationary; and the loss of this extra rent involves the extra rates being thrown on the landlord as clearly (though he may not feel it so much) as if he had had to submit to a reduction of rent where, but for the increase in rates, he might have obtained the same rent. And if a slackness in the demand for houses enables a tenant, who is by an alteration in the law empowered to deduct a portion of the rates, to make a fresh bargain at the same rent as before, this tenant could presumably have obtained his house at a lower rent than before, had he not been empowered to deduct any part of the rates; and the loss

involved in not obtaining a reduction in rent exactly counterbalances the gain in being at liberty to deduct part of the rates, so that though the tenant is a gainer, it is by virtue of rents falling through a slackness in the demand for houses, not by virtue of the alteration in the law enabling him to throw on the landlord what he previously bore himself.

The state of the market for houses or land produces effects of its own which are quite independent of the effects produced by an increase or diminution of rates. All that can fairly be said is that the effects produced by the state of the market may be in the contrary direction to, and so disguise or cancel, those produced by an alteration in rates. But, on the other hand, the two sets of effects may tend in the same direction, and may aggravate each other.

ANSWER TO QUESTION 13. (Effect on rent of rating property on different scales.)

The general effect of rating property on different scales according to value, character, or user will obviously be to encourage the production of property of the value and class and the user of property in the manner in respect of which the rating is light, and to discourage the production of property of the value and class and the user of property in the manner in respect of which the rating is heavy. But the effect upon rent is difficult to state with anything like precision, unless a great many other conditions of the problem are first fixed.

Perhaps the best practical answer to the question can be given by assuming certain fixed conditions in a particular case.

Assume that the revenue that has to be raised for Imperial purposes by some tax or other on buildings is such as can be and is raised by a tax of 4*d.* in the £ on the rental value of all occupied buildings, whether trade premises or inhabited houses, and that trade premises and houses throughout the country are occupied and have their rents fixed upon the basis of this condition amongst other existing conditions. And then assume that the law on this point is altered in the following manner, viz., (a) by the increase of the duty on inhabited houses of 50*l.* annual value and upwards to 9*d.*; (b) by the diminution of the duty on inhabited houses under 50*l.* annual value to 3*d.*; and (c) by the entire abolition of the duty as regards trade premises. What will be the effect on the net rent to be obtained for these several classes of property from tenants who pay rates and taxes?

Take, first, the case of trade premises, and assume (what is no doubt nearly the case) that foreign competition does not operate, and that there must, in spite of the change in taxation, be practically the same proportion in the future between trade premises and inhabited houses that there has been in the past. Then, when fresh trade premises come to be built (and it is by this that the rents of existing trade premises will be regulated), on the principles already stated, the builder will be content with the same net rent as before in respect of the structure, and this net rent will not be altered, the relief from the reduction of the tax in respect of the annual value of the structure going into the pockets of the "consumer" of the structure, that is, the ultimate purchaser of the goods produced or distributed on the trade premises.

The effect on that part of the rent of trade premises which represents the annual value of the site is equally clear. The superiority of position for which site-rent is paid continues the same as before, and a tenant having less to pay in the shape of taxation for that superiority, will be willing to pay an excess of rent equal to the relief. Rents of trade premises will, therefore, rise on this account to an extent equal to the relief from the reduction of tax in respect of the annual value of their sites.

Take next the case of dwelling-houses of 50*l.* annual value and upwards. Here, if the existence of dwelling-houses of under that value is for the moment disregarded, and attention paid to the alteration in taxation between dwelling-houses and trade premises only, the result will clearly be analogous to that with regard to trade premises. The result will, in fact, be that net rents, so far as representing structures, will remain constant after some short interval of possible depression, with the result that the extra burden on the annual value of the structures will be thrown on occupiers as a class; and that net rents, so far as representing site values, will diminish to the extent of the extra burden on the annual value of the sites, with the result that this part of the burden will be thrown on the owner or successive owners, as hereinbefore defined, of the dwelling-houses (which include both sites and structures). But now, if the existence of houses under 50*l.* annual value is again regarded, then, inasmuch as there will probably be a real competition between houses of 50*l.* annual value and just over on the one hand, and houses of under 50*l.* (which can, of course, be produced to any extent) on the other hand, it may well be that the interval

during which the net rents for existing structures will be lowered will be a very considerable one, and that such rents may even to some extent be lowered permanently.

Take, thirdly, the case of dwelling-houses of less than 50*l.* annual value. It is pretty clear that the effect of the change will, in this case, be to leave unaltered the net rent in respect of structures, the benefit thus going to occupiers; but to increase the net rent in respect of sites, the benefit thus going to the owners of the houses.

Lastly, there has to be considered the effect of the alteration in the prospective rents of uncovered building sites in general. The change would obviously increase the rents that would be obtained for sites for trade premises or small houses, and decrease the rents that could be obtained for sites for larger houses. On the whole, probably the effect would be to very slightly diminish the total rent of all sites for all these purposes, since the free operation of supply and demand would be somewhat more interfered with than before.

6th January 1898.

CHAS. H. SARGANT.

Answers by Mr. T. Mackay.

I.—CLASSIFICATION.

Taxes on commodities are distinguishable in many ways from the other taxes enumerated in the Table, but I cannot follow the reasoning which distinguishes them on the ground that commodities are not property. Nor does it appear to me scientific to say that "taxes levied in respect of incomes derived from personal exertion" are "taxes not incidental to property." An income is a property, and so are the services by which that income is earned. Personal skill or labour is, of course, a less permanent source of income than an investment in the funds, but in many cases the goodwill of a professional or trade income can be sold or bequeathed, and, in any case, the distinction does not rest on the fact that one source is property and the other not property.

By reason of this objection, which may appear hypercritical, and of the great difficulty of the question of real incidence, I doubt the possibility of making anything in the nature of a scientific classification of taxes. The most that can be done is to supply a catalogue. For the purpose in hand, such catalogue should divide taxes into those which are levied on property which is also rateable, and those which are levied on property which is not rateable. The question of equity, which must naturally engage much attention, is to be decided, not by the relative amount of burden borne by different classes of *property*, but by the taxable ability of the *persons* who own that property, which, I submit, is a totally different thing.

I do not feel justified in setting out my views on a technical question of this nature, at any length, but the following illustration will, I hope, explain my meaning. Taxes on food, like the old corn laws, are generally held to be inequitable, not, I submit, because they are not taxes on property, but because they press heavily on a class whose property often extends very little beyond its daily bread. Conversely, taxes on ground rents are sometimes advocated because it is assumed that the owners are persons of taxable ability. This is a question of fact. Having regard to the large amount of ground rents held by working class insurance and friendly society associations, and the probability that the private investment of the more successful members of this class follows the example of their public investment, I should not be surprised to find that ground rents form a larger proportion of the whole investments of the poorer class than they do of the whole property of any other class.

What appears to me to be wanted in the present connexion is (1) a list of the taxes levied on rateable and non-rateable property, (2) some sort of estimate as to the ability of the persons who own each different class of property. This, of course, is not a classification in the scientific sense of the term.

Such a catalogue would throw some light on the preliminary question as to how far the exemption of certain forms of property from local burdens has been equalised by their greater liability to Imperial taxation. The equity of the situation, however, must be decided with a reference to persons, not to things. An equal division of all taxation between real and personal property would not, of necessity, be an equitable division as between persons.

II.—THE NET REVENUE OF THE POST OFFICE.

The usual objection to monopolies is that they prevent the public from getting a cheap and efficient supply. The Post Office would seem to be no exception to the rule. In those departments where private competition is permitted, it has, more or less, been beaten out of the field. In the last report of the Postmaster General, he expresses some surprise at the decreased number of newspapers which he has to carry, and he congratulates himself, on the assumed explanation that private enterprise had taken away a branch of work which in Post Office hands has been unprofitable. It is to be presumed that the private enterprise which now distributes newspapers does it more efficiently, and at a remunerative rate. In London the different corps of messenger boys pay a heavy license to the Post Office for leave to ply their trade, and yet, even so burdened, they compete successfully with the messenger service of the Post Office, which has, practically, proved still-born. Its insurance business is infinitesimal, and has been entirely distanced by private enterprise. Its banking was last year conducted at a loss, and the constitution of this department is a grave source of anxiety to those responsible for our public finance. In many of its departments the Post Office makes a loss; if, therefore, the net result is a profit of three millions, it is obvious that this must be obtained by excessive profits in other departments.

It might plausibly be argued that the monopoly of the Post Office (granted for what may be good and sufficient reasons) is in itself a tax. There can, I think, be no doubt that any profit which it makes is a tax, and that it is levied on the property of those who have to pay excessively for its services.

III.—TESTS OF THE EQUITY OF TAXATION.

The following is abbreviated from the work of M. P. Leroy Beaulieu, and is obviously based on the well-known canons laid down by Adam Smith. I reproduce it rather for the sake of the comment appended by the author than because of any belief that such maxims will prove of much practical use.

Taxes should be in proportion to ability; should be easily calculated and intelligible; their collection should be convenient and economical; they should, as far as possible, exercise no disturbing influence on the development of agricultural industry and commerce. The author then remarks that no State can attain this ideal. There is a certain irreducible element of injustice, arbitrariness and vexation in every tax. *The ideal can be most nearly reached in those states and localities whose wants are moderate, and it is most widely departed from in places where such charges are heavy.* Equity is much more promoted by good administration than by any conceivable readjustment of taxation.

This consideration, and the wide diffusion of burden which I believe to be characteristic of all taxation, suggest that we may exaggerate the importance of "equity" as a principle to be observed in readjustments of taxation.

To begin with, too close a regard to equity would deprive a government of many productive forms of revenue. The experience of progressive taxation is that, though it may be very equitable, it is not productive. The taxpayer also can contract himself out of taxes on luxuries by foregoing them, and it is generally recognised that, after a certain point, the taxation of luxuries ceases to be productive. In a country where a large revenue is required for local and Imperial purposes, it is impossible to avoid placing taxes on objects of common and general use. This obviously bears heavily on the poorer classes, and is inequitable and inevitable.

In discussing, later on, the question of incidence, it is suggested that there is a certain readjustment of taxation according to ability going on automatically, more particularly in regard to old taxes, and to taxes on commodities which are finally brought into the market after a long series of exchanges. Thus it is recognised that no one but a comparatively rich man can afford to be a landowner. Generally also at every sale of a taxed commodity the purchaser's ability to pay the tax is more or less guaranteed by the fact of his willingness to buy. An exception to this tendency is the case of taxes on necessities, and it is one of the utmost importance. This, however, is part of the inevitable injustice incident to all taxation. The revenues of public bodies spending largely cannot be raised solely by taxes on luxuries. The revenue will be deficient, unless recourse is had to a taxation which cannot be evaded, *i.e.*, on objects more or less of necessity. The only remedy for this is better and more economical administration.

In view of the great rise of urban rates in recent years, it seems to me probable that we shall see, if we have not already seen, some shifting of the centres of industry. Just as in mediæval times trade forsook the old chartered towns because of the restrictions imposed on it, so in modern times trade will show a disposition to leave the towns which are most heavily burdened by rates, and if this is true of towns it is also true of countries. A manufacturer proposing to open works, say, at Preston, is met by the fact that he has to pay a rate of 2s. 3d. in the pound for an unsuccessful speculation in docks. To avoid such infected areas is an equitable remedy open to labour and to capital, which can be exercised in so far as these values are not *adscripta glebæ*. It leaves, however, a burden, which in time might actually extinguish, as in the famous case of Cholesbury, the value of *immobilia* altogether.

The remedy for this state of things is not a readjustment, which must be inequitable to persons brought in to share the loss, but better administration.

With regard to the form of readjustment which has been largely adopted in this country, namely, subventions in one shape or another from the Imperial Exchequer to local authorities, it is to be observed first that taxpayers and ratepayers are not two mutually exclusive divisions. Very little general satisfaction will result from taking money out of one pocket to put it into another. And if the result of these Imperial subventions is universally the same as that which, I have little doubt, has arrived in the case of poor law administration, it seems very probable that the divided financial responsibility tends to increase the expenditure both of rates and taxes. The money drawn from the Imperial Exchequer is spent with the proverbial profusion characteristic of a body spending a fund for which it is not responsible, and the temporary relief to the local rate relaxes and disarms the vigilance of the ratepayer.*

The general conclusion which I draw from these considerations is that equitable relief will mainly be obtained by better administration; that divided financial responsibility will not tend in that direction; that financial and administrative responsibility should be closely connected, or that, if they be separated, it must be done under safeguards more effective than at present exist.

The argument further appears to me to tell in favour of putting up with the *status quo*, notwithstanding its anomalies and irreducible minimum of injustice, rather than resort to large and revolutionary measures of readjustment. Even if we admit that excessive taxation is preventing the development of one trade more than another, if *ex hypothesi* there is an absolute necessity for a taxation of objects of general and common use, it is difficult to see what advantage will be gained by transferring the heavier burden from one trade which has grown accustomed to it to another which is not likely to prove patient under the irritating influence of a new tax.

The one thing certain about all readjustment is that the number of those who fancy themselves injured will always be more numerous and more clamorous than those who admit that they have profited.

Generally, I submit that no readjustment will be equitable or satisfactory which does not provide for an improved and more economical administration.

IV.—THE REAL INCIDENCE OF TAXATION.

Any generalisation as to real incidence of taxation should, I submit, be applicable to all forms of taxation. To say, for instance, that the incidence of taxation levied on the occupier of agricultural land follows one law, and the taxation levied on commodities a different law, and then to dispute whether taxes on dwelling houses conform to the first or the second law, seems to me eminently unsatisfactory. A proposition which aspires to the dignity of a scientific law should admit of no exceptions. If a generalisation is shown to be inapplicable in a single case, it ceases at once to be scientifically valid. Such a law ceases to be of any use to the practical man, who is thrown back on purely empirical methods of inquiry. It may, of course, be found that no general law can be laid down, and that the subject must be studied in an entirely empirical fashion.

The problem may, I think, be conveniently considered in two stages, which I venture to distinguish as incidence proper and *répercussion*.

I.—A tax is levied on a person in respect of his property. The term property must be held to cover not only material property but services or labour. If the tax is levied on a temporary owner (*e.g.*, an occupier) or on a consumer, it is obvious that, during the temporary ownership, the burden will remain on the occupier, or, in respect of his

* I have gone into this question more fully in a memorandum on the Poor Law in answer to question 15.

store of the particular commodity on which he has had to pay the tax, on the consumer.

At the end of the temporary ownership or lease, the property vests again in the superior owner burdened with the liability of a tax, and its value is diminished to a corresponding extent. This condition must continue till a new contract is concluded.

Similarly the consumer, when he has finished his store of the taxed commodity is free from liability till he decides to purchase again. The burden therefore, for the moment, at all events, must rest on the owner. The owner in this case will, I apprehend, include all who have stocks of the manufactured commodity, as well as those who own the component labour and material, which the *entrepreneur* combines for the purpose of production. The *entrepreneur*, of course, is in a sense a consumer, and at the conclusion of current operations, he may desist from further operations. Ultimately, therefore, the burden, till the occupier or consumer decides to purchase again, must sink down to a bed rock of ownership where it cannot be further subdivided. This being so, I submit that, *primâ facie*, the incidence of taxation is on the owner. This, of course, is a very small part of the general problem, but up to this point the analysis seems to show that the first effect of a tax is to increase the cost of production as against the producers of the object of taxation. In other words a barrier has been imposed, in the shape of a tax, between the owner of the object taxed and the market for his commodity.

We now direct our attention to what happens when the consumer decides (as, of course, in most cases he will decide) to purchase again, the tax notwithstanding.

II.—Here the problem assumes a larger aspect, and ceases to be one of taxation. Our inquiry now will be: What is the effect on Price of an increase of the Cost of Production? Will the owner (*i.e.*, the constituent owners) bear the burden, or will the purchaser or subsequent owner assume the burden by paying a higher price?

The answer may be indicated at once. An increase in the cost of production, whether it be caused by taxation, or any other cause, will not of necessity cause a rise of price. If an increased cost of production obliges a mine owner to spend 30s. instead of 15s. in raising a sovereign weight of gold, that particular sovereign does not become worth 30s. The additional cost of production does not pass into price, but remains on the mine owner, in so far as he does not shift the burden downwards to those I have termed the constituent owners, *i.e.*, the owners of the labour and material employed in the mine. Similarly, a tax put on English-grown wheat would not, under existing conditions, affect the price of wheat, except in an infinitesimal manner. The price of wheat is regulated by the relation of demand and supply, and any shrinkage in the supply of English wheat would be readily made up by increased supply from abroad. This last illustration, with the above comment thereon, indicates the rule. Changes in the Cost of Production will influence Price only in so far as they alter the relation of Demand to Supply. There is nothing in the nature of Cost of Production, or of taxation as an element in cost of production, to oblige a purchaser to pay an increased price. This aspect of the question is illustrated by the instances given above. If supply is not thereby restricted, or if demand is not thereby increased, an increase in the cost of production will not raise price.

In most cases, however, a restriction of supply does follow an increase of the cost of production, and for obvious reasons. An increased cost of production is an additional impediment placed between the producer and his market, and, unless the purchaser or consumer can draw his necessary supply from a source not affected by the tax or other increase in the cost of production, he must, in order to insure a regular supply, give a sufficient price to make it worth while for the producer to continue his enterprise. Obviously the supply of such things as land and labour is not so readily restricted as the supply of manufactured commodities. The application of the rule here suggested as it affects different forms of value will be more easily understood by the consideration of a few typical cases.

Let us take first what appears to be the least complex case, a rate or tax on agricultural land.

Authorities seem to be more or less unanimous in holding that a tax on the occupier is transferred back to the owner at the expiration of existing contracts.

In passing, it may be remarked that the occupier cannot shift the liability of paying and collecting the tax, or the burdensome exertion involved in "shifting." A certain burden, therefore, will stick. This does not appear to me to be any exception to the rule. The levy on the occupier is a confiscation of his time and his credit, and, although the pecuniary burden may be shifted to the landlord, the occupier's ownership of his own time and credit is affected by the new liability thrown on him.

Let us pass on, and suppose that at the end of a lease, a farm is put on the market. Obviously it is stricken with sterility to the extent of the new tax, and, unless some restriction of supply or additional demand has supervened, a tenant will only pay for the farm on the same basis as in former years, *i.e.*, he will only pay the same sum for free occupation as before. Part of that payment will now go to the tax collector, leaving a diminished amount for the landowner.

We are here considering the first stage of the inquiry, namely: What shifting (if any) can the owner make to other subsidiary owners (if such there be) of the burden? In so far as a person popularly known as "the owner" can do this, he is really in the position of an occupier or *entrepreneur*.

Now, an English landlord is not a mere rent charger, he is in a sense an *entrepreneur*. He has to put on the market a farm with its full complement of buildings and labourers' cottages, and he is responsible for the making and up-keep of certain permanent improvements. He is, in fact, an occupier in respect of a great deal of labour and material. The ability of the landlord to purchase the labour and material incidental to his share in the agricultural partnership constitutes the demand for that material and labour, and in fact is one of the elements which confer value on them. It will appear, moreover, that material can, as a rule, be analysed and resolved into more simple constituent elements, on each occasion bringing in a wider circle of the owners of labour to share in the burden.

If a landlord's receipts from his tenant diminish, he has no option; he cannot buy so much labour and material. Many persons, it is true, purchase and manage land regarding it as a luxury conferring social position, and not as part of the raw material of the agricultural industry. Still, the willingness of rich men to act in this way must be more or less proportionate to the revenue bearing character of the investment. Increasing burden will impair the ability of even the richest.

In this way, through the restricted ability of the landlord to spend, some of the loss percolates downwards, and rests, momentarily at all events, on those whom I have termed the constituent owners.

We next come to what is, perhaps, the most important aspect of the question, *viz.*, the *répercussion* of taxation against those who subsequently acquire ownership in the various properties concerned; in other words, what amount of the burden can these constituent owners, on whom in the first instance the detriment must rest, throw back on the consumer?

I have argued above that, in respect of the labour and material expended on the up-keep of his farms, the landlord is a consumer or occupier. The farmer again is occupier or consumer in respect of the labour he employs, and the land which he hires. He is owner in respect of his own services and skill. The labourer is owner of a property which, though it may be turned to other purposes, cannot be resolved into simpler constituents. The consumer (*i.e.*, the general public), who ultimately assumes ownership of the products of agriculture, has as yet no interest. Our problem is, on what terms will he assume an interest, and what is the result to the other factors in the long series of exchanges.

It appears to me that in this, as well as in other cases, the various parties will take detriment from taxation in proportion to the permanence and necessity of their interest as owners.

Let us take first the case of the labourer, which, on a superficial view of the facts, might be made to appear an exception. *Ex hypothesi*, in respect of the fact that his interest is inalienable, he might be expected to suffer most from the rise of rates and agricultural depression; but in view of the undoubted rise of agricultural wages, and the fall in the price of necessaries, his position is clearly better than it was, though that does not prove that he has not been the greatest loser. If his condition is now better than it was, there must have been, *from other causes*, more than an equivalent compensation. That this is so can, I think, be easily shown.

From a variety of causes, *inter alia* increasing taxation, the cost of production has been raised against the landlord and the farmer relatively to the prices to be obtained for their product. This has brought about a weaker demand for agricultural labour. Happily, however, the labourer has been able to evade the depression which would have forced him to accept lower wages. He has carried his services to other markets, and in this way has decreased the supply of agricultural labour to an extent more than proportionate to the decreased demand. The injury done to him is not, of course, cancelled. A market for his labour, which would have given him healthy and agreeable employment, is destroyed. His employer has been unable to give him the wages which would keep him from migrating to the town. The town, therefore,

buys his services at lower wages than it would otherwise be obliged to offer, and lower wages all round is the result. We may sum the matter up: the labourer, though he cannot contract himself out of loss caused by a depreciation of labour, "his inalienable property," is not bound to one form of labour, is not, in fact, *adscriptus glebæ*. He migrates to fields of enterprise where the raw material of industry is less heavily burdened. Thus, though not escaping detriment, the labourer leaves the more tangible share of the burden to be borne by the landlord, the farmer, and, if he can be made to undergo the yoke, the consumer.

The landlord being unable to decrease his cost of production by giving lower wages to the labourer, and unable to get a higher rent from the farmer, inevitably is obliged to put a worse article on the market. Repairs and improvements will be less liberally done, and inferior land may even go out of cultivation. In other words, there will be a deterioration or restriction of supply. The farmer, if he is to continue farmer, cannot go elsewhere, and he will therefore obtain an inferior instrument in exchange for his rent. This loss, in so far as the landlord can communicate it to the tenant, the tenant, in all probability, cannot pass on to the consumer who purchases from him. The grain dealer and the consumer generally can obtain their supply elsewhere. The tax has brought about no change in the relation of demand and supply, and there will be no change of price.

The detriment of taxation on agricultural land would thus appear to be shut off from the general public and confined to the agricultural interest.

To sum the matter up, comparatively little of the burden, I apprehend, is recovered in increased price from the consumer. The result has been a great shrinkage in the value of agricultural land, an exodus, still going on, of owners of land, their place being taken by a class which buys land as a luxury and a means of acquiring social position, and which often pays the charges and necessary improvements out of income derived from personal property. The exodus of the labourer has already been mentioned. The farmer or occupier has been probably less affected by agricultural depression than the landowner. His ownership in the agricultural interest is more temporary and fugitive. His capital as a rule is more easily withdrawn, and he is, therefore, better able to shake off the burden. If the farmer is not now making the normal profits of industry, a matter on which I do not feel competent to form an opinion, there can be no doubt that rents must submit to a further reduction. If this has not already happened, it must to some extent be ascribed to the fact that farming and landowning are much influenced by personal and semi-feudal considerations which tend to remove them from the cognisance of economic speculation.

The *répercussion* which, if we are correct, is not able to throw an increased burden on the consumer, recoils on the agricultural interest, but its force is by no means spent, for of course the impoverishment of the agricultural interest reacts on every other interest. If the productive efforts of any class are struck with an artificial sterility, we know that, such is the sensitive character of the laws which govern exchange, decreased production in one place means decreased production in another. Deduction made for the purposes of taxation from the produce put on the free market means deduction from the dividend which goes to each producer. It is therefore difficult to limit the range of an inquiry into the incidence of taxation. The valuation of a tax in terms of money, and an indication of the persons who pay to the exchequer, tell us very little. We have to realise that, in taking what appears to be A's supply, we are also operating on the demand which enables B to live by his industry. We must trace the result as it manifests itself, sometimes in higher prices, at others in depreciated values, and, finally, in a community impoverished by a diminished ability for Exchange.

The amount of each man's demand or effective claim on the common market of industry is strictly limited by his power to produce supply. It is a superficial view to regard the consumer as merely the person who comes with money in his hand. That money is merely a counter representing his produce. If his productivity is decreased, his demand on other producers is likewise decreased, and thus the whole market, and the dividend which each obtains from it, shrink.

As Adam Smith long ago pointed out, every exchange gives a benefit to both parties. Exchange, therefore, not only lubricates the machinery of industry, but, by distributing profit on all sides as it goes, converts the inexhaustible latent powers of consumption inherent in human kind into effective demand. It is not only a conservation, but a reduplicating source of industrial energy. Values subtracted by the hand of the tax collector from this living and vibrating organism are a withdrawal of vital energy, and act as an impediment to the expansion of effective demand. To vary the metaphor,

the imposition of taxes and the subsequent inquiry as to their incidence is like putting a bagful of sand into a complicated piece of machinery and then pausing to wonder on which wheel of the machine the friction and strain will press most heavily. The expression, the "shifting" of taxation, which has obtained considerable currency, it may here be remarked in passing, is not altogether an appropriate metaphor. The interdependence and mutuality of industrial life is so close and penetrating that it is impossible to say that a burden imposed on one member can be "shifted" or cancelled. If the language of metaphor must be employed, the operation will be more correctly described as the communication of a certain contagion of infertility throughout the whole industrial membership.

These considerations, which seem to warrant a belief that the diffusion of the burden of taxation is very general and far-reaching, have been introduced in the discussion of one illustration, but they are equally relevant to the whole question of taxation.

We may consider next the case of taxation of commodities.

The proposition which I am endeavouring to establish is that all taxation falls, in the first instance, on the owners of the object of taxation, and that their power of transmitting the burden to purchasers or consumers will depend on the extent to which the taxation affects the relation between demand and supply.

We saw, in regard to agricultural land, that the burden of taxation showed a tendency to settle on the fixed capitals, *e.g.*, land and labour; that the occupier, as owner of a capital free to seek other employment, or, in the last resort, to be hoarded or spent, could (as far as the question is governed by economic considerations) shift the burden down to constituent owners; and that, though part of the burden was returned to him in the shape of a restricted or deteriorated supply, he could not pass the whole of this forward again to consumers who were free to buy in the foreign market.

Precisely the same rule seems to me to govern the case of taxes on what are called commodities. The consumer will not pay a farthing more for his supply because of a tax or any other increased cost of production. He will and must pay more, however, if the increased cost of bringing into the market, being laid on all supply, tended, as undoubtedly it would, to restrict supply. The *entrepreneur* in this case is much more independent than the farmer. Except as regards existing stocks, his capital is comparatively free. He will not habitually take steps to replenish the market unless the consumer will pay him such a price as will give him the normal profits of trade.

The instantaneousness and apparent completeness of the *répercussion*, in the case of commodities where the whole supply is affected by a tax, is very remarkable. It contrasts forcibly with the more lethargic movement of *répercussion* when operating among the encumbered tenures of real property.

Taxation is a burden from which everyone tries to run. The most temporary ownerships break loose first. Circulating capital and labour—the last a permanent, but convertible form of property—go elsewhere. Land, on the other hand, is less mobile, it does not easily lend itself to other uses, while the cumbrous nature of land transfer and other causes make land sales infrequent. Thus the opportunities for a rapid diffusion are not so numerous. In the case of commodities, the restriction of supply, or even the prospect of it, instantaneously carries the whole burden of a tax and places it on the consumer. There is probably some detriment occasioned to the producers, but the tax appears to attain its maximum effect on the consumer. A further diffusion of the burden is brought about by the fact that the demand of the consumer, being elastic in its nature, has been stretched in one direction in order to cover the extra cost of the taxed commodity, and contracted in another direction, diminishing his effective demand for all other commodities. To take an instance: if the British public has to purchase what it considers its necessary supply of spirits under a tax of several hundred per cent. *ad valorem*, it stands to reason that its purchasing power elsewhere is proportionately contracted.

Effective demand, it may be pointed out, is really a power of purchase which the consumer distributes at his fancy. The complaint is sometimes made against the spirit duties that they are an impost, out of which many men will contract themselves. This is true of all taxes on luxury. The restricted supply consequent on a tax may, in the case of commodities not of absolute necessity, be met by a weaker demand. It follows, therefore, that the incidence of a tax on necessaries will more certainly exercise an effect on consumers than a tax on superfluities. Out of this last many persons will contract themselves, leaving a larger share of the burden on the producers. It is this consideration which, after a certain point is reached, renders a tax on luxuries

unproductive, and obliges a country, where public expenditure and debt are increasing, to continue impolitic taxes on raw material (*e.g.*, agricultural land), and on necessaries (*e.g.*, houses, tea, coffee, &c.). Thus, the heaviest burden of *incidence proper* seems to attach itself to the owners of labour, and the heaviest burden of *répercussion* to those whose demand power is more or less fully exhausted in the purchase of necessaries, *i.e.*, the poor. This seems the inevitable result, levy taxation how we will. The burden of a tax in this connexion is not to be identified with a mere specific payment of money. It is rather a general economic result manifesting itself sometimes in the necessity of paying a higher price, or of selling a smaller amount of produce, sometimes in the necessity of foregoing a luxury and submitting to a stinted use of ordinary articles of consumption, and sometimes in experiencing a shrinkage in the value of property owned. The sum of these various manifestations is a diminished ability to exchange, widely diffused throughout the whole of an industrial society.

The foregoing remarks may now be applied to the intermediate case of urban rates.

Some writers on the subject appear to find a difficulty in the fact that rising rates and rising rents sometimes go together. If, as is alleged, the burden of the rate leads as a principal effect to a depreciation of the owner's property, an increasing rate ought to be accompanied by a falling rent. The argument is obviously fallacious. Rent depends on demand and supply, and there are many other things besides taxation which cause the relation between these to vary. It remains that demand, in the case of supply which cannot be drawn from an area outside the range of taxation, has to meet both rent and taxes before it can enter into possession. Rent plus taxes is the rack price that demand is able to give for possession, and it seems to be immaterial whether this is paid to one or to more persons. If rates are higher, rent must be less. Conversely, if an area could be made sanctuary against rates, obviously the owners of land and houses so situated would receive a higher rent than could be obtained in a contiguous and similar area liable to rates.

The important point for consideration, therefore, here, as in the other cases, is the *répercussion* which begins to act when the tax has, in the first instance, settled down to the constituent owners.

To what extent and how will this *répercussion* affect the relation of demand and supply? It was pointed out that even the agricultural landlord was not a mere rent charger, but an *entrepreneur* providing a manufactured commodity; the remark applies with even greater force to the urban landlord. I apprehend that what happens is somewhat as follows: We may take the case of the landlord of artisans' dwellings, who pays his tenants' rates under a discount as permitted by the compounding Acts. To my own knowledge landlords of this class of property have occasionally demanded a higher rent on the expressed plea that rates had risen. Their success, as far as my information goes, was varied. Those who did obtain an increase of rent only did so because, quite apart from taxation, the state of the market warranted it. They would have obtained the increase if they had pressed for it, even if no additional tax had been imposed. Those, on the other hand, who did not get a higher rent, failed because the market did not warrant it. Those who did not ask, or who, asking, failed to obtain an increase of rent, in all probability recouped their loss to some extent in other ways. Thus they were of course less ready to repair their houses, or, if they built new houses, they built inferior houses, or possibly they went out of the business, and built or caused to be built no more houses at all. There is only one market for capital and enterprise, and, if the business of house-building is to go on, it must give the normal rate of profit to those engaged in it. The producer may evade the loss involved in the increased cost of production (1) by charging more for the same house (*i.e.*, by a keener higgler), (2) by limiting supply till increased demand raises the price, or (3) by restricting repairs, or building an inferior house, he may obtain the same rent for his now reduced outlay. I am inclined to believe that successful resort is had to all these three expedients, more particularly the two last, and further that the unsatisfactory condition of the dwellings of the poor is in part due to an excessive burden of taxation. I am confirmed in this opinion, by observing that persons (and I have known several) who, from philanthropic motives, have made experiments in owning and managing property of this class, rarely succeed in earning anything approaching a commercial profit. Further, the great artisan dwellings companies, although they pay a steady 5 per cent., do not earn what may be called the normal profits of trade. They supply a limited number of excellent dwellings, but the great majority of the poorer class are accommodated in dwellings built and owned by tradesmen who expect to get the normal rate of profit. Various causes, all tending to increased cost of production, and among them by no means the least important

heavy taxation, have proved most injurious to this industry. The house-jobber has an evil reputation, but he is very much what circumstances have made him. I believe it to be almost impossible for an owner of this class in a heavily rated urban district to put a really good house on the market and, at the same time, to retain, what he is entitled to retain, a normal commercial profit. The price which the lower grade of labourer is able to offer is not sufficient to enable the purveyor of working class dwellings to pay rates to the extent of some 25 or 30 per cent. of their yearly value, and, at the same time, give a good article. Yet the workman's ability to pay rent is stretched to the utmost extent. The rent of the London labouring class absorbs probably not less than a quarter of their income. The consequence is that the relation between tradesman and customer seems in the matter of houses of this class to be entirely reversed. In other industries we find an enterprising tradesman eager to attract custom by offering the best possible value. Here there is nothing of the kind, and the trade is assimilated to that of the lower class of usury. The risks and the conditions are such as to repel the enterprise of the better class of tradesman, and their place is not adequately filled by the semi-philanthropic house builder.

It will be said that some of these unfortunate consequences would be avoided if the incidence of rates could be in some way confined to the ground landlord. The answer to this appears to me to be that the ground landlord's interest has been taxed when he made his contract with the leaseholder. If his contract absolved him from liability for rates, he obviously received a smaller rent than if he had agreed to pay rates. To deprive him of the benefit of this contract is not a permanent shifting of a burden, but merely an arbitrary revision of an existing contract, and, as I have pointed out above, to a large extent it would be a confiscation of the property of the poor.

If the tax is confined to old leases renewed and to new leases created, the bargain between landlord and tenant will obviously take into account the fact that one of the parties is, by agreement or statute, required to pay the rates. The intending occupier, as at present, will pay the rack price, and it appears to be immaterial whether he pays this in one sum under the name of rent, or, as at present, in two sums under the separate headings of rent and rates. In every conceivable case, as it appears to me, the incidence sooner or later will fall on the owner. The owner's power to evade the loss by driving a harder bargain, or by putting an inferior article on the market is a separate question. The objection, as I understand it, to placing the first incidence of the rate on the owner, on whom, both prospectively at the beginning of the lease and ultimately at the end of the lease, the whole burden tends to fall, is (1) that the rate is expended by the occupier vote, (2) the change would revolutionise and throw into disorder the custom and practice of one of the most important industries of the country. Unless it is accompanied by a remission of taxation, no one would be a jot the better for it.

The high annual price (*i.e.*, rent plus rates) paid for urban dwellings is due to the concentration of demand on a limited and inferior supply. If, contracts notwithstanding, the property of the ground landlord is taken and applied to the relief of the occupier for the time being, it is a gift to that occupier, but not to the occupying class generally. The only circumstance that can give relief to the occupying class, both present and future (a class whose demand will probably increase rather than diminish), is an increase or improvement of supply. That a remission of taxation would, to some extent, affect this, there can be no doubt. The first effect would be to increase the value and the profits of house-property and building land, the next would be that building land and new houses would be pressed into the market to share in the profit released by the remission of taxation. At the present time, in view of the increasing facilities of locomotion, there is a considerable amount of building land which a favourable turn of the market would at once bring into use. Having regard, however, to the enthusiasm with which the public urges on expenditure by public bodies, it is, I fear, idle to talk of remission. Obviously, a country cannot enjoy the advantages of free trade when its public expenditure and indebtedness is increasing by leaps and bounds. The question of the housing of the working classes seems to me to be suffering from exactly the same mistaken fiscal policy which affected their food supply before the repeal of the corn laws. A total remission of taxation on the raw material of shelter, a prime necessity of life, would, for the first time in the history of this country, allow the house-supply industry to be organised under healthy conditions. The result (altogether unattainable, I fear, in the present temper of the times) would be an abundant and improving supply, closely waiting on, but never overtaken by demand, a gradually diminishing price, and to all industrially concerned the normal rate of reward.

The incidence of a rate on trade premises does not appear to me to differ from that on houses.

A part of it will probably come back in one form or another from the owner to the first consumer, *i.e.*, the occupier, and, of course, increases of rate arising during a tenancy will, for the time being, rest on the occupier.

The question then is, can an occupier for trading purposes, throw forward a part of the burden on his customers? As in the cases already considered, this appears to me to depend on whether the demand is sufficiently elastic not to be deterred by the increased price which the highly-rated tradesmen will undoubtedly be inclined to ask. To take an instance, the reason that a Bond Street shopkeeper probably charges more than a tradesman in an unfashionable neighbourhood is not because his rent and taxes are high, but because a demand of a very special character, the demand of the fashionable world, concentrates itself on the articles to be sold in Bond Street shops. There is a point, however, at which customers will be deterred and driven to meaner streets; they are free, so to speak, to buy abroad. The tradesman is already getting the full or "rack" price for articles brought into that particular market. He has already put his prices as high as he thinks prudent, having regard to the character of his *clientèle*. There is no reason why a Bond Street shop should not convert itself into a cheap store and endeavour, by multiplicity of customers, to obtain a better profit than is to be obtained by larger profits, and a smaller and more select class of customers. A tradesman's rent and taxes have no effect whatsoever on his customers' demand, but the nature and extent of his customers' demand make it possible for him and worth his while to pay high rates and rent.

A general rise of rates would increase the number of bankruptcies among the weaker traders, and cause some prudent and solvent traders to withdraw, and thus, by diminishing supply, would bring round an increase of price to the purchaser, and so on, through the whole series of exchanges which we have already considered. This, however, as already remarked, is a separate question.

Death Duties are a tax on the inevitable transfer of property which takes place on the death of its owner. Their imposition, though certain to occur once on all owners of property, is extremely uncertain, both as regards the property affected, the persons inheriting, and the time at which they become payable.

To the testator they present themselves as an optional tax which he may entirely evade. On the other hand, if he so chooses, he may insure his heirs against loss by burdening himself with saving or insurance. Such a course will naturally diminish his effective demand for other things, and the incidence will be diffused hither and thither as in other cases. If the initial burden is left to fall on the inheritor, it becomes payable, in many cases, at a very inconvenient time, when the family income has perhaps been suddenly and largely reduced, and being levied progressively in respect of the wealth of its late owner, it often bears hardly on its present owner. Its incidence also will be very unequal as between realty and personalty. An inheritor of personalty finds it comparatively simple to sell a fraction of his inheritance, but the heir to realty very often finds it impossible to sell a portion without destroying the value of the remainder. He is obliged, then, to make large economies which often press hardly, not only on him, but on those who are dependent on him. There is nothing in the case of death duties to prevent the same wide diffusion of the burden which appears to me characteristic of all taxation.

V.—TAXATION FOR LOCAL AND IMPERIAL PURPOSES.

Revenue to meet expenditure which only concerns the locality should be raised locally. The only justification for any departure from this is to be found in those local services which can be more efficiently performed by Imperial administration. There are grave and obvious objections to local bodies administering Imperial funds, but there does not seem to me to be the same objection to a body of experts responsible to a central authority spending funds raised locally. [For an instance, see answer to Question 15.]

It has been suggested that local expenditure is in part onerous, and in part beneficial to the ratepayers, and that onerous expenditure is better entitled on equitable grounds to Imperial subvention. I do not think that the question of equity should prevail against considerations of administration. For instance, if I am correct in arguing that the divided financial responsibility with regard to the poor law has deteriorated administration, I do not think the argument as to its onerous character should prevail.

On the other hand, if a transference of administrative as well as financial responsibility is practicable, the argument based on the suggested distinction would, no doubt, give additional support to such a policy.

With reference to the term "beneficial" rate, I do not think that a consistent free trader can admit that any taxation is beneficial. The mere withdrawal of any service from the economising and improving influence of the open market is a misfortune. In this case science will support the popular feeling that a heavy rate is an onerous rate. There are some misfortunes which are inseparable from associated life, and the necessity of rating is one of them. Nor do I think that the distinction between onerous and beneficial can be sustained. The poor rate, which will probably be named as one of the most obvious instances of an onerous tax, is, or is intended to be, a beneficial tax (1) to the pauper; (2) to the relatives and others morally liable for the support of the particular poor person; (3) to the general community, which thus relieves itself of the duty of caring for the poor, a duty which, properly performed, is just as solid a source of satisfaction or benefit as a well contrived system of sewers.

On the other hand, a main sewer rate might fairly be cited as a beneficial rate. Yet an occupier living in a jerry-built house, with a leaky house drain—a condition of things which he rightly or wrongly attributes to the fact that he and his landlord between them have to pay a rate of about 30 per cent. *ad valorem* on yearly value of his house—may be excused, if he is sceptical about the beneficial nature of the impost.

A knowledge of the evils of the old poor law, and the warning which it affords, has made the educated philanthropist disposed to be careful about extensions of the poor law; but there is still a mass of uninstructed opinion which, on every opportunity offered, votes with the utmost enthusiasm for increased expenditure in this direction. The number of persons who believe that taxation is beneficial is, of course, much larger when their opinion is asked about the education rate, another so-called onerous rate. A considerable section of the rate-paying public, not only those who make personal use of the education provided at the public charge, but those who merely pay the rate, regards the school rate as a benefit.

Generally, I submit, the distinction drawn between what is onerous and what is beneficial, must always turn on matters of opinion, and should not weigh in the decision against the much more important consideration of administration.

VI.—OCCUPIER AND OWNER.

A division of rates between occupier and owner would, I think, be an advantage, for whatever the truth be as to incidence, the plain ratepayer is influenced largely by the actual payment. The system, also, is equitable as regards a decreasing or increasing rate. The policy, of course, should apply to future contracts only, and should include a direct and separate representation of the owner, proportionate to the share of the rate paid by him. Without this safeguard it would be a great injustice. At present the interests of economy are, to some slight extent, protected by the fact that, whatever the real incidence may be, the actual ratepayer feels the first weight of the rate. If half, or any other large fraction of the rate, is nominally shifted to the owner while the financial control remains with the occupier, the very slight protection now given by the "vigilance" of the ratepayer would become more and more inoperative.

VII.—THE POOR LAW AND CENTRAL ADMINISTRATION.

I avail myself of the general character of Question 15 to append a note on certain financial and administrative aspects of the poor law.

I have argued above that relief of local taxation, brought about by transference of whole or part of the burden to the Imperial Exchequer, ought to be accompanied by safeguards, which, if they do not improve administration, should at least prevent the relief so given becoming an incitement to extravagance.

This caution seems to be particularly necessary with regard to the poor law; for in respect of this branch of administration I must demur to Sir E. Hamilton's contention, that economy is the most popular platform on which a candidate can take his stand (*see* Sir E. Hamilton's Memorandum, p. 52). "Economy and Efficiency" is, of course, a stock phrase used by every candidate for every kind of election, but a line of policy which really tends to economy in poor law matters is not popular. A large section of the electors do not pay their rates direct, and a still larger section regards the poor

rate as a charitable fund, and profusion in relief a merit. It is quite true that poor law elections, in many cases, turn on matters which have absolutely nothing to do with the poor law. It is true, also, that in absence of any organised agitation, a strict and economical administration, once established, is contentedly accepted by the population, and that several boards seriously devoted to an administration of this character have been allowed to continue in office for periods of a quarter of a century. The fact confirms the view of those who maintain that a strict administration does not produce any intolerable hardship, but does not prove that such an administration is popular, in the sense that a poor law electorate will deliberately prefer it to a policy of profusion.

These admissions notwithstanding, it is perfectly certain that a strict administration has no chance against an organised agitation in favour of a profuse system, and in elections which turn, not on general politics, but on poor law policy, promises of profusion are more likely to carry a candidate than promises of economy.

With regard to the poor law, this is nothing new. If space permitted, it might be shown how, from the days of Elizabeth onwards, every single local authority entrusted with the administration of the poor law, has succumbed, more or less, to this prevalent motive, and that even the authorities whose aid was, at different crises, invoked to check abuses (*e.g.*, vestries and magistrates), in their turn fell victims to the passion for lavish expenditure. It was their recognition of this tendency, resulting in the utter incompetence of local bodies, as far as the poor law is concerned, which induced the Royal Commissioners of 1832-4 to insist upon the appointment of a non-elective central board of control. The legislation of 1834 introduced a dual administrative responsibility, represented by the control of what is now the Local Government Board, and further emphasised by the fact that the principal union officers are the servants, not of the union, but of the central authority. To this dual administrative responsibility there has been added, from time to time, a divided financial responsibility. This has been effected by a system of subventions paid to the local authorities from the Imperial Exchequer.

The question to which I desire to draw attention is the effect of such grants, from whatever source they come, upon an administration liable to this excessive desire to spend.

The Metropolitan Common Poor Fund, which dates from 1867, affords a better object lesson than the county contributions settled by the Local Government Act of 1888, which have been, comparatively, a short time in operation. The common poor fund is raised by a rate over all London, and not by a tax on the whole kingdom, but its effect, I apprehend, will not be different. Criticism which touches a local common fund will apply *a fortiori* to an Imperial common fund.

The object of the fund was, presumably, twofold, (1) an equalisation of rates over London, (2) an improvement of administration on the lines laid down by the report of 1834. The following charges are payable out of the common poor fund to the relief of the local unions:—Maintenance of lunatics in asylums, fever and small-pox patients in special hospitals, pauper children in separate schools and boarded out orphan and deserted children, casual paupers, expenses of medical relief, salaries and rations of officers, and an allowance of 5*d.* per diem for adult indoor paupers. Practically, the whole current expense of institutional administration, and all but a small fraction of the institutional relief, falls on the common fund. Outdoor relief only is left entirely on the local rate. By the 43rd section of the Local Government Act of 1888, the London County Council pays from the Exchequer Contribution Account an additional sum of 4*d.* per diem for indoor paupers. This, however, is paid on the average number of indoor paupers for the five years next before the passing of the Act. There are other sums payable from the same source for lunatics, teachers' salaries, &c., but as these items are already thrown on the Metropolitan Common Poor Fund, none of them can have much influence, one way or another, on administration.

The general effect of these financial arrangements might have been expected to be that guardians would incline towards institutional methods of relief, of which practically the whole charge was taken off the local rate. The initial spending part of the policy thus recommended by the Local Government Board was easily learnt. A great impetus was given to increasing the costliness of the indoor establishments. Separate schools, infirmaries, and better workhouse accommodation have been provided, and a large and adequately paid staff of officials, nurses, &c. has been engaged, with the usual arrangement for increments of salary, &c. So far the purpose of these financial arrangements has been fulfilled, and probably more than fulfilled.

An expensive series of institutions is not, however, the whole of the policy pressed on the local administration. The object and justification of such institutions is that

they shall be used as a test of destitution. Adequate, humane, and appropriate forms of relief were to be placed at the disposal of all, guarded only by the discipline necessary to make the lot of the pauper, on the whole, less eligible than that of the independent. With the exception of some three or four unions, this side of the policy has been entirely neglected, and with a result which is not a little curious. The exceptional unions above mentioned, which have adopted the whole policy of the Poor Law Commissioners, and their recommendation of institutional relief, have not been influenced by these financial considerations. The determining factor in the mind of those who are principally responsible has been the belief that on philanthropic grounds the strict policy is best. If, as is sometimes alleged, the strict policy has been created by these bribes to administration, the effect would have been more general. Their influence really has been in the opposite direction. A lavish administration of outdoor relief has been accompanied by a lavish administration of indoor relief and such a relaxation of discipline that the number of paupers who prefer indoor relief is, in some unions, greater than that of those who prefer outdoor relief.

This last proposition can, I think, be established with considerable certainty. That London shows a larger proportion of indoor as compared with outdoor pauperism than the rest of the country is true; but that this is the result of pressure brought to bear by the Guardians is, I believe, a fallacious conclusion.

In an article in the "Contemporary Review," Dr. Hunter, lately Member for Aberdeen, divided the London unions into what he called outdoor and indoor unions. This division he based on some statistical computation of the policy which actually prevailed in such unions. Among his indoor unions appeared several which were well known to follow a profuse outdoor relief policy. This finding was, at first sight, very puzzling, but the explanation is comparatively simple. I was enabled to see a classified list of the admission orders by means of which applicants for relief obtained admittance to the indoor establishments of one of the unions in question. The list covered about 19 consecutive weeks, and from inquiries made elsewhere, I believe that the facts disclosed are fairly typical.

During the period in question 1,767 admissions were recorded. Of these only 162 went in on orders made by a relief committee of the board; whether they asked for outdoor relief or not is not stated, but they may have. The rest—1,605—applied direct to the relieving officer or to the master, and became indoor paupers by their own choice. The practice of the union was such that persons not homeless and not legally disqualified would have had no difficulty in obtaining outdoor relief if they had preferred it.

The real result of these common fund subventions is that a costly and admirable instrument of dispauperisation has been put into the hands of bodies which do not or will not understand its use. Far from being used as a means of dispauperisation, the London indoor establishments, as they are generally managed, have helped to create the large and more or less homeless class known as the ins and outs. The result has been waste in every direction, a costly machine wasted because not handled by persons who understand its use, its misapplication producing a new brood of pauperism; all this tending to increase the drain on the common funds, while the local fund is left even more unprotected than before, to be spent on a lavish outdoor relief policy. To speak metaphorically, the candle of extravagant expense has been lighted at both ends.

While readily admitting that much of the increased expense is legitimate, and only illegitimate when used for pauperising, and not for dispauperising purposes, I think the following figures will appear somewhat startling.

The total relief to the poor in London was—

	£	£	s.	
In 1861	-	832,155,	equal to	- 5 11·2
„ 1871	-	1,646,103,	„	- 10 1·3
„ 1881	-	1,907,155,	„	- 9 11·9
„ 1891	-	2,435,164,	„	- 11 6·7

} per head.
of population.

The cost of in-maintenance has risen from 275,422*l.* in 1861 to 728,158*l.* in 1891, while the decrease of the cost of outdoor relief has been inconsiderable—208,674*l.* in 1861 to 184,118*l.* in 1891. Salaries have risen 93,460*l.* in 1861 to 508,178*l.* in 1891. The county of Lancaster follows London most closely in showing a reduction in its outdoor relief, but its expenditure does not show an increase in anything like the same extent. Administration in Lancashire has not been under the influence of a common poor fund, and, though adopting the same policy as London, appears to have done so at a much lower cost.

The total cost of relief in Lancashire was—

	£	£	s.	
In 1861	- 429,616, equal to	- 3	5·8	} per head of population.
„ 1871	- 683,625, „	- 4	9·5	
„ 1881	- 782,766, „	- 4	5·8	
„ 1891	- 811,204, „	- 4	1·1	

The expenditure charged on the Metropolitan Common Poor Fund has risen from 540,876*l.* in 1871 to 1,175,209*l.* in 1895.

The basis on which the subventions from the county contribution are paid is not always satisfactory. Thus in 1874, and later in the rearrangement in 1888, a grant of 4*s.* per head has been given for pauper lunatics maintained in asylums. This sum was supposed to represent the difference between the bare maintenance cost of lunatics in the workhouse and in asylums. The cost, however, has been much reduced since that date, and as a consequence 4*s.* often represents a good deal more than the difference.

As originally fixed, this grant was not supposed to influence the administration at all; now, however, there is often a financial advantage to be gained by the locality if it can get its feeble, weak-minded, and senile paupers classed as lunatics. The result, it is alleged, has been an otherwise unaccountable increase in lunacy.

Dr. Campbell, superintendent of the Cumberland and Westmorland Asylum, read a paper at the Northern District Poor Law Conference in 1894 “On the operation of the four-shilling grant for pauper lunatics,” in which he argues that the grant has been the occasion of considerable abuse. He quotes Dr. Maudesley (“Journal of Mental Science,” April 1877), a well known expert on lunacy, as remarking in 1877:—

“The effect has been to empty the workhouses of all the cases which it was possible by any device to send to the asylum, and to remove the last vestige of desire which there might be to retain a pauper lunatic under any sort of care outside an asylum. The Government has in effect said to the parish officials, ‘We will pay you a premium of 4*s.* a head on every pauper whom you can, by hook or crook, make out to be a lunatic, and send into the asylum’”

It is, of course, desirable that considerations of expense should not prevent a poor man from being treated as a lunatic, if that is the right course to pursue, but most people will agree with Dr. Campbell that it is a distinct hardship to send an old man away to an asylum, when he is merely failing through the ordinary decay of age, and cannot possibly be cured. “Ordinary feeding, nursing, and attention are what he requires, and why should he not get this in the workhouse of his district if his relatives will not take care of him?”

One other anomalous result of the basis on which the London county contribution is calculated is worth notice, not so much because of its intrinsic importance, but merely for the sake of showing how a scheme, which was no doubt carefully considered, may be turned to penalise successful administration. The grant of 4*d.* per diem for each indoor pauper is calculated on the average of the five years preceding the Act of 1888. The London County Council has recently been suggesting to the different Boards of Guardians that the time for a revision has come, and, as before, it is proposed that it should be based on the last five years. Since 1883–88 the pauperism of St. George-in-the-East has largely decreased, and the grant based on the years previous to 1888 brought in to the local authorities a much larger sum than if it had been based on the current indoor pauperism. They received in fact an allowance for an average of about 1,500, while their current average had dropped to about 1,000. Having thus gained unduly, the St. George’s ratepayers will now suffer unduly. I am credibly informed that the new arrangement, if carried out, will cost the local ratepayer a 3½*d.* rate. The advantage under the rearrangement will be given to those unions where indoor pauperism has increased—a result which has been brought about in many cases by bad management and nothing else.

The information at my disposal does not enable me to say whether the different method of allocating the county contributions outside the metropolis has prevented these anomalies. The argument about the 4*s.* lunatic grant, of course, applies to the country, but the indoor pauper grant is peculiar to London.

The general situation with regard to the whole country is summed up on page lxvii of the Report of the Local Government Board for 1895–6:—

“It will be seen from the above table that not only has the gross expenditure on the relief of the poor increased year by year since 1889, but that the net expenditure in relief borne by the rates was larger in 1895 than in any of the preceding years, notwithstanding the operation of sections 26 and 43 of the Local Government Act, 1888,

under which Boards of Guardians have, since that Act came into force, received grants from the county and borough councils in respect of the maintenance of the indoor poor in London, and of the cost of union officers and other expenditure in the country."

If I may now assume that my contention is established, viz., that local administration, combined with central chargeability, does not work well, the problem is narrowed down to the question: *Is it possible to transfer the administrative as well as the financial responsibility to a central authority?*

The Commissioners of 1834 describe a national poor law as a plan which "nothing but the certainty that a parochial system is unsusceptible of real improvement, and that a national system is the only alternative against immediate ruin, the only plank in the shipwreck, could induce us to embrace." The language in which they proceed to state their objections is not a little remarkable. At the outset, such a change would probably work well; there would be "a vigilant and uniform administration, a reduction of expenditure, a diminution of pauperism, an improvement of the industry and morality of the labourers, and an increase of agricultural profit and rent. But in this case, as in many others, what was beneficial as a remedy might become fatal as a regimen. It is to be feared that, in time, the vigilance and economy, unstimulated by any private interest, would be relaxed; that the workhouses would be allowed to breed an hereditary workhouse population, and would cease to be objects of terror; that the consequent difficulty of receiving in them all the applicants would occasion a recurrence to relief at home; that candidates for political power would bid for popularity by promising to be good to the poor; and that we should run through the same cycle as was experienced in the last century, which began by laws prohibiting relief without the sanction of the magistrates; commanding those relieved to wear badges, and denying relief out of the workhouse; and when, by these restrictions, the immediate pressure on the rates had been relieved, turned round, and by statutes with preambles reciting the oppressiveness of the former enactment, not only undid all the good that had been done, but opened the flood-gates of the calamities which we are now experiencing."

It will be admitted that, by the legislation of 1834, a parochial system has been shown "susceptible of improvement." At the same time, as I have endeavoured to show, it can be plausibly argued that the improvement, though "real," is still very limited; that, under the present division of authority, workhouses are breeding a workhouse population which, though not hereditary, is artificially created and fostered; that they are ceasing to be used as tests of destitution; that the local administrator is not above bidding for popularity by promises of profusion; and that vigilance and economy "unstimulated by private interest" are relaxed. In a word, the partial system of centralisation introduced by the Act of 1834, and the subsequent readjustments of financial responsibility, have produced some of the evils which the Commissioners pointed out as inseparable from a national poor law.

As against national chargeability and local administration, the argument of the Commissioners seems to me unanswerable. It is not, however, equally conclusive (and in view of the large qualifications introduced, I do not think it was intended to be so) against a change of chargeability accompanied by a change of administration. Indeed, it is well known that some of the Commissioners, notably Mr. (afterwards Sir) E. Chadwick, were in favour of pushing centralisation of administration very much further than subsequent events ever permitted. Sir E. Chadwick derived his ideas from Bentham, whose plans of pauper and prison management received great encouragement from Pitt's government. One of them, indeed, was only prevented from being carried into effect by the veto of George III.

The principal features of Bentham's plan were (1) management by salaried experts through the intervention of a contractor. Bentham, himself, actually proposed to be the first contractor; (2) management on a large scale and consequent economy; (3) improved classification summed up in the phrase "aggregation for the purpose of segregation." He does not appear, however, to have contemplated anything but local chargeability. Mr. Chadwick lived in the house of Bentham during the last years of the philosopher's life, and through him many of these ideas, couched sometimes in identical terms, found their way into the reports and administration of the Commission of which Mr. Chadwick was the first Secretary.

During the last years of Sir E. Chadwick's life I had more than one opportunity of hearing his views. He complained that the policy intended by the Poor Law Commissioners, as he, at all events, understood it, was not carried out. His maxims were: (1.) Management by salaried experts responsible to a central body. A great step in this direction had been taken. The union officers are the officers of the Local

Government Board, but the success of their management is altogether impaired by the continued irruption of local empirics in the shape of Boards of Guardians. (2.) He entertained strong and possibly exaggerated opinions as to the corruption of a local system of contracts, and dwelt on the economy of large contracts and expert knowledge, and the possibilities of better classification. The legislation of 1834 by introducing union instead of parish management had, he said, already approved of the principle. (3.) The revolutionary part of his ideas, entertained, he seemed to think, by some at all events of his colleagues, was (a) the reduction of Boards of Guardians to the position of visiting justices of prisons; (b) the supersession of domiciliary relief of the poor by institutional relief. The first is generally inadequate, arbitrarily dispensed, and sometimes a fraud upon the ratepayer; the last is adequate, appropriate to each form of destitution, and, if judicially managed, it acts automatically, and without undue severity, as a test of destitution.

The practical question to which this prelude is intended to lead is: Is it practicable at the present day to revive and obtain a hearing for these views?

If they were arguable when no suggestion of a central chargeability had been made, the case in their favour is now much stronger, when the chargeability has already been, to some extent, and may be still further removed from the local area of taxation.

There is a great objection in this country to centralisation, and in some quarters the mere name carries condemnation. It was pointed out, however, by many able writers in defence of the new poor law, among others by John Austin, that centralisation was not to be identified with over-government. As a system of administration, centralisation must be judged on its own merits in each case. When any given form of service or responsibility is removed from private initiative and made the prerogative of the State, it is an open question whether the duties so assumed are best discharged by local or centralised management. Up to 1834 the relief of the poor had been a purely local responsibility. This resulted in over-government of a most ruinous description. Vestries, magistrates, overseers, seemed to be competing wildly in using their legally created authority for the demoralisation of the poor and the destruction of the property of the nation. A limited measure of centralisation was introduced to curb these excesses. Its partial success might embolden a survivor of the school of Bentham and Chadwick to argue that a further advance in that direction was desirable.

It is no disparagement to representative government to say that there are some matters of public administration which cannot be conveniently transacted within hearing of the hustings. Popular government has recognised this in regard to currency, military discipline, the appointment of the judicial bench, the management of the police, and I submit that the time may now have arrived when it may be willing to relegate the question of poor law administration to the same sphere. The work of a guardian is or ought to be a judicial office; it requires also expert and appropriate knowledge just as much as the work of the physician or the surgeon.

The proposal to hand over the poor law establishments now managed by numerous Boards of Guardians to some more centralised and judicially independent body is not such a revolutionary measure as might at first sight appear. I have no hesitation in saying that the best managed unions are those where the services of capable officials have been secured, and where the work of the board is confined to supervision, and in the main to acquiescence in the acts of the permanent staff. Occasionally, of course, the moving spirit is the chairman or an individual guardian, but under the proposed change the services of such men need not be lost. Some nomination of visitors to workhouse, schools, and infirmaries would be a necessary part of the new plan. At present, also, there is a most elaborate and cumbrous system of supervision exercised by the Local Government Board, which would be much facilitated and simplified if it was dealing with its own servants direct. Now it is dealing with a fluctuating body, some of whom are always new to the work and others constitutionally incapacitated for judicial duties.

The real difficulty in the proposal is the administration of outdoor relief. It may be superable if it is boldly grasped, certainly not otherwise. How far a bold treatment of the difficulty is practicable, it is not for me to say. One or two remarks on the subject I may venture to make.

Obviously, a body of salaried officials could not administer outdoor relief. If they were to attempt it, it could only be on definite and literally construed rules. Rules of such a character would amount to conferring on certain classes of paupers a statutory right to outdoor relief, than which nothing could be more detrimental to the best interests of the poor.

It remains then, that if there is to be outdoor relief, it must be given by a local body. I do not see why a committee of the district council should not be nominated for this purpose. They should be put in possession of the dole charities of the district and of such voluntary funds as might be entrusted to them. If there is to be a rate, it ought to be like the library rate, optional and limited. These precautions are, I think, necessary in view of the fact that relief to the rates in the past, by disarming the vigilance of the ratepayer, has been apt to set loose the too powerful influences which make for profusion and mismanagement. Such rate as may be deemed necessary should, I think, be levied on the parish for the relief of its own poor, while the administration should be in the hands of a body representing some larger local area. The idea that the smaller the area of administration the more careful and vigilant it is, as far as poor law matters are concerned, has been proved a complete delusion. It was shown conclusively in the report of 1834 that corruption and mismanagement were most rife in the smaller parishes.

With regard to the outdoor relief question generally there are, of course, many combinations which could be made. I may, perhaps, be permitted to add that the relief to the ratepayer by a transference of the poor rate seems to me to be of comparatively slight importance compared with the benefit to the poor and the addition to the wealth of the country which would result from a firmer and more consistent administration of the poor law. Whether greater firmness and continuity of policy would result from the change suggested is a matter which must depend largely on the details of the measure by which it is proposed to carry it out. I do not think that such a change would necessarily be incompatible with an improvement in administration.

At the same time, I do not venture to recommend such a reorganisation. Personally, I prefer the present system—mischievous and ill-considered as, in many respects, I believe it to be—to any half measures. The whole principle of the poor law is so dangerous that only the most drastic precautions can avail against the inroad of abuse; and unless precautions such as I indicate can be adopted, I would deprecate any nationalisation of either the chargeability or administration of the poor law.

The conclusion which I desire to press on the Commission is (1) that the severance of financial and administrative responsibility has not answered well in the past, and there is no reason to suppose that further extensions of it in the future will give a different result; (2) that, if it is determined to give the ratepayer relief in respect of this "onerous" charge, the difficulty must be faced of transferring the administration as well as the charge to some more centralised authority.

T. MACKAY.

Answers by Mr. G. L. Gomme

[As I have given evidence before the Commission on behalf of the London County Council, I must note that these questions were addressed to me personally, and are answered on my own responsibility as a student of economics.]

Question 1.—As far as the classification goes I think it is correct in principle, but as a matter of criticism, two rather important questions occur to me as essential to the inquiry before the Commission; first, that the Table should be divided between the taxes devoted to Imperial purposes and the taxes devoted to local purposes; secondly, that the use of the words "rateable property" for column I prejudices the question as to whether buildings on the land are as a matter of fact rated. In reply to a later question I shall advance the proposition that buildings do not at present bear any proportion of local taxation, and it therefore seems to me essential that column 1 should be divided between land and buildings thereon. I am aware of the difficulties in the way of such a division, as pointed out by Sir Alfred Milner at p. 577 of the Agricultural Commission, Vol. IV., but until we get that division approximately stated I think the classification of Table D. does not present to the Commission the real figures which the Commission must have before it in the determination of the questions at issue.

Question 2.—The items which seem to me to require reconsideration in view of my answer to Question 1 are—the death duties, which are levied partly upon lands

and partly upon buildings thereon; the stamp duties which relate to properties partly land and partly buildings; the Inhabited House Duty, which is levied on the basis of the value of land and houses, but which, as I shall discuss under a later question, must really fall in one of two ways, either upon the owners of land or upon the income of the occupier, that is to say, in no sense upon the buildings; the income tax which is charged on rent derived from lands and buildings.

It would be convenient, and, I think, more correct, to fully classify the taxes included under the heading of miscellaneous taxes. They are capable of classification, and what is needed in these matters above all things is correct classification. The licence duties, other than those falling on consumable articles are, I presume, the taxes on businesses, for the purpose of regulating such businesses, or, in the cases of establishment licences, gun licences, licences for killing game, and dog licences, are taxation of luxuries, which really falls upon the incomes of the persons taxed, although such incomes do not form the basis of taxation. These are two distinct classes of taxation, and yet they are included together in the same column as if they were analogous in character.

The railway passenger duty I would classify as a tax on the commodity, under heading 1. The licences and certificates are presumably the stamp duties on certain professions and businesses, and should be classed under the same heading as the licence duties. I deal with the Post Office revenue in the next answer.

Question 3.—The net revenue of the Post Office is in my judgment, correctly treated as a tax, and I think it might just as properly be classed under the heading of "Taxes levied in respect of commodities" as under the present rather unmeaning heading of "Miscellaneous taxes." It is a tax upon the persons using the letter-carrying industry performed by the Government.

Question 4.—The tests that I would apply in considering the equity of any tax or system of taxation are—

that the tax should be regulative, having the following characteristic:—

- (1) That it be levied as a system of regulation of any business or industry which, but for taxation, would be carried on injuriously to the community, *e.g.*, beer, spirits, tobacco, &c.

that the tax be levied upon luxuries, having the following characteristics:—

- (2) That the luxury in respect of which the tax is levied be not a general desire of the community but only of classes with perfect liberty of action, *e.g.*, plate, armorial bearings, &c.

that the tax should be administrative, having the following characteristics:—

- (3) That it be levied for the express purpose of meeting expenditure upon a service administered for the benefit of the community by the Imperial Government or by a local government.
- (4) That the extent of the tax (that is, the aggregate of persons, property, and interests upon which the tax is levied) should be the same as the locality of the tax (that is, the aggregate of persons, property, and interests benefited by the tax).
- (5) That the kind of tax imposed should be such that it should be paid directly by the persons, property, or interests which are intended to be taxed; or, if this is not possible, that its final incidence should fall upon such persons, property, or interests.

These tests apply more particularly to local taxation, as it frequently happens in practice that the expenditure incurred for a locality is met by a tax extending over a different set of taxpayers than those benefited by the expenditure. In short, I think that every tax should have a definite relationship to the service for which it is incurred, but especially this rule should apply to local taxation.

Question 5.—I think the incidence of all indirect taxation is to fall upon the consumers of the commodities taxed. But I presume that the question is directed more particularly to the vexed problem of the local tax upon rental value, and I shall direct my answer to this. In order to answer the problem, I start with the proposition that expenditure for local purposes, so long as it is not extravagant and improper expenditure, is expenditure that benefits property. This proposition is admitted in respect of the greater number of local services, but it is not generally admitted with respect to such services as poor law. Without wishing to go over the whole of this question in detail, I would submit that it is at the root of the consideration of the incidence of local taxation, and I might perhaps venture to refer

the Commission to what I have said as to poor law in my recently published book on the *Principles of Local Government*, pp. 179-86.

Assuming that my conclusions as to the benefits derived from local expenditure are accepted, I will proceed as shortly as possible to indicate the suggestions which occur to me in answer to the Commissioners' question.

If a tax falls in exact proportion to the benefit conferred in respect of such tax there is no incidence of taxation in the strictest sense, because taxation has not occurred. Payment for services rendered has occurred and nothing else. This point is generally lost sight of. If local authorities could charge according to services rendered, as they do for gas and for water for trade purposes, the incidence of taxation would not arise. It is only because services rendered are charged upon a basis of assumed equality of benefit, and that rental value is taken to be the measure of the assumed equality, that the question of incidence arises. But it is clear that these two fundamental assumptions of local taxation represent by no means correlative elements. Equality of benefit is one thing; rental value is another thing. They may equate, but they do not necessarily do so. It is indeed the antagonism between equality of benefit and the basis by which this equality is measured which produces taxation. Because taxation pure and simple only occurs where the charge falls (1) in no relationship to the benefit conferred, (2) where it is in excess of the benefit conferred.

The elements of the problem as regards the direct tax are as follows: first, the nature of the tenancy; secondly, the value of the premises; thirdly, the position of the tax.

The *tenancy* is of two kinds, agricultural and urban. The agricultural tenancy consists generally of a single item, namely, rack-rent for a term of years to the ground landlord. The urban tenancy consists always of three items, oftentimes of many more. The two principal cases of urban tenancy may be separately stated.

First we have—

- (1) ground rent,
- (2) building rent,
- (3) tenant's rent,

Secondly we have—

- (1) ground rent,
- (2) building rent,
- (3) improved rents, held by one or more leaseholders,
- (4) tenant's rent.

The tenant's rent in each case is the sum of the preceding items.

Secondly, the *value* of the premises is what the premises are worth to the tenant. The tenant in competition with other tenants takes premises at their competition value to him—that is at the rent *plus* the taxes assessed on the rent. Rent alone is not value, and it is the failure to see this which has caused so much difficulty in perceiving the incidence of direct taxes. Rent plus taxes is the value at the time of taking the premises. But there is something beyond this. There is the tenant's value. This is created in several ways. By sentiment, that is, attachment to premises long occupied, or dislike to change as a matter of expense. By trade, that is by the establishment of a particular business in particular premises, which creates for the tenant alone a value to him which might not be transferable to any other tenant, or which on the contrary, might be a valuable asset to transfer to another tenant. So that value may be expressed in the two cases to consist of the following separate items—

- (1) ground rent,
- (2) building rent,
- (3) rates,

and—

- (1) ground rent,
- (2) building rent,
- (3) improved rent or rents,
- (4) tenant's value,
- (5) rates.

Finally, we have the elements of *taxation*, namely—

- (1) rates levied on rental value,
- (2) rates or taxes levied by other means,
- (3) beneficial local expenditure met out of municipal property,
- (4) local expenditure, not beneficial, met out of rates;

the total of the first three being the potential benefit, conferred upon property, the net total of all four being the actual benefit conferred.

The key-note of the whole question is, I think, the definition of value, as including rent and taxes combined.

If this definition is not correct, it means that rent is really the equivalent of value, and that the occupier pays local taxes out of his income; that is, pays a local, as well as a national, income tax. But this supposition carries on the face of it too much. It means, if it means anything, that the occupier pays in the first place, in the shape of rent, the full value of his premises, which includes the value of the local services, and in addition to this value he pays a tax upon his private resources, his income, in fact, in the shape of the annual amount of the assessed rates.

But there is more behind this elementary objection than appears on the face of it. The facts of local taxation will help us to realise how difficult it is to conceive that the occupier allows himself to be taxed with the whole cost of local expenditure. To appeal to these facts I will take the case of London.

In London the rates of a very large amount of property are actually paid by the owners. This means that this property is let to tenants or held by the owners at its economic value, not at its rental value. Now, if we consider to what extent in London property is held at this economic value, we find that (this is the case with property below 20*l.* rateable value, property let out in tenements or flats, all public property, railway, gas, water, docks, and similar property, all large warehouses, banks, insurance offices, and general business premises in the City and immediate neighbourhood, all highly rented residential property. This, then, leaves for other consideration only the smaller property let on three years' agreements, ranging from 21*l.* to 60*l.* or 80*l.*, and the larger property let for occupation on 7, 14, or 21 years' leases.

Roughly speaking, I would estimate these two classes of property as follows:—

Property which is let or held at economic value, that is rent plus rates—22 million pounds.

Property which is let at rental value, that is, rent exclusive of rates—13½ million pounds.

Now this introduces an important factor in this question, namely, that there are two classes of property; one class let or held at economic value, that is, rent plus rates; a second class, let at rental value, that is, rent exclusive of rates. And it is inconceivable that the same law should not govern the incidence of rates on both these classes of property. To suggest otherwise would involve the conditions that the owners of 62 per cent. of London property are only able to get economic value for their property, while the owners of 38 per cent. of London property are able to get much more than economic value by the mere process of shifting the taxation off their own shoulders on to those of the occupiers.

If these considerations are worth anything it seems that the occupier does not bear the incidence of taxation—he pays for value received.

There is next the builder. He receives for his building the profits of the building trade, and any infringement upon these profits would cause a cessation of building and hence a rise in the rent of buildings until again the normal profits of the building trade were realised. Building rent, that is, the equivalent of the builders profits, does not, therefore, bear any part of the taxes assessed on rent.

If the builder does not, and the occupier does not, bear the incidence of taxation, of course it must fall upon the owner, or owners, of land values. I will attempt now to state the problem in terms which will allow it to be discussed in the easiest fashion.

First, the elements of the problem:

- (1.) Municipal expenditure, so far as it is proper and efficient expenditure, benefits the total property of the locality at least to the extent of the expenditure.
- (2.) The benefit obtained from municipal expenditure accrues to individual property in exact accordance with the value of services rendered—police protection, drainage, fire protection, lighting, road maintenance, poor relief would be of higher value to property in St. James's, Westminster, than to property in Poplar; while education, sanitation, public libraries, baths, would be of higher value to property in Poplar than to property in St. James's, Westminster.
- (3.) The value of the property is affected not only by (a) municipal expenditure, but also by (b) the general improvement or deterioration of the neighbourhood, (c) the improvement or deterioration of the business conditions, (d) special causes, such as proximity to certain classes of business, public-houses, laundry works, noxious trades, &c., or position in a business or residential thoroughfare.

- (4.) The value of the property as determined by all these causes is what the tenant pays for.
- (5.) This value is the amount of the rent and the amount of the rates and taxes calculated on the rent, for the tenant pays both these amounts from the same fund; that is, the gross profit of his business if the premises are used for business purposes; the net profits or personal income, if the premises are used for residence.
- (6.) The payment by the tenant for the premises is in accord with the benefit or value received, namely, value of the premises *per se* and value of the benefits attached to the premises from municipal expenditure, and, as it is made out of the same fund as payments for other commodities of value, so soon as such fund is diminished or increased by personal affairs the tenant moves either to property of less value or to property of greater value, thus creating a competition value for property.
- (7.) Payment for the benefits accruing to property from municipal expenditure is not in accord with the amount of benefit, but in accord with the rental value of property.

The first very important conclusion to be drawn from these facts is that one set of conditions (Nos. 1, 2, and 3) determines the value of property, and a totally different condition (No. 7) determines the method by which the benefit accruing to property from municipal expenditure is paid for.

The second conclusion is that the tenant gets equivalent value for his money (Nos. 4, 5, and 6).

I will now illustrate these propositions by examples, and will take two cases of property, valued originally at, say, 100*l.* per annum. In the one case the conditions assumed are—

Municipal expenditure increases the value of the property from 100*l.* to (say) 110*l.* per annum; general rise of property in the neighbourhood resulting from the rebuilding of property and the consequent exodus of poor people further increases it to (say) 140*l.*; special causes, such as the development of a new business centre, further increase it to (say) 150*l.* Therefore the tenant at competition value is willing to stand charged at 150*l.* for the property; that is, 150*l.* for value of premises *per se* and for value of municipal expenditure.

In the second case the conditions assumed are—

Municipal expenditure increases the value of the property from 100*l.* to 120*l.* per annum; general fall of property, owing to bad building and consequent decay of neighbourhood and influx of poor people decreases it to 90*l.*; special causes, such as laundries or other objectionable businesses being erected near it further decrease it to 70*l.* Therefore the tenant, at competition value, is willing to stand charged at 70*l.* for the property; that is, 70*l.* for value of premises *per se* and for value of municipal expenditure.

In the first case the rise is from the original 100*l.* to 150*l.* In the second case the fall is from the original 100*l.* to 70*l.* But in both cases the benefit from municipal expenditure of 10*l.* and 20*l.* per annum respectively is contained in the value of the property.

In order to see exactly what happens it is best to put the examples into tabular form, as follows:—

—	Original Value.	Increase by Municipal Expenditure.	Effect of General Conditions of Property.	Effect of Special Causes.	Total Value as Altered.	Payment made for Value.	
						Rates at 5 <i>s.</i> in the <i>l.</i>	Rent Received.
a	£ 100	£ +10	£ +30	£ +10	£ 150	£ 30	£ 120
b	100	+20	—30	—20	70	14	56

I will first show the course of events as regards the tenant:—

In each case the tenant pays only for what he actually receives in return, namely, in case (a) a house and site worth 140*l.* and municipal services worth 10*l.*, together 150*l.*; but he pays for this in two sums of 120*l.* as rent, and 30*l.* as rates; and in

case (b) the tenant gets a house and site worth 50*l.* and municipal services worth 20*l.*; but he pays for this in two sums of 56*l.* rent, and 14*l.* rates.

Then as to the owner:—

In the first case, (a) the owner should receive the total value, 150*l.*, less 10*l.* cost of the benefit to his property by municipal expenditure, or 140*l.*; but he only receives 120*l.* Therefore he pays 10*l.* in payment for municipal services, and 20*l.* as the result of those services being paid for by equal rating; that is to say, his true tax is 20*l.* In the second case, (b), the owner should receive the total value 70*l.* less 20*l.*, the cost of the benefit to his property by municipal expenditure, or 50*l.*, but he actually receives 56*l.* Therefore he pays 20*l.* in payment for municipal services, and receives, by the taxation of other owners, 6*l.* as a contribution to such payment, making his net payment for services, 14*l.*

It seems clear from these two cases that the point turns upon which party, owner or occupier, feels the result of taxation, has, in other words, to pay for a service at taxation value, and not at economic value. The examples show that the movements caused by taxation take place in the transactions relating to ownership, and not in the transactions relating to occupancy, and that, therefore, the effect of charging benefits according to taxation falls upon the owner and not upon the occupier.

An analysis of the conditions attached to rent and to assessed rates may be given as follows:—

- (a.) The economic value of premises is paid by the occupying tenant, that is, he pays the amount of the economic value of the premises for the user thereof, and in return for the value of the premises to him.
- (b.) The economic value consists of two elements, viz., rates or taxes paid to municipalities or the State, and rent paid to the owner.
- (c.) Rent consists of two elements, namely, the profit on the building and the balance left after allowing for this profit.
- (d.) The profit on the capital cost of building is governed by ordinary economic laws, and remains at a reasonably fixed amount according to the profits of the building trade in relation to other trades.
- (e.) The amount of the site value is determined by circumstances which are frequently changing, being affected by questions of neighbourhood, health, municipal operations, &c., but the amount of the site value included in the rent is fixed from time to time by lease or agreement.
- (f.) The total amount of the combined elements (taxes, building profit, and site value rent) included in economic value must be limited by the bounds determined by economic value. But of this total amount, rates and taxes are determined arbitrarily according to the requirements of the municipality or the State, and not according to the economic value of premises; building rent is fixed according to economic conditions (see *d.*); and site value therefore remains as the only fluid element to give way to the pressure of the two elements above it.
- (g.) Site value included in the rent, therefore, is affected by the pressure of increased rates and taxes or by the relief from decreased rates and taxes, as one of the changing circumstances which determine its amount (see *e.*), and it must equally have been affected by the original imposition of rates and taxes.
- (h.) As the municipality or State intercepts from economic value the amount of the rates and taxes, and therefore leaves only the balance as rent for the landlord, the whole of the economic value does not go and has never gone to the landlord.
- (i.) The expenditure by the municipality or State improves property, and the rates and taxes intercepted from economic value are the cost of such improvement properly falling upon owners.
- (j.) The amount so falling upon owners is not a measure of a loss incurred by the owners, but of a charge incurred by the municipality or State on behalf of owners, which has the effect of increasing the value of the property.

This analysis of the relationship between rent and assessed rates shows that the occupying tenant pays both rent and rates from the same fund, but pays them in return for value received. So long as he receives value in return for his money he is not charged with a tax, but with a payment for value. The incidence of the rates, therefore, as rates, is entirely clear of the occupying tenant. The analysis next shows that rates are intercepted from economic value in return for services rendered to property. That these services are real services is shown by the fact that in spite of increased rates the value of property is raised. This is true equally of town and

rural property. The rise in value shows itself openly in town property. In the case of rural property it is a set-off against deterioration from other causes; property that was not drained, where sanitation and police and roads were not attended to, would fall in value to lower depths than property which had benefited from all these causes, and in discussing the fall in value of rural property, care must be taken to examine the fall after taking into due consideration the rise which is too often neglected. The services rendered to property by the expenditure of local authorities are therefore rightly charged upon property, and the particular element in rent which bears the charge is that element which is most easily affected by influences—namely, site value.

The reason that taxation falls upon owners of site value is that site value attaches to itself all the benefits which arise from local expenditure, all the benefits, therefore, which an occupier is willing to pay for in connexion with his habitat. In this way site value and the value of municipal services become practically undistinguishable one from the other, and accrue to the benefit of the owner of property before they are redistributed to the occupier of property. When a person takes a house, whether for residential or for business purposes, he takes it with certain rights attached to it—rights of sanitation, fire protection, water supply, public lighting, police protection, protection from indigent poor and the insane, rights of public education, rights of intercommunication, and so on. He wants all these rights for the benefit of his person, of the persons of his family, and of his property; but he can only obtain them as an occupier. As a mere personality he does not exist in respect of local government. He must be encased, as it were, in a habitat, and thus the habitat is not merely a plot of ground with a building thereon, but a plot of ground, *plus* a building, *plus* various attached services which tend to make the habitat what it is. Thus the services are local services in a special sense. They can only be used locally. They are only of value locally. When a person ceases to be a resident of a locality he ceases to benefit from the local services of that locality, and receives the benefit from the local services of another locality. Wherever he may be he is protected by the State laws of his country, but the State cannot secure for him the benefit of its own system of local services if he chooses to reside in a distant country. While State government confers personal benefit without regard to place of residence, local government can only confer personal benefit by means of place of residence. Of course the fact that in all civilized countries the services administered by localities are administered pretty equally all over the country tends to produce a certain sense of general personal benefits, apart from residence in a particular locality. But the actual personal benefit thus conferred is not a measurable quantity. What is measurable to some extent is the benefit conferred upon property through it being the only medium by which the benefits of local services reach the person. It is the aggregate of properties with which local taxation has to deal, not with the aggregate of persons—with the tangible visible object of taxation, as it has come to be styled—and it is upon the properties that the taxation is charged, upon the assumption that they benefit from expenditure out of local taxation in proportion to their rental value. But the benefits are paid for by the occupier, not according to the amount charged upon the property, but according to the benefits actually conferred upon the property, partly in rates paid to the governing authority and partly in the balance of value (namely, rent) paid to the owner of the property. The occupier pays for local services at the value of the benefit to him; the owner pays for local services at the taxation charge on his property.

This theory does not apply to any increase or decrease in rates which takes place while a tenancy agreement is in force. When rent is fixed for a period of years, any alteration in rates cannot, of course, affect the owner. An increase falls, for the time being, upon the tenant, or a decrease goes to his relief, but as soon as the lease falls in, the new level of the rates is taken into account in fixing the rent for the new period.

Question 6.—(a.) I confess that the incidence of the Inhabited House Duty has always occurred to me to be a problem of considerable difficulty, but on the whole I am inclined to think that, inasmuch as local rates for local services are taken into account when the value of premises to the occupier is being ascertained, the fact of there being another tax, although not for local purposes, levied upon rental value, to be paid by the occupier (and, in direct contrast to the Imperial income tax, levied at the same time and by means of the same demand note, not to be charged back upon the owner) causes the house duty to fall upon the owner rather than upon the occupier. I put this as a general proposition, with the qualifying remark that

individual circumstances may affect this general rule and cause the Inhabited House Duty to be the marginal tax within which owner and occupier give and take as the question of value comes up from time to time, without causing an alteration in conditions of tenancy.

(b.) I think that rates levied on houses and trade premises fall upon the owners of site values in accordance with my answer to No. 5.

(c.) I think that rates on agricultural land fall upon owners of site value.

(d.) I think that taxes on transfer of property fall upon the person from whom the transfer is made.

(e.) I think that a tax on trade profits would fall principally upon the income of the trader, who would be able to shift a proportion, varying under different circumstances, upon the consumers who are his customers.

(f.) I think that the death duties fall upon the property of the dead owner, and thereby decrease the value of the property coming to his successors, by inheritance or by legacy.

Question 7.—I have practically answered this question on page 241, "When a person takes a house . . . apart from residence in a particular locality," the criterion being that the purposes for which taxation should be raised locally should be services which can only be made available through residence, and hence confer benefit upon property in the several localities in which the services are administered, while, on the other hand, the purposes for which taxation should be raised by the central government should be services which are available through the person of the subject wherever he may reside.

Question 8.—I think that the two kinds of purposes should be kept entirely distinct, and that taxation and administration should be in the same hands; and I am strongly of opinion that in no case should expenditure for local purposes be partly borne by the central government. But, on the other hand, I think that the development of local services may approach the stage when such services become Imperial instead of local. I would instance, for example, the maintenance of prisons, which was a local service until the Act of 1877 was passed. The clauses of this Act set forth in a singularly clear way the transition from local to Imperial purposes (see *Principles of Local Government*, pp. 199-200). In the same manner I am inclined to believe that the three important services of poor law, education, and police are gradually becoming, if they have not already become, Imperial services. Whenever the stage of development from local to Imperial service has been reached the transfer should be made to Imperial taxation and administration.

Question 9.—I do not think that local rates should be divided between owners and occupiers of real property, but that the whole of local expenditure should be charged upon the owners of site values.

Question 10.—I think that ground values should be rated directly for *all* local services, and for this purpose the valuation lists should contain only the site value of each property, together with the names of the owners of such site value and the amount held by each owner, so that the taxation should fall upon each owner in proportion to the amount held by him.

Question 11.—I think that the rent which could be obtained by an owner of land or other hereditaments would be decreased by an increase in an old rate and by the imposition of a new rate, and increased by the reduction or abolition of a rate, on the following condition: that the increase or decrease of rent would take place when old conditions of tenancy were being revised and new conditions of tenancy entered into.

Rent, according to my theory, represents a portion of the value of property, the entire value of the property being dependent upon many considerations which are outside the question of the incidence of local taxation.

Question 12.—If the occupier were allowed to deduct taxation from rent the amount of the rent, when a revision of the tenancy took place, would be increased to the amount of the economic value of the premises, if the whole amount of taxation were deducted and proportionately if only a portion of taxation were deducted. Assuming that no other element of value affected the matter it may be shortly stated that if taxation were deducted from rent, rent would increase by the amount of taxation deducted.

Question 13.—I think the differential treatment of different classes of property is simply a bad attempt to remedy the evils of the present system of valuation of property, whereby owners of property in poor neighbourhoods, where no increment of value has taken place, are rated upon the same basis as owners of property where large increments have taken place. Rateable value, upon which the rating is based, is arrived at by taking rental value of both land and building and deducting a uniform percentage from the total "On account of repairs." But repairs are only possible to the structure and not to the site. Where the proportion of value between structure and site is the same in every part of the locality, as it may be, perhaps, in rural and undeveloped districts, no great harm is done by making a uniform reduction all the way round. But where, as in towns and great developing centres, the proportion of value between structure and site is very different, very great injustice is done. For example, the land value of the City of London may be estimated at 3,923,000*l.*, and the building value at 1,500,000*l.* The deductions for repairs according to the legal standard amount to 927,000*l.*, but if deducted from buildings only would amount to 257,000*l.*; in other words the City of London is assessed at 670,000*l.* too little. The land value of St. James's, Westminster, may be estimated at 424,000*l.*, and the building value at 540,000*l.* The deductions for repairs amount to 162,000*l.*, whereas they should amount to 91,000*l.* These are two of the most valuable sites in London, and I will contrast them with two of the poorest—Poplar and Mile End. The land value of Poplar may be estimated at 88,500*l.*, and the building value at 394,000*l.* The deductions for repairs amount to 147,000*l.*, whereas they should be 120,000*l.* In Mile End the land value may be estimated at 95,000*l.*, and the building value at 398,000*l.* The deductions for repairs are 94,000*l.*, whereas they should be 74,000*l.* The following Table shows these facts in concise form :—

	Site Value.	Building Value.	Amount deducted for Repairs.	Amount which ought to be deducted.	Excess Deductions from Site Value.	Rates which Site Values thus escape paying.	Percentage of excess Deductions to Total Value.
	£	£	£	£	£	£	
City - - -	3,923,000	1,500,000	927,000	257,000	670,000	167,500	12
St. James's - - -	424,000	540,000	162,000	91,000	71,000	14,200	7
Poplar - - -	88,500	394,000	147,000	120,000	27,000	10,800	5
Mile End - - -	95,000	398,000	94,000	74,000	20,000	7,000	4

It will be seen that the site value of the City is greater than the building value, that the site value of St. James's is 80 per cent. of the building value, of Poplar, 22 per cent., and of Mile End, 24 per cent. The excess deductions for repairs become deductions from site value, and represent the amount of site value which escapes taxation altogether. This causes injustice all round. It relieves the City from 52,000*l.* which it ought to pay to the county authorities, and St. James's from 2,500*l.*; while this relief to the wealthy centres causes an increased burden upon the poorer centres, Poplar having to pay 500*l.* in excess of its fair quota and Mile End 2,000*l.*

This, I think, is one of the great inequalities of the present system. It is an inequality which operates chiefly between the rating units. But there is an inequality in the present system which operates upon individual properties. I will give an example, as follows :—

Year.	Ground Rent.	Improved Rent.	Building Rent.	Total Rent.	Taxation.	Total Value of Premises.	Site Value.
	£	£	£	£	£ s.	£	£
1818 - - -	20	—	120	140	15 0	155	35
1843 - - -	20	15	120	155	18 0	173	53
1850 - - -	20	260	120	400	60 0	460	340
1870 - - -	20	360	120	500	87 10	587	467
1885 - - -	20	460	120	600	125 0	725	605
1890 - - -	20	510	120	650	160 0	810	690
1896 - - -	20	510	120	650	184 0*	810	690

* 24*l.* of this, that is, the increase of rates, is paid by the tenant, and is not represented by value.

The total taxation in this case is 184*l.*

Of this 15*l.* falls upon ground rent (ground rent having been fixed when rates upon the premises were 15*l.*); 145*l.* upon site value (that is, in 1890, when site rent was last fixed by lease); and 24*l.* upon the tenant's income (that is, the increase of rates since 1890, when rent was last fixed).

The proportions of taxation falling upon the several interests concerned are therefore as follows:—

- (a.) On the original ground value of 35*l.*, a tax of 15*l.* = 8*s.* 7*d.* in the pound.
- (b.) On the improved site value of 655*l.*, a tax of 145*l.* = 4*s.* 5*d.* in the pound.
- (c.) On the tenant's income, a tax of 24*l.*, for which he receives no equivalent.

Inequalities are here patent. The taxation of the original ground value may be accepted as the price the owner was willing to pay for the deferred value which would accrue to him at the falling in of the lease. But the taxation of the improved site value not only escapes its legitimate burden of increased taxation, which falls upon the tenant, but does not bear its due proportion of the total taxation, but only such a proportion as happens to fall upon it after assessing taxation upon the false basis of including building value with site value, and after allowing all sorts of relief to taxation of site values by other systems of taxation, namely, indirect taxation and appropriations from Imperial taxation.

There is another important aspect in which the present system tells against the tenant. Property is taxed so unequally that it is allowed to stand for occupation in any condition. Owners of poor or slum property and owners of ordinary villa property shirk their responsibilities to an enormous extent. The value which the tenants pay for is in respect of a theoretically perfect article; they receive in return a demonstrably bad article, and the excessive burden of taxation which falls upon site values of unimproving property is thus shared partly by the owner and partly by inroads upon the standard of comfort adopted by the tenants. These inroads upon the standard of comfort increase until they produce not only structurally bad property but sanitarily bad property, and in order to correct this state of things additional taxation is imposed under the Public Health Acts; in fact, the process is to throw off legitimate owners' charges at the poorest end of occupied property and re-impose it as a tax upon the richer end. This tax would be altogether obviated if site values were properly assessed, because owners could then be compelled to let for occupation fit and proper houses.

Question 14.—I think there are no other proper methods of raising taxation for local purposes than by rates on site values.

Question 15.—The only additional observation which I have to make is that the question of incidence of taxation becomes a comparatively simple matter so soon as it is recognised that local taxation is the legitimate burden upon site value imposed in return for benefits received. It is from this point that the consideration of the incidence of Imperial taxation should start. It should not include the incidence of local taxation as a part of the question. Imperial taxation may be made to fall upon the several interests in any manner that is deemed fair and proper without having regard to the fact that site value already bears the burden of local taxation.

Answers by Mr. J. W. S. Callie.

No. 1.—The classification seems a good one as a basis, though it may require to be altered, as in Sir Edward Hamilton's Memorandum, in order to find the real incidence of the various taxes upon individuals.

No. 2.—So far as I can judge, it is complete.

No. 3.—Yes. I think it is correctly placed.

No. 4.—The Second, Third, and Fourth Canons of Adam Smith are good, but I do not think the first has, necessarily, connexion with justice in Taxation. I prefer the test laid down in Montesquieu's "Spirit of Laws," Book XIII., Chapter I, *viz.*, "The public revenues are not to be measured by what the people are able, but by what they ought to give."

No. 5.—In regard to this Question, and also to Nos. 6, 11, and 12, I agree generally with the views laid down in Sir Edward Hamilton's Memorandum as to the incidence of taxation. I do not agree, however, with his remarks upon page 52, in regard to Imperial Taxation not inflicting any strain upon the community. The Report of the Commissioners upon the financial relations between Great Britain and Ireland, while confined to the discussion of the incidence of taxation upon the two countries now as compared with what was intended by the Act of Union, proves conclusively, in my opinion, that the incidence of the Imperial taxes is most unjust as between class and class, and not merely between country and country. This is owing to the large amount raised in customs and excise duties, and it is only because the people who pay do not know that they are paying that it is not more generally objected to. Direct taxes are grumbled at. The income tax is as keenly felt as the estate duty. Nor do I agree that "the ratepayers are always demanding to be relieved at the expense of the taxpayers." It is more the demand of a small but noisy section than of any considerable body of the people.

No. 6.—(a.) I think the Inhabited House Duty practically falls upon the occupier of the house.

(b.) It is impossible to say upon whom these fall. It all depends upon the circumstances. When anyone takes a house or shop he will add the amount of rates to the rent in order to find out how much he will have to pay altogether. When, however, he has formed a connexion in his business, he cannot afford to remove unless under great pressure, and the increase of rates would need to be very heavy to cause him to give notice that he would remove unless the rent were correspondingly reduced. The same applies, though in a lesser degree, to the occupier of a private house. The higher the rates are in any locality, the less people can afford to pay in rent, but, when once a district gets inhabited, any increase of rates will be almost entirely paid by the occupiers.

The close connexion between rates and rent and their reaction upon each other, has caused the Bureau of Labor Statistics of Illinois, in their Report on "Taxation," to class ground rents—in the American "rent for site," not the restricted British, sense of the term—as "Private Taxes." While we may dispute as to the amount of rates that fall upon landowner and tenant, respectively, in any particular place, it cannot be disputed that were any millionaire to pay the whole of the rates of any town, provide it with parks, &c., and do all in his power to make it a pleasant place to live in, the landowners, as soon as the arrangements with their tenants could be ended, would be able to appropriate the whole benefit, in the shape of increased rentals.

(c.) I agree with what Mr. Chaplin said, in the House of Commons, on February 27th, 1891,—"The effect on the (land)owner is that if rates are high he gets less rent, and if they are low he gets more rent." It is in this sense only that the landowner can be said to bear the burden of rates.

(d.) These fall upon the owner transferring the property.

(e.) These fall upon the trader.

(f.) These fall on the heir of the property taxed.

No. 7.—Generally speaking, where money is expended in a locality for the benefit of that locality as such, the taxation ought to be raised for such expenditure from that locality; while money expended for the benefit of the nation at large, and not for the inhabitants of any locality in particular, ought to be collected over the whole nation. Thus water, sewers, &c., are required for the inhabitants of localities as such, and the cost ought to be defrayed from local taxes, while expenditure such as for education ought to be a national charge, since the children are educated, not because they live in any special locality, but because they are the citizens of the future, and it is to the benefit of the nation that its citizens should be educated. The line between the two expenditures, while distinct at any particular time, is not rigidly fixed, for, with progress the classification may alter. Thus the poor rate is a local tax, but should old age pensions come into operation, they would, to a large extent, supersede the poor relief, and yet these would, in all probability, be a national tax.

No. 8.—Yes, as far as possible, but administrative economy may render it advisable, sometimes, that the expenditure of money for "national" purposes, as defined above, be left in the hands of the local authorities.

No. 9.—(See answer to Question 10.)

No. 10.—Yes. Personally, I would make land values *the source* of local revenue. I would do so because land is different from every other form of property, if indeed, it—any more than the possession of slaves—can be rightly termed “property.” It is the only source from which wealth can be produced, and, from whatever point of view we look at it, is clearly intended for the use of all, and not merely to be a rent-yielding machine for a privileged few. By refraining from taxing land values, we allow a landowner, if he thinks fit, to prevent the people having access to the use of “his land.”

The full case for the taxation of land values cannot be gone into in connexion with taxation alone, for the social results are as great as the fiscal ones. But, even from the taxation point of view, land values seem the natural source from which to raise the revenue for the public needs. Especially is this the case in regard to local taxation, since this local expenditure, in almost all cases, increases the value of the land in the locality.

The need for local taxation only arises with the growth of population. The greater that growth, the greater the need for local revenues. But as that growth increases so, step by step, the value of the land increases also. Nor is this value caused by the owner of the land. If it were, it would not be fair to tax it especially. It is created solely by the presence and industry of the people, and would exist even though there were no landowner, as such, in existence. Take away the landowner; still the land value remains; but take away the population and leave the landowner, and the value has gone. Therefore, in taxing land values, we are not taking away from the landowner anything that he has produced. We are inflicting no harm upon him.

But, when the representatives of the community refrain from taking for the communal needs the value created by the community that attaches to the land, they are, thereby, inflicting a grievous wrong upon all, especially upon the poorest classes. The people are doubly taxed; first, they pay to the landowner that which would pay all their local needs, and, secondly, they have to pay another tax to the local authority.

The desirability of taxing land values is now being urged by a large section of the people, and feeling that the Members of the Royal Commission on Local Taxation would like to have the best exposition of the grounds upon which it is urged, I have respectfully taken the liberty of appending the following summary of reasons, from the pen of one who has been the leader in this agitation; I refer to the late Mr. Henry George. It was written for the “Financial Reform Almanack” by him in response to a request for a definite statement of his reasons for urging this tax. Personally, I entirely agree with these reasons, nor have I seen in the criticisms of Professor Seligman, the late Professor Thorold Rogers, or any of the opponents of this method of taxation—though Professor Thorold Rogers can hardly be said to be an opponent of Mr. George’s views—anything to shake my belief in its justice or advisability.

I would point out that the Financial Reform Association, of which I am Secretary, though in favour of the principle of the taxation of land values and of opinion that it should be immediately applied for local purposes, in place of the vicious system of grants-in-aid, is not in any way committed to that or any other form of taxation being the sole source of revenue.

The remaining questions are, I think, dealt with, as far as I can, in the reply to No. 5.

J. W. S. CALLIE.

EXTRACT referred to in No. 10.

I shall briefly state to the readers of the “Financial Reform Almanack” the fundamental principles of what we who advocate it call the single tax.

We propose to abolish all taxes save one single tax levied on the value of land, irrespective of the value of improvements in or on it.

What we propose is not a tax on real estate, for real estate includes improvements. Nor is it a tax on land, for we would not tax all land, but only land having a value irrespective of its improvements, and would tax that in proportion to that value.

Our plan involves the imposition of no new tax, since we already tax land values in taxing real estate. To carry it out we have only to abolish all taxes save the tax on real estate, and to abolish all of that which now falls on buildings or improvements, leaving only that part of it which now falls on the value of the bare land. This we

would increase so as to take as nearly as may be the whole of the economic rent, or what is sometimes styled the "unearned increment of land values."

That the value of the land alone would suffice to provide all needed public revenues—municipal, county, and national—there is no doubt.

From the single tax we may expect these advantages:—

1. It would dispense with a whole army of tax-gatherers and other officials which present taxes require, and place in the treasury a much larger proportion of what is taken from the people, while, by making government simpler and cheaper, it would tend to make it purer. It would get rid of taxes which necessarily promote fraud, perjury, bribery, and corruption, which lead men into temptation, and which tax what the nation can least afford to spare, honesty and conscience. Since land lies out of doors, and cannot be removed, and its value is the most readily ascertained of all values, the tax to which we would resort can be collected with the minimum of cost, and the least strain on public morals.

2. It would enormously increase the production of wealth—

(a.) By the removal of the burdens that now weigh upon industry and thrift.

If we tax houses, there will be fewer and poorer houses; if we tax machinery, there will be less machinery; if we tax trade, there will be less trade; if we tax capital, there will be less capital; if we tax savings, there will be less saving. All the taxes, therefore, that we would abolish are taxes that repress industry and lessen wealth. But if we tax land values there will be no less land.

(b.) On the contrary, the taxation of land values has the effect of making land more easily available by industry, since it makes it more difficult for owners of valuable land, which they themselves do not care to use, to hold it idle for a larger future price. While the abolition of taxes on labour and the products of labour would free the active element of production, the taking of land values in taxation would free the passive element by destroying speculative land values, and preventing the holding out of use of land needed for use. If any one will but look around to-day, and see the unused or but half-used land, the idle labour, the unemployed or poorly employed capital, he will get some idea of how enormous would be the production of wealth were all the forces of production free to engage.

(c.) The taxation of the processes and products of labour on the one hand, and the insufficient taxation of land values on the other, produces an unjust distribution of wealth which is building up in the hands of a few fortunes more monstrous than the world has ever before seen, while the masses of our people are steadily becoming relatively poorer. These taxes necessarily fall on the poor more heavily than on the rich; by increasing prices, they necessitate larger capital in all businesses, and, consequently, give an advantage to large capitals; and they give, and in some cases are designed to give, special advantages and monopolies to combinations and trusts. On the other hand, the insufficient taxation of land values enables men to make large fortunes by land speculation and the increase in ground values—fortunes which do not represent any addition by them to the general wealth of the community, but merely the appropriation by some of what the labour of others creates.

This unjust distribution of wealth develops on the one hand a class idle and wasteful because they are too rich, and on the other hand a class idle and wasteful because they are too poor; it deprives men of capital and opportunities which would make them more efficient producers. It thus greatly diminishes production.

(d.) The unjust distribution which is giving us the hundred-fold millionaire on the one side and the tramp and pauper on the other, generates thieves, gamblers, social parasites of all kinds, and requires large expenditure of money and energy in watchmen, policemen, courts, prisons, and other means of defence and repression. It kindles a greed of gain and a worship of wealth, and produces a bitter struggle for existence which fosters drunkenness, increases insanity, and causes men whose energies ought to be devoted to honest production, to spend their time and strength in cheating and grabbing from each other. Besides the moral loss, all this involves an enormous economic loss which the single tax would save.

(e.) The taxes we would abolish fall most heavily on the poorer agricultural districts, and thus tend to drive population and wealth from them to the great cities. The tax we would increase would destroy that monopoly of land which is the

great cause of that distribution of population which is crowding people too closely together in some places and scattering them too far apart in other places. Families live on top of one another in cities because of the enormous speculative prices at which vacant lots are held. In the country they are scattered too far apart for social intercourse and convenience, because, instead of each taking what land he can use, every one who can grabs all he can get, in the hope of profiting by the increase of value, and the next man must pass farther on. Thus we have scores of families living under a single roof, and other families living in dug-outs on the prairies afar from neighbours—some living too close to each other for moral, mental, or physical health, and others too far separated for the stimulating and refining influences of society. The wastes in health, in mental vigour, and in unnecessary transportation result in great economic losses which the single tax would save.

Answers by Mr. C. P. Sanger.

Answer to Questions 1, 2, 3.—Before proceeding to classify Imperial taxation, it would be well, in the first place, to define what is meant by taxation, and, in the second place, to determine what items of the Imperial revenue fall within this definition. We shall then have a list of items of Imperial taxation which we wish to classify.

At the outset we are met with a difficulty in the use of the words "taxation" and "tax." They are used in both a broad and a narrower sense. Sometimes the word tax is used in contradistinction to the words "rate," "duty," "Government profit," and the like, and such distinction has had considerable historical importance; on the other hand, as in the expression "Imperial taxation," the word taxation is used to cover, not only taxes, but also duties and other exactions of the Imperial Government. It would therefore, I think, be convenient to have some word other than "tax" when we mean to use it in an extended sense; and, with great diffidence, I venture to suggest the expression "Public burden." The phrase is an awkward one, but it is useful in so far as it reminds us that a tax, rate or duty is essentially a burden, and that, in so far as it is not a burden, it should be omitted from our classification. It also is wide enough to sweep in such items as the large profit the Government makes by the Postal monopoly, which is not conveniently called a tax, and yet is burdensome. Further, it would be well to restrict our inquiries to those burdens whose incidence is on the inhabitants of the United Kingdom, and also to exclude from our consideration, so far as possible, those burdens which are not really burdens, but fees for services rendered.

Public burdens are called Imperial when they fall on the inhabitants of the United Kingdom, and are collected by a central authority. This use of the word Imperial is most curious, but appears to be sanctioned by usage. They are called local if exacted only from a portion of the United Kingdom.

The first question to be settled is, "What are the Imperial public burdens in a given year?" To answer this we turn to the public accounts. It is practically certain that the items of receipt under the heads of Customs, Excise, Death Duties, Stamps, House Duty, Property and Income Tax represent public burdens; and that, on the other hand, the receipts from Crown lands and Suez Canal shares, do not. The difficulties begin when we consider the Land Tax, the Post Office profits, and the miscellaneous items. There are also the appropriated items. In Sir A. Milner's Memorandum the appropriated and miscellaneous items are neglected. It is very hard to say how far this is correct. That it is not strictly correct is, I think, obvious; but after considering the details, I find that, in my opinion, most of these items are not public burdens, and therefore I agree in omitting them. I cannot help thinking, however, that it is a step which should not be taken except after the most careful consideration.

With regard to the Postal profits, they are most clearly a burden. If the Post Office was carried on in such a way that it only just made a profit, I do not see that anyone could feel aggrieved. The Government, however, use their monopoly to make an enormous profit; this profit is a burden.

With regard to the Unredeemed Land Tax, I cannot see how it can possibly be considered a burden. When land is conveyed, enquiries are always made as to the Land Tax; and the purchaser knows that he is buying the land subject to it (if it is unredeemed). If the Unredeemed Land Tax is included, I cannot see why, on the one hand, anyone who has obtained money under a residuary bequest from a person who

in his lifetime redeemed some land tax, should not be now considered to pay land tax; or why, on the other hand, any rentcharge issuing out of land should not be considered to be a public burden.

I therefore propose to amend Sir A. Milner's list of Imperial public burdens by omitting the item of Land Tax.

It is useless to discuss the classification given in Table D. in an abstract way. The object of it is presumably to ascertain what proportion of the Imperial public burdens are levied in respect of rateable property. If this is the sole object, it would be simpler to classify Imperial public burdens merely into those in respect of rateable property, and those which are not. That is, I should keep column (1) as it is, and add the second, fourth, fifth, and sixth columns together, omitting the third column. This would simplify the Table, and avoid many subtleties. If, however, the Table has some further object beyond the one I have supposed, I cannot think that the classification is a very useful or happy one. No doubt it is easy to criticise any form of classification for our Imperial public burdens, yet I cannot but think that the classification proposed is open to at least as much criticism as any that has been suggested. Suppose, for instance, we are discussing the equity of our public burdens, it would be most important to distinguish between taxes on transferring property—that is, in carrying on a business, and taxing people for owning property—that is, because they are rich. This distinction is lost sight of in Table D. Or, again, what is property? Until we have distinguished property from commodities, the distinction between “incidental to property” and “in respect of commodities” is likely to be no distinction. As, however, the terms of reference of the Commission do not refer to the equity of our system of Imperial public burdens, except in so far as the receipts are paid over to local authorities and for local purposes, no good can be done by insisting on the difficulties incidental to the proposed classification. Nor, again, is it worth while to criticise the detailed figures until the precise meanings of the headings of the different columns are settled.

Answer to Question 4.—In the first place, I think it better to consider the system of taxation as a whole, and not to discuss in too great detail the fairness of each individual tax. Then, taking the system as a whole, we should aim at securing that classes of people of about the same income should pay about the same amount of taxes irrespective of their local position, their sex, the kind of property they possess, and, within certain limits, their general habits. Then people with different incomes should be taxed so as to make the sacrifice of each about the same. In our present state of knowledge we cannot lay down any certain rules for this, and therefore it is better to take the principle of Adam Smith and Bernouilli that (subject to a possible deduction from all incomes) the taxation should be proportional to the income. But one further proviso should, I think, be made that not the actual income earned, but the capitalised value of the probable income is a better measure of taxable capacity. In so far as certain taxes are put on for moral, and not financial, reasons, they should be considered as fines, and not taxes. It is however, I think, of the utmost importance to consider in the first place what taxes are really burdens, and to apply the above tests to such burdens only. Those taxes or duties which are either in the nature of fees for special services rendered, or are in the nature of fines, must be tested by other considerations. In considering the equity of fees for special services rendered, I think the State should act as if it were a public company dealing in the commodities or services sold and subject to competition from similar public companies. Taxes in the nature of fines should be judged by the same principles (if any) as the other forms of punishment current in the country.

Answer to Questions 7 and 8.—The difficulty in deciding whether a public burden should be local or Imperial is not, I think, so much one of laying down a criterion, but of applying any criterion that we may adopt. In a few cases there is no difficulty. Probably everyone would admit that the cost of the Army and Navy should be an Imperial public burden, and that, on the other hand, the cost of (say) lighting the streets of a town should be a local public burden; but most of the cases that occur are intermediate ones. If a matter is really local, I think that the policy of giving Imperial grants-in-aid of it is most dangerous and objectionable. If, on the other hand, it is Imperial rather more than local, as education, there is, I think, much to be said in favour of Imperial grants supplemented by local public burdens and managed by local management. The best test in these cases appears to me to be one merely of administrative efficiency, and not of the equity of the burden as between the Imperial and local funds. Many matters are practically matters of Imperial interest, and yet are clearly better administered locally. In these cases local management with no local

burden might lead to wasteful expenditure, and therefore some part of the burden should be borne locally. How much is to be determined by experience. If an increase of the local burden would create a more efficient management, I should say that the local burden should be increased; if not, that the local burden is sufficient.

Broadly speaking, therefore, the present system of Imperial doles must be continued; but the local and Imperial contributions to any undertaking should be most carefully separated, and the question of the relative amounts of the local and Imperial contributions should be fixed in each case so as to obtain as much efficiency in management as possible.

Answer to Question 14.—Possibly the Inhabited House Duty could be made a local burden.

Answer to Question 15.—Referring to page 37 of Sir E. W. Hamilton's Memorandum, I doubt whether the distinction he draws between "onerous" and "beneficial" rates is a very useful one. If the benefit is one not obtained by a special person or persons, but by the locality generally—such as lighting the streets—it may be beneficial, and yet be properly called a local burden.

In England the receipts of the local authorities may be classified as follows:—

1. Public rates.
2. Government contributions (including receipts from local taxation account).
3. Tolls, duties, and dues.
4. Receipts from property and sales of property.
5. Fines, fees, and licences.
6. Revenue from waterworks, gasworks, markets, &c.
7. Repayments from private improvement works.

We want to know which of these items are burdens, and I think that sufficient accuracy is obtained if we say that item 1 is a local public burden, item 2 an Imperial public burden, items 3–7 not burdens at all, but fees for special services rendered. Again, in Ireland the receipts from rates may be classified thus:—

1. Grand jury cess.
2. Poor rate.
3. Town taxes.
4. Belfast water rate.
5. Rutland Square tax.
6. Dublin Police taxes.
7. Dublin Port and Docks Board taxes.

Of these, I think, we may take 1, 2, 3, and 6 to be burdens; 4, 5, and 7 not to be burdens.

C. P. SANGER.

ACKFD
103 04