TAXATION OF LAND VALUES AND THE SINGLE TAX

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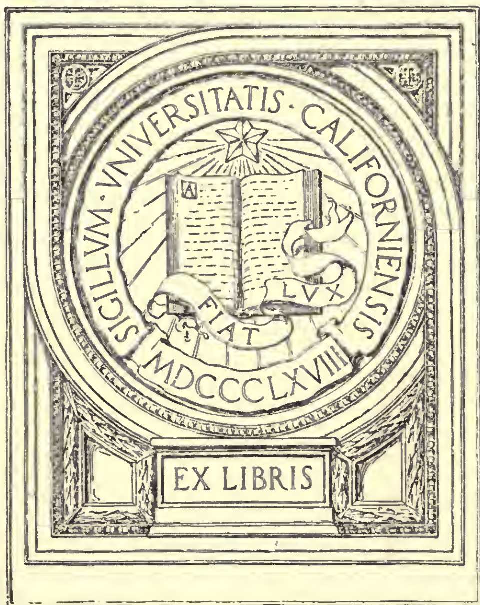

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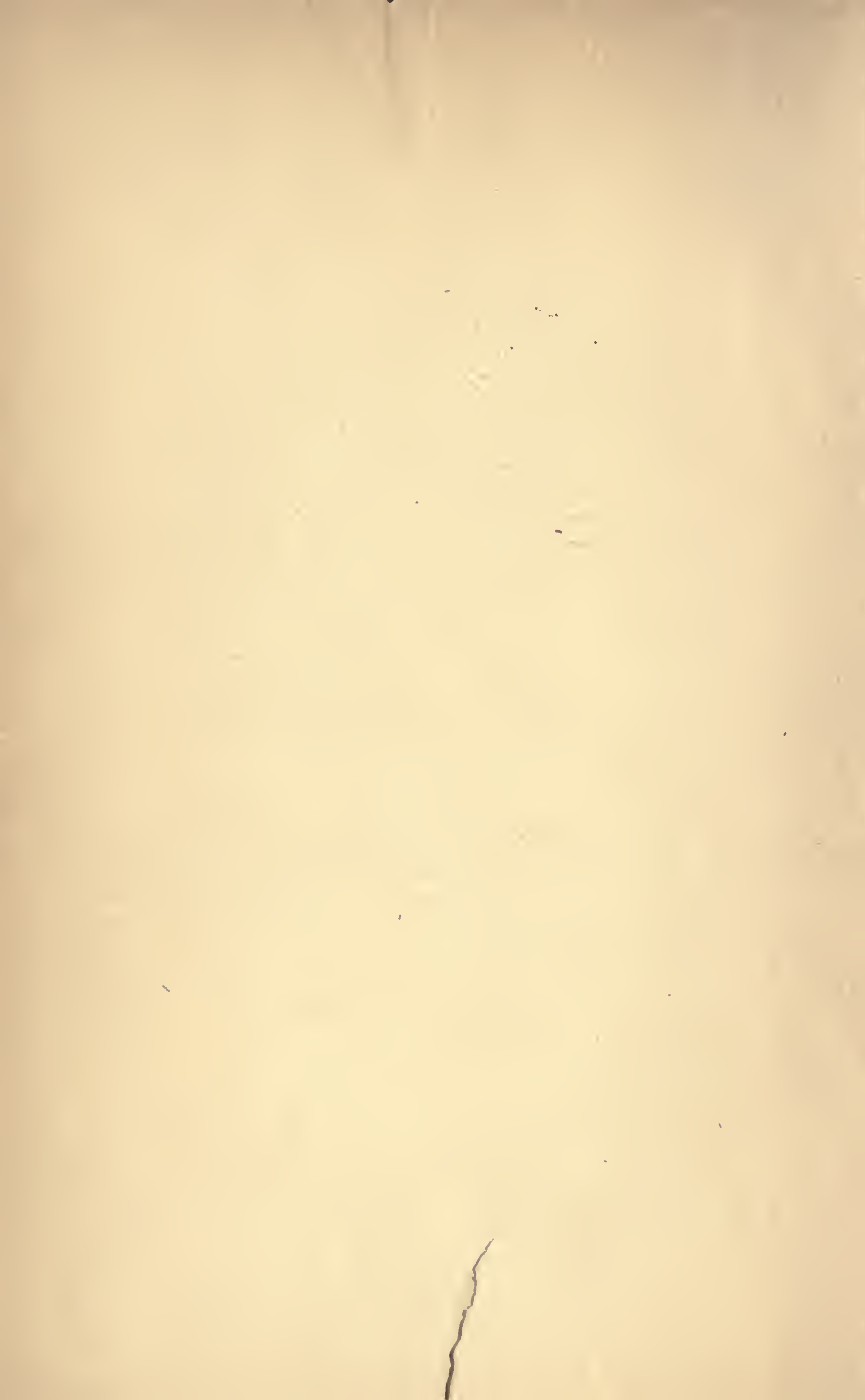

TAXATION OF LAND VALUES AND THE SINGLE TAX.

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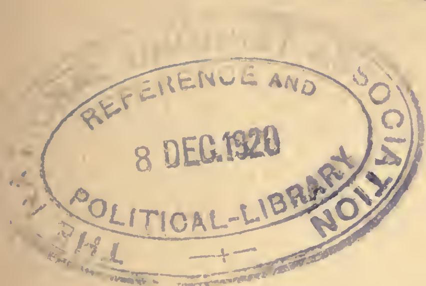
Taxation of Land Values and The Single Tax

By

WILLIAM SMART, LL.D.
Adam Smith Professor of Political Economy in the University of Glasgow

Glasgow
James MacLehose and Sons
Publishers to the University
1900



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PREFACE.

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THE present volume does not profess to be a contribution to economic science. It is simply an exposition of the recognised theory of taxation and the application of it to two concrete proposals for legislation.

It is written primarily for my fellow-citizens, to aid them in judging of a measure which their municipal representatives have pushed to the front. If I sometimes elaborate the obvious and discuss at length arguments which are generally dismissed as not worth a reply, it is because I have made it my business to ascertain what are the difficulties of the people on this subject, and have had three sources of ascertaining them—my students, newspaper correspondence, and personal discussion.

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It is a standard reproach to the economist that he "makes difficulties" and puts on the drag rather than applies the spur. I submit that this is very

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often the best service which the economist can render, and that it is certainly so in the present case.

I have to thank the Editor of the *Glasgow Herald* for his courteous permission to use articles on the Glasgow Bill contributed in the summer of 1899.

W. S.

UNIVERSITY OF GLASGOW,
January, 1900.

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"*Amid the clashing of divergent interests, and the endeavour of each social class to roll off the burden of taxation on some other class, we discern the slow and laborious growth of standards of justice in taxation, and the attempt on the part of the community, as a whole, to realize this justice. The history of finance, in other words, shows the evolution of the principle of faculty or ability in taxation—the principle that each individual should be held to help the State in proportion to his ability to help himself.*"—*Seligman*, *Essays in Taxation*, p. 21.

THE THEORY OF TAXATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[1] See *The Distribution of Income*, Book i.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I pay income tax at 8d. per £ of income. I pay poor rates at $4\frac{31}{32}$d. per £ of rental. I pay for gas at 2s. 2d. per 1000 feet. I pay 8s. 6d. for the upkeep of the path in front of my house. The payment of income tax is determined by the amount of my income. The payment of poor rates is determined by the amount of my house rent. I buy my gas as I buy my bread and butter. I pay for the path just what it costs to lay down two carts of engine ashes.

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

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

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

Of course, in such government goods, there is a

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

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

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

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

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

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

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

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

[1] *Works*, Vol. II., p. 344.

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

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

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

If we replace the expression by Ability to Contri-

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

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

contributions; and it is superfluous to look for a more ingenious or recondite ground to rest the principle upon."[1]

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

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

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

[1] *Principles*, Book V., II., § 2.

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

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

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

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

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

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

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

[1] "The State belongs as much to the life of every civilised man as his daily food or the air: without the State a civilised existence is

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

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

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

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

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

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

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

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

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

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

Glasgow, for instance, there is an agitation, which has considerable support, for free ferries across the Clyde, the reason alleged being that ferries are really bridges. At present thousands of working men cross the river several times a day, and pay a half-penny per journey: they pay for ferries as they pay for gas. But, if the ferries are made free, the working men who use the ferries will pay almost nothing, and I and other working men who never cross the ferry will pay, perhaps, a penny per pound on our rental. Again, with a Socialist majority on the Town Council, it is quite conceivable that, instead of running at a halfpenny a stage, the cars might be made free, and the expense charged on the ratepayer according to his rental. If this seems too ridiculous —the idea has already been ventilated—it is enough to remember that the government might have built schools all over the country and yet charged fees to cover the expense. Instead of this, I pay 11d. per £ for the free education of other people's children.

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

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

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

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

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

[1] *The History of Local Rates in England.*

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

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

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

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

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

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

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

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

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

[1] *Ibid.*, p. 132.

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

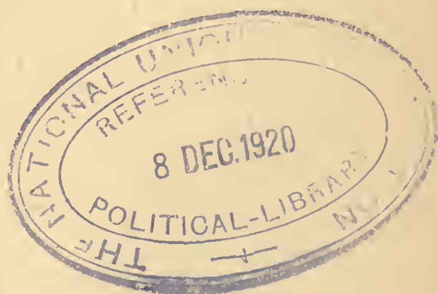
on income.[1] The Poor rate, for instance, might be described as even more of an imperial tax *in natura* than the payment for defence or justice, inasmuch as the service in question is not rendered to those who pay for it. It is in fact almost pure burden—the price we pay for our failures. The School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

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

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

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

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



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

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

THE TAXATION OF LAND VALUES

CHAPTER I.

INTRODUCTORY.

To most people taxation is a great mystery. To a few it is the most fascinating of subjects. There seems no middle course. Either a man has thought so much about it that his utterances are unintelligible to the people, or he cannot discuss it intelligently because he does not know its alphabet.

In this lies a great danger. We pay to the State, in its two branches of imperial and local government, considerably more than one-tenth of our entire annual income. It is a huge proportion; in spite of the enormous increase of wealth, it is an increasing proportion. The danger I refer to is that the people, feeling the increased burden, and conscious of their ignorance about the principles of taxation, may leave the matter to experts, and mistake for experts those who tell them that there is "a simpler, easier, and quieter way" of raising the necessary millions than by taxation.

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Of late years we have heard much of a proposal called the taxation of land values. It is a matter on which both municipal and parliamentary elections have been fought and won. I hope it is not impertinent to say that these elections have not settled the question. What "land values" are; why taxes should be levied on them; how they are to be levied on them—well, I do not think that all the election literature has left us much wiser.

Is the taxation of land values a mere election cry of the baser sort—an appeal to the cupidity of poor men as against the arrogance and the unearned gain of a powerful class? Or is it the case that there has been accumulating a fund of wealth which has not been contributing its due proportion to the funds required to carry on the great necessary organisation we call the government? Or is it that the economic resources of taxation have been exhausted, so that we must now find some particularly helpless class to tax? Or is it that certain landed classes have been benefiting in the past from taxation laid on others, and that in the future they are likely to benefit more? Or, finally, is it a proposal to change the whole time-honoured system of taxation, and place the burden of supporting the government on one set of shoulders, to the relief of all the others?

It is proposed to seek for the answer by examining two definite proposals for such taxation—the one emanating from the London County Council, the other from the no less famous Corporation of Glasgow.

CHAPTER II.

THE LONDON COUNTY COUNCIL RESOLUTIONS.

As is well known, the London County Council have had this matter before them for some years. In 1898 they drew up a series of resolutions for presentation to the Royal Commission on Local Taxation, now sitting, and instructed the extremely able Chairman of the Local Government and Taxation Committee, Mr. B. F. C. Costelloe, to appear and support them. The resolutions and the examination appear in vol. ii. of the Evidence.[1]

The London County Council are agreed that, in the interests of the city, they are called on, not only to keep up and improve their present services, but to increase them. Greater efficiency and cost of administration; specific new services discharged by public authority; great structural improvements such as streets, embankments, bridges, and drains: these involve "continual increases of charge."

How are these services to be paid? Taxation being a payment for service rendered, if the people

[1] It must be a matter of sincere regret to all interested in these proposals that, since this was put in type, we have to record Mr. Costelloe's death.

demand new services they must be prepared to pay for them. But, as things are, the rates are levied on the occupiers, and these rates amount to 6s. 8d. per £. They are already considered too high, and any attempt to increase them meets with most determined opposition from the occupiers. It is quite true that those who occupy houses are people who get value for their money when they pay rates; that they are benefited by the services for which the taxation pays—by police protection, by sanitation, by cleaning and lighting, etc. But they are not the only people benefited. The ground-owners benefit because, in London, they have let their land, not in perpetuity as in Scotland, but on lease. On the expiry of the lease they enter into possession of ground which, partly owing to the improvements effected by the municipality, has steadily risen in value during the currency of the lease. Take, for instance, the Thames Embankment. Here was an improvement which added greatly to the value of every building estate in the neighbourhood. But the money to pay for it came out of the pockets of the occupiers. Now, among the new demands made on the municipality, the most urgent and the most costly are "arterial improvements" of the same nature: for example, the widening of the Strand, new bridges, etc. Without, then, committing themselves to the statement that occupiers' rates will not be increased, the London County Council think it reasonable to throw some part at least of the new burden on the other class which always benefits to some extent from local taxation, and will, in this case, benefit very substantially—those who own the site,

the ground value. The first proposal, then, is to find the new source of taxation in this class, and to impose a new rate, to be called Owners' Tax, of 6d. per £ on what is to be hereafter known as the Site Value.

This site value is not to be based on any actual rental received, nor is it to be found by division of the rateable value. It is to be determined by a separate valuation of the ground as apart from the buildings or the use to which it may actually be put; it is defined as "the annual rent which at the time of valuation may reasonably be expected for the land as a cleared site if let for buildings by an owner in fee"—the value of the site, in fact, if the buildings were burned down and the site was put up at auction.

It is the case, however, that the owning of the site in London is usually divided among several classes, and the proposed tax is to be distributed among the several owners in proportion to their beneficial advantage. Take such a case as this.[1] A landowner leases his ground for ninety-nine years at £900 a year. He receives this ground-rent, not from the owner of the buildings erected thereon, but from a middleman who has taken the ground from the original landowner, spent a very large sum on the buildings, and leased the whole for a similar period to a buildings-owner, charging for the improved ground-rent £3000. This middleman, then, is also a ground-owner at one remove. The buildings-owner draws £26,000 of rent from the occupiers. If, in the future, the amenity of the locality increases, he

[1] The case is taken from the evidence of Mr. R. Vigers, vol. ii., p. 135.

gets an extra rent which is due not to the increase in value of the buildings but of the situation—that is, he also gets a benefit from the rise in value of the site. Last come the occupiers. They pay the rent, and all the rates and taxes. Mark that even they may have a beneficial interest in the site if they have a lease: they may have the advantage of a comparatively low rent compared with others. But it is not proposed to touch these last beneficiaries, for the reason, I suppose, that they seldom have a long lease, and that any addition in value goes to the advantage of the buildings-owner at the next letting time, when the rent is raised. But, as rents rise, the burden on the occupiers of course gets heavier and heavier, and it is these occupiers who are considered unable to bear any more.

To put it another way. The occupiers pay £26,000 of rental to the buildings-owner; of this the buildings-owner pays £3000 to the middleman as "improved ground-rent"; and the middleman pays £900 to the ground-owner. It is these various site-owners who are to supply the new fund.

The tax will be laid nominally on the occupiers, but they, if at a rack-rent, are entitled, without any power of contracting out, to deduct it wholly from their rents. In turn the buildings-owner deducts a proportion of the tax corresponding to what he pays to the middleman; and the middleman in turn deducts a proportion of the tax according to what he pays to the ground-owner. Thus, in our example, suppose the site value is assessed at £4000. The municipality gets—at 6d. in the £—£100 from the occupiers. But they deduct it from the £26,000 they

pay to the buildings-owner as house-rent. The buildings-owner in turn deducts £75 from the £3000 he has contracted to pay the middleman, thus paying £25 of the tax. The middleman in turn deducts £22 10s. from the £900 he has contracted to pay to the ground-owner, thus paying £52 10s. of the tax. Finally, the ground-owner pays £22 10s. of the tax.

Let us be quite clear, then, that this is a new price for new bread and butter; a new tax to be paid out of new service. In other words, the new improvements will put a new rental into the pockets of the site-owners; and, to tax them in this way, is to tax either on the principle of ability to pay or on that of benefit received, for in this case the two principles come together—the new benefit received creates a new ability to pay. The object, be it remembered, is "not to lessen the burden of the occupier, but to prevent that burden from increasing."

The answer which will be given to all this is that the site-owners are already paying their full share, and that to tax them by themselves will be double taxation. It is an old answer and a strong answer; but, as it is shown in almost every newspaper one opens that it is not understood by the people, and is slurred over by those to whom it is inconvenient, I make no apology for making it as clear as I can.

Several years ago I bought a house in Glasgow, and became liable for the feu-duty payable on the site. A few years after, I was called on to pay two years' feu-duty in one year—a "duplication." I was annoyed, and asked my lawyer what this meant.

He said, "I told you this duplication every nineteenth year was in the feu-charter: it is your own fault if you did not calculate on it." Again, just this month, I got a letter from a legal firm demanding £1 6s. 3d. for teinds uncollected since 1885. Again I wrote to my lawyer, using the terms, I am sorry to say, "Is this swindle legal?" Again comes the answer, "Perfectly legal: it is in the feu-charter." Then I went to him and asked how many more liabilities were contained in that feu-charter, and was told, "Only one; if you die, your heirs will have to pay another duplication. But," he added, "a contract is a contract, and moreover it is a fair contract, inasmuch as you went into it with your eyes open and for your own benefit. These duplications are a part of the price: if it had not been for them, the annual feu would have been larger." It must be understood, however, that this is merely an illustration to introduce the subject, and must not be pressed beyond that.

The argument against the taxation of site-owners has two expressions, an external and an underlying one. Externally, it assumes this form: that the proposed tax is an interference with contracts. Is it not in the bond that the ground-owner pays no rates and taxes? A contract is a contract: it is one of the best results of our political constitution that contracts are sacred; to interfere—even for Parliament to interfere—is a precedent which might lead us far.

The underlying argument is that the contract was a fair one; that the rates and taxes were considered in the price. The ground-owner does pay the rates,

inasmuch as he has had to deduct from the annual price received for the ground the anticipated value of the rates. This was Mr. Goschen's argument in 1870, and he went the length of assuming that, in ordinary circumstances, the ground-owner paid all the rates.

To put it in the concrete. A ground-owner and a builder are calculating the price to be paid for a plot of ground. The ground-owner wants to get as much as he can. The builder is calculating what he is able to give. Suppose there are ten houses in the terrace he proposes to build. Tenants will be prepared, he calculates, to give £100 in rent for each house, knowing that they will have to pay another £33 in rates. The £100 of rent for each house will enable the builder to get a profit on his capital and labour and leave a balance of £10. This £10 per house is the utmost he can pay in ground-rent. If more is demanded he will not build. And the tenants, he calculates, cannot pay more than £133 in rent *and* rates, or they will not take the houses. If it were not for the rates the tenant could pay £133 in rent, which would leave £33 plus £10 = £43, as ground-rent. As, then, the ground-owner gets only £10 instead of £43, it is he who pays the rates. He gets, as it were, £43 and pays £33 in rates.[1]

[1] It seems to me that there is a flaw in this argument as it stands, which has not, I think, been noticed. It is the statement that the ground-owner, if there were no rates, would get a price higher by the full amount of the rates. But it is surely forgotten that the rates are payment for valuable services rendered by the municipality: that a house with roads, light, drainage, police, etc., is not the same as a house without these things.

To take an analogy. Two houses in a terrace are offered for sale at £3000. I am willing to pay £3000 for such a house. But I am told that there is a feu-duty on the one of £20, while the other is freehold. I at once capitalise the feu-duty, say at thirty years' purchase, and reduce my price for the one to £2400. Who is it pays the feu-duty? Undoubtedly the seller of the house.

The argument, then, is that this was not only a contract, but a fair contract: that the owner, while contracting that the occupier should send an annual cheque for the rates, did himself pay them in anticipation in the form of a reduced annual price. And this is backed by no less an authority than Mr. Goschen.[1]

Suppose now we assume that, in the original contract, it was understood, and intended, and calculated on that the ground-owner should pay all the rates. I may say that it is admitted in the frankest way that it would be a fair contract—that the site-owner would really pay all the rates—if the rates were calculable. But, it is said, the buyer never calculates on paying more than the average rates of the time. If ground is being leased now for ninety-nine years, the person who takes the lease bases his calculation of ground-rent on the fact of his having to pay six and eightpence per pound of

[1] See also Sir Robert Giffen, *Memoranda presented to the Royal Commission on Local Taxation*, p. 97: "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."

rates: he cannot be expected to base his calculations on rates increasing above that figure. At least if one did, others would not.

The obvious answer to this is: Well, so much the worse for the lessee; he should have foreseen the inevitable trend of local rates.

Mr. Costelloe's reply again is: It was impossible that he could have foreseen the recent increase. It is always and necessarily a "blind bargain"; to use his words, "The pull is always against the tenant." This blind bargain argument will repay consideration.

"A person who took a lease of any house in London in 1869 contracted to pay rates and taxes. At that time nobody understood or supposed in any way that the State was going to take up the enormous burden of the charge of national education. When Parliament did so in 1870 it was then commonly supposed that the charge would run to a maximum of about 3d. in the £. Since then we know that it has run to something much nearer a shilling. Nobody every discussed the effect on existing contracts. . . . The result is that you are putting upon the tenant a burden which he never contemplated in any way, and could not have foreseen."[1]

Surely, however, this is to put the argument on a wrong foundation. The London County Council is proposing to put a new tax on the site-owner, on the ground that he chiefly will benefit by the new improvements for which the tax pays. It is taxation according to benefit. But the argument here

[1] Question 20,084, vol. ii. of Evidence.

suddenly shifts its ground and asks for the relief of the occupier on the plea of unexpected burden. Now, it is one thing to tax a man because he benefits: it is another to tax him because another man bears too much burden. It reminds one absurdly of the justification urged for West-end shopkeepers charging high prices: that many of their customers do not pay their accounts!

The argument was sound so long as the subject was a new tax to pay for new arterial improvements *benefiting the site-owner.* But when the past and the prospective increase of the education rate are used to buttress up the argument, it must be pronounced fallacious unless it can be shown that the benefit of education is an "arterial improvement." The most that can be said for it is that the benefit of this tax has not, perhaps, gone exclusively to those who paid it, the occupiers. Education is, in short, one of those expenses which should not, in point of theory, be allocated on ground of individual benefit, but on grounds of equal burden, equal sacrifice. It is rather difficult to see how this *can* be allocated equitably on a local basis. But at any rate it gives no support for a new tax which is specifically local, and is pre-eminently fitted for allocation by benefit.[1]

[1] The education rate and the poor rate are generally disturbing elements to theory. They are, in their nature, imperial taxes—general burdens which benefit the nation but cannot be allocated to individuals in the measure of the benefit. But, for well-understood reasons, they are locally administered and locally raised, and, being so, they are assessed on the local basis of rental. And where the rental is not an adequate expression of general ability there is an anomaly. But, as a local income-tax has never been found possible, it is easier to state the anomaly than to suggest a remedy. Cf. p. 33.

But putting aside this argument drawn from the education rate—which is, after all, only a slip in reasoning—the contention is that, as improvements are always being made and rates always increase, the occupier is always paying something on which he did not calculate; the ground-owner is always enjoying something on which he did not calculate; and the remedy is to tax this receiver of extra benefit.

Beyond this there is another argument. Whatever be the economic truth about the real incidence of the rates, says Mr. Costelloe in substance, the occupier always *thinks* that he pays them; this being so, he fights to the utmost against any increase in them, and so improvements which should be made cannot be made. Sanitation, police, education, etc., must wait because the occupier pays the rates in the first instance and thinks he pays them in the end. Therefore, it is contended, it is expedient that the new rates at least should be put obviously on another class who undoubtedly benefit. If it be the case, he adds triumphantly, that the occupiers do not pay the rates, why object to this new rate being put honestly on the class on whom it must fall, and so disarm the hostility of the ratepayers? But if it be true that the occupiers really pay the rates—and Mr. Costelloe believes that they do—then it is obvious that here is a new rate which they should not pay.

It is right to say at this point that, in order to do every justice to the London County Council proposals, I have argued the case on the assumption which is prominently put forward—that the Owners'

Tax is a new tax for prospective improvements. Mr. Costelloe, however, does not conceal that it might be more than this; namely, that some part of the tax might be used to relieve occupiers of their present burden: it might be a rearrangement, not an addition. Mr. Harper's calculation is that, roughly, £15,000,000 is the true site value of London. Under the proposed scheme, the occupiers will continue to pay rates as now on the rateable value (structural plus ground value determined on the old system), which is £36,000,000. The new tax, at 6d. on £15,000,000, would yield £375,000. Considering that the rates paid in London now are over £10,000,000, it may be granted that the £375,000 might very well be spent in new arterial improvements. But, if the tax rises to 2s.,[1] and a new revenue of £1,500,000 came into the local treasury, there certainly would be a temptation to apply some of it in reduction of occupiers' rates. And while Mr. Costelloe says that "any such tax as we propose would never do more than countervail the increase of site values which will happen in London within the same tract of time," it is questionable whether he is speaking of the 6d. or of the 2s.[2]

[1] "Would you say how far you would go?" "I have said quite frankly that we discussed, and I myself strongly favoured, in the committee and in the council, the suggestion of an immediate limit of 2s. I do not myself suppose that either we would desire to pass or that any Parliament would allow us to pass some limit of that kind for very many years to come."—Mr. Costelloe, Question 20,202, vol. ii. of Evidence.

[2] When writing this, I asked Mr. Costelloe which figure he meant, but illness prevented him replying.

Such, then, is the contention of the London County Council. I think it will be agreed that reasons have been advanced which deserve serious and respectful consideration. What I should emphasise is that the argument takes its stand on the ground of benefit received by and measurable to the payer of the new tax. It does not propose or justify confiscation. It is not in the least a demand for throwing all taxation on land values. While the Council does not promise to limit the new tax to 6d. or even to 2s. in the future, it is, says Mr. Costelloe, "preposterous really to suggest, except for the purposes of a joke, that any of us is proposing a 20s. in the £ tax."[1] It is not even contended that land values absorb all the benefit of local taxation. All that is said is: Here is a new service which we are going to render to the citizens; this new service will chiefly inure to the ground-owners; and this service accordingly should be paid for chiefly by them.

The objections also are evident enough.

First.—It is a taxation of capital. Suppose we grant that the site-owners will benefit from the future tax: it is their capital which will show this benefit, not their income. Till the lease expires, or till the interest is sold, the site-owner, whether the original, the improved, or the buildings-owner, receives only his contract revenue. The benefit is a deferred one: why should not the taxation be deferred too?

Imperial taxation certainly takes no notice of capital increment unrepresented in actual income. A man may hold £1000 of stock in a gold mine

[1] Question 20,200, vol. ii. of Evidence.

which has never paid a dividend, but has risen in value from one pound per share to ten. His £1000 stock is then worth £10,000, but he pays nothing in income-tax till he sells his stock or the mine begins to pay dividends.

Mr. Costelloe here is as bold as when he said that it was a "perfectly fallacious argument that the tenant had contracted to pay all the rates and taxes whatever they might be."[1] "I see no reason myself," he declares, "why there should be a rigid exclusion of capital values from taxation."[2] It is, he thinks, a "financial superstition." In other words: when it is argued that, the benefit being deferred, why should not the taxation be deferred too? the answer is that taxes are not retrospective. At the end of the lease the owner suddenly enters into possession of a largely increased capital sum. But the government does not then enter into possession of a corresponding proportion. Meanwhile the local authority has had to raise money, and it has been raising it from the occupiers, who presumably receive small share of the benefit.

It might be argued, similarly, as regards imperial taxation, that the country has been losing in not taxing capital increment. Our mine-owner is gradually growing rich potentially; but the revenues of the country have to be raised every year, and they are raised from the others who are not getting rich potentially, but are getting a steady income annually: their taxation is heavier because he escapes.

It is clear, then, why Mr. Costelloe argues for a municipal death-duty. He says in effect: The

[1] Question 20,084, vol. ii. of Evidence. [2] Question 19,988, *ibid.*

imperial government *does* tax capital at the time when it is most convenient to get payment. If our mine-owner died, his heirs would pay duties on £10,000 not on £1000. For the same reason, the site-owner at death should pay a municipal death-duty on capital. But as he does not, and as there is little chance of the government agreeing to a municipal death-duty, this Owners' Tax is another way of arriving at the same result.

Second.—It will be noticed that the site value on which the owner is to be assessed is not the actual realised value. It is the value which would be realised if the site were put to its adequate use. It is the "cleared value"—the sum which might "reasonably" be counted on if the buildings were burnt down, and the bare site sold at Tokenhouse Yard. In many cases, no doubt, this value is being realised and rated on, and the "rateable value" contains an adequate expression of the real site value; but in perhaps 30 per cent. of the cases it does not.[1]

It seems to me that there are enormous difficulties in the way of such a valuation, and I shall deal with them at length in another chapter; but it is only fair to say that official and expert valuators told the Royal Commission on Local Taxation that "there is no material difficulty"—at least no greater difficulty than there is now in the case of the rateable value—and that the first cost would not be more than £40,000.[2] One witness said, "I might get out on the back wall of a garden of a house which is one of twenty, and I could see at once that

[1] Mr. C. J. Harper, vol. ii. of Evidence, p. 32. [2] *Ibid.*, p. 32.

the sites are practically the same in shape and size; and that one inspection will do for twenty hereditaments as to site."[1] My contention is that it is the one house which presents the difficulty. And in innumerable cases it is clear that houses are not in a row, but of all heights, depths, and frontages, and so of different site advantages.

I have tried to show that these proposals are worthy of respectful attention and scientific criticism, inasmuch as, whether right or wrong, they are at any rate based on an intelligible and recognised principle —benefit received. I turn now to proposals which have not this justification.

[1] Mr. C. J. Harper, vol. ii. of Evidence, p. 31.

CHAPTER III.

THE GLASGOW BILL: ITS TERMS.

WHILE London modestly sends resolutions before the Royal Commission to enquire if it could see its way to back them up, Glasgow, determined to keep in the forefront of municipalities, has tabled a public bill.

It was brought in in the House of Commons on 7th March, 1899, by Sir Charles Cameron, and was backed by Mr. Caldwell, Mr. John Wilson (Govan), Mr. Provand, and Dr. Clark. It may be that the bill is badly drafted, or, again, it may be that the many persons whom I have consulted as to its meaning are exceptionally stupid; but I am afraid that, to give the words of the bill as printed, would convey little idea of its provisions and incidence to the average citizen. I therefore propose to begin by giving a statement of its terms in my own way.

The bill provides for a new tax, called the Land Value Assessment, to be laid on the "proprietor" (or reputed proprietor) of any land or heritage in any burgh in Scotland. Thus it is not a local bill, but

one expressly affecting "every Royal and Parliamentary burgh within the meaning of the Burgh Police (Scotland) Act, 1892." In the first instance, the proprietor is asked to assess himself. He is required, before 15th June of each year, to send in to the burgh assessor a statement of the number of square yards of which he is the proprietor, and to declare what he considers their annual value. But this "annual value" is to be arrived at by a special calculation. It is not (1) what he may happen to be getting from the ground in rent or hire; nor yet (2) what he has been offered for it; nor even (3) what he considers he ought to get for it. He is asked to "fix" the price thereof (what would generally be called the capital value) "as between a willing seller and a willing buyer." And, again, it is the price of the ground simply and solely, "apart from the value of any buildings, erections, fixed machinery, or other heritable subjects on or connected with it." Four per cent. on this capital value is considered to be the "annual value," and this four per cent. is to be entered in a special column on the Valuation Roll of the burgh as the "land value." It is on this land value that the tax is laid.

But although the proprietor is asked to assess himself, the assessor is by no means bound to take his valuation. He may enter on the Valuation Roll either this sum or "such other amount as he shall deem reasonable." In turn, the proprietor may appeal against the assessor's valuation on the same conditions under which similar appeals are made at present. Once this is settled and the Roll made up—that is, at Whitsunday after the passing of

the Act—the Town Council is to levy an assessment on this land value not exceeding 2s. in the pound.

The destination of the proceeds of this tax is also peculiar. It is not to be devoted to any one purpose, but to be "allocated *pro rata* to the several accounts in respect of which police and municipal assessments are levied within the burgh"; that is, so much of it goes to police, so much to parks, so much to municipal buildings, etc.

Thus it is an additional tax, but it is not necessarily additional taxation. It contributes an additional sum to the funds of the taxes already imposed, but these taxes may be reduced by that amount. It put 2s. per £ on one class, but it takes something—impossible to say how much—off all classes who pay police and municipal taxes, without even limiting the relief to occupiers. But at this point there is a remarkable omission from the bill. It has been held out as an inducement—indeed as a motive—that this was a measure in relief of taxation. For instance, in a resolution passed by the Bradford City Council on 12th January, 1899, it was asserted that 1s. per £ on the taxation of land values would produce a revenue of nearly 4d. in relief of the general taxpayer. And Bailie Ferguson, asserting that the land value of Glasgow is £2,000,000 a year, which, at 2s. per £, would yield one-third of the £600,000 we pay at present in municipal rates, makes no secret of it that his ultimate object is to relieve capital and labour absolutely of all taxation, both imperial and local. But there is no pledge of such relief in the bill; only of allocating the return *pro rata* to the several

accounts. With a Corporation anxious to enter on new fields of municipal activity and only deterred by the expense, it may be suspected that the money would be used, not in relief of present taxation, but in lieu of imposing additional taxation. It will be remembered that the professed object of the London County Council, in suggesting an "Owners' Tax" on site values, is to secure a "new source of revenue" for the increasing expenditure.

The following exemptions are made: Police stations, jails, and premises occupied in connection therewith; public infirmaries, hospitals, poorhouses, public schools, places of religious worship, chapels, drill halls, ragged schools, Sunday schools, scientific and literary societies, burial grounds, or parks or open spaces held and enjoyed by the public under any Act of Parliament or under or by the permission of any municipal or Local Authority.

This is the substance of the first part of the bill, embracing sections 1-6. It was originally the whole of the bill as drafted by a sub-committee of the Parliamentary Bills Committee, and printed by the Corporation in July of 1898. It seems to me—although I judge only by internal evidence—that at this time the idea of the bill was to "get at" owners of land within burghs who were holding back ground for higher prices, letting it meantime for agricultural or temporary purposes, and that the full effect and extension of the measure was not quite realised. For the term "proprietor," of course, is applicable, not only to the owner of vacant, agricultural, or unfeued land, but to the person, or successor of the person, who has taken ground on

feu from a landowner (who then becomes his "superior") and built upon it.

The result would have been that the landowners who had already feued their ground would have escaped altogether. In an able letter to the newspapers of 20th August, 1898, Mr. Peter Burt called attention to the anomaly created by this. The new tax, he said, would force landowners to throw their ground on the market at a low rate; feuing on the reduced terms, builders would be able to let their buildings at a lower rent; this would bring down all rents, and be "disastrous, and in many cases mean ruin," to those who had taken feus at the old terms, and would have to pay the heavy feu-duty in perpetuity —"a section of the property-owners which, I think," wrote Mr. Burt, "is most entitled to our consideration." In other words, the burden would have fallen on those who had been the victims of what the bill aimed at abolishing—namely, the power of the landowners to hold up their land till they could feu it at a high price.

Whether as direct effect of this letter or not, on 11th October an addition was recommended by the sub-committee, and approved, along with the rest of the bill, by the Corporation on 20th October, 1898. This addition now appears as section 7 of the present bill. Here we have provision for transferring part or whole of the tax from the "proprietors" to the superiors of the ground. The proprietor is entitled to deduct from his "ground burdens," as they are to be called (whether feu-duty, ground annual, ground rent, lease, or tack duty under a lease of more than 31 years' duration), "such

proportion of the land value assessment paid by him in respect of the land as shall correspond to the amount of the ground burdens payable by him on the land as compared with the amount of the land value of the land." This is not an easy sentence, but it only means that he deducts the amount which the superior would have to pay if the tax were levied directly on the feu-duty he receives. It may be understood most easily from a concrete example.

If I have been paying £20 of feu-duty, and the new "land value" of my ground appears in the Valuation Roll at £20, I pay 2s. per £ on £20 to the Corporation, and charge the superior with the whole of the tax—that is, I pay the tax of £2 and deduct the whole £2 from the feu-duty. But if the "land value" is fixed at £40, I pay 2s. per £ on the £40 to the Corporation, and charge the superior with 2s. on his £20—that is, I pay a tax of £4 and deduct £2 only from my feu-duty. Thus if the "land value" goes on rising, the increasing burden is borne by the proprietor alone; the owner of the feu-duty pays no more than the assessment on the amount of his feu-duty.

Following this are two provisions relating to the case where there is more than one ground burden on the same piece of land, and to the case of unallocated ground burdens. Last comes the forbidding of contracting-out, whatever engagements may have been entered into for relieving the superior from bearing his share in the taxation.

It remains to be noticed that there is one class of proprietors who bear the whole burden without relief.

It is the proprietors who have not taken ground on feu but bought it outright, for here there is no superior. Yet up till this time this kind of proprietor has been supposed to occupy much the same position as the proprietor who has taken his ground on feu. He has paid a capitalised price instead of a perpetual annuity, but a price based on the same calculation as the annuity. And there is one class of landowners who escape altogether—those who have already sold their ground outright; the unfortunate buyer stands, and is taxed in their stead.

To sum up, the bill purposes to tax four classes:

(1) Owners of vacant land who have hitherto paid no taxation or only nominal taxation.

(2) Proprietors of buildings who have bought their ground outright and paid presumably a high price for it.

(3) Proprietors of ground and buildings who pay feu-duty.

(4) Receivers of feu-duties.

But (1) and (2) bear the full burden; (3) and (4) in most cases divide it between them.

It will now be seen why I ventured on some details of the drafting of the bill which may have seemed unnecessary. The bill has grown in the drafting. First it was a measure to reduce rents by forcing land into the market. But the reducing of rents in the way proposed produced the anomaly of penalising those who were unfortunate enough to have entered into feu contracts before the passing of the bill. To remedy this—and perhaps to meet the views of those who believed in the taxation of feu-duties—the tax was shifted as far as possible on to

the superiors. But where land has risen in value since the feu was fixed, part of the tax rests on the proprietors. Thus we have in its final issue a bill which not only fulfils its intention, but taxes as well a class of proprietors who do not seem to have been aimed at at all.

CHAPTER IV.

THE GLASGOW BILL : ITS PRINCIPLE OF VALUATION.

I AM not sure that a bill is always to be condemned unreservedly because it is badly drafted, or even because it is impracticable. Some bills are not intended to be passed. They are perhaps *ballons d'essai*, or they are in fulfilment of pledges to electors, or, more creditably, they are tentative schemes meant to attract the notice and criticism of the nation. The latter, I presume, is the intention of the present bill. As a fact it challenges this reading, inasmuch as it is not a local bill, but a bill which is to apply to all burghs in Scotland, and it must have been intended that all burghs, sufficiently interested in this serious change in their local taxation, would have something to say before they accepted the Corporation of Glasgow as their mouthpiece.[1] Even, then, if one thinks that the

[1] An objection at the very threshold is the limitation of its provisions to Burghs. "It is not apparent why exemption should be granted to the landowners of populous places not yet formed into burghs, such as Broxburn, with a population, in 1891, of 5898, or those of suburban districts in the neighbourhood of many of our larger towns beyond the

present bill presents so many difficulties and attacks so many powerful interests that it has not a chance of passing into law, criticism becomes a public duty.

The first difficulty which appeals to me—I suppose because economic science is built round the theory of value—is the basis of the proposed valuation. The proprietor is asked to separate between the capital value of his ground and that of his buildings; and, having done so, to "fix" the value of the former according to a canon which, I venture to say, is a new one alike in the theory of value and in the practice of valuation—namely, "the price as between a willing seller and a willing buyer." The ratepayer, so far as I know, has never been asked to do anything like this before. In the case of the income tax, we are asked to assess ourselves, but that is because we have the necessary information, and we alone have it. But here the ordinary ratepayer—who is not usually an economist—is asked, not to give figures which he can easily and honestly give, but to make a calculation which would do credit, as regards difficulty, to an examination paper for honours in economic science.

If this seems an exaggeration, be it remembered that in economic science we have been accustomed to cost of production price, supply price, demand price, equilibrium price, market price, normal price,

burgh boundaries. Again, if the owners of agricultural land in landward parishes are not to be charged with this new assessment, it appears to be unfair that the owners of similar land should be taxed in burghs, like Renfrew and others that could be named, which contain within their boundaries large tracts of agricultural land that are not likely to be feued for many years to come—perhaps not even within the next century."—Mr. James Reith, Burgh Assessor of Paisley.

price as determined between marginal seller and marginal buyer. But under which of these categories are we to put the "price as between a willing seller and a willing buyer"? If the commodity in question were a manufactured article, similar in quality and produced in large amounts, and was being sold constantly and frequently, we should have some idea of its cost of production, of its market price, and of what is known as its short and long period normal price. But, as regards the commodity called land, which is not manufactured, which has no supply price, which varies in desirableness of situation from portion to portion, which is sold rarely and in most cases by private bargain, and which is then sold with and inseparable from another commodity, namely, buildings erected thereon, all such information is absent. I repeat that the valuation is one which economic science knows nothing of; it is to me as vague as the "fair price" of the Middle Ages.

The bill applies to "proprietors or reputed proprietors of any land or heritage in any burgh in Scotland," and thus covers a very wide field of differing circumstances. As personal cases, however, are always more interesting than abstract ones, and as the difficulty of the task may excuse a good deal of simplification, let me instance first my own case. I own and occupy a villa standing on about one-third of an acre of ground, and I pay a feu-duty of £17 to the Church of Scotland. The house was built some fifty years ago, and I know nothing of what it cost. The entire locality was built over about the same time, and consequently I cannot find what would now be the feuing price of similarly situated ground

round about me; and, not being an inquisitive man, I know nothing whatever of what my neighbours pay for their feus. And now I am asked, in a blue paper which carries all the impressiveness of a summons, what price I would put on my ground "as between a willing seller and a willing buyer."

The obvious answer is (1) that I have never been "willing" to sell it, and that no one, so far as I am aware, has ever been "willing" to buy it; (2) that if I were willing to sell and found another man willing to buy, it would be the house and ground as a whole that we should consider; (3) that it is not likely that my willing price and his willing price would be the same without some considerable higgling.

In this difficulty, I suppose I should ask what other people round about have been getting for their property. Here again I find that very few houses have been sold since I came to the locality, and, as they have been sold privately, I must trust for information to hearsay. What I do know is that several houses have been in the market more or less for some years, but that the proprietors were never willing to sell at what others were willing to give them. But suppose I had the amplest information on these points, I have still to do what these people never thought of doing, namely, to separate the two items of house and ground, and I am not much nearer what I want than ever.

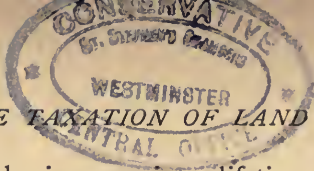
It may be replied that building is still going on not three hundred yards away from my house, and the feus there charged are ascertainable. Well, I am tempted to reply that these after all are feus, not "land values," and that no one who has read the

evidence before the Royal Commission would show his ignorance by confusing a feu with a land value! Is a present feuing rate not the price obtainable by a landowner who has been "keeping back" his land till the necessities of the people make them give an exorbitant price? If so, I am not going to return my land value at this "exorbitant" figure, especially when I am to be taxed on it.

But suppose that there is some resemblance between a feu and a land value, I should hesitate to agree that the value of ground three hundred yards away was an adequate indication of the value of mine. On the one hand, the buildings being erected are terraces for which a higher rental can be obtained relative to the extent of ground covered, while I and my successors are restrained by our covenants from building anything but villas. On the other hand, I am higher up the hill; I am surrounded with other people's gardens and trees; I have an open view to the setting sun; in other words, the "amenity" of my situation is greater. One has only to consider the difference in rental between the north and south side of any square to know that.

All the while there is one—what I may call—baser motive in the background. If I return my land value at the same as or less than my feu-duty, I roll off the entire payment on the superior. Would not every "average man" send in this as his return to the assessor? And, things being as they are presumed to be by the reformers, would this not mean a struggle between proprietor and assessor at every valuation?

Suppose, however, that I am in the position a



man may be in once in a lifetime or so, of being willing to sell the house where he has spent the happiest years of his life, the situation is no easier, but is complicated by another group of interests. It is that the valuation to which I consent will be a strong factor in the sale. To get as good a price as possible, I want to show that my ground is very valuable, and I am disposed to return it at a high figure. But if I rate it too high, I frighten the buyer by the knowledge that he will have to pay a high tax in my stead; and, if I do not manage to sell, I have taxed myself at the high rate.

Take, again, a case which is typical of a great many. A neighbour of mine has about an acre of garden and lawn round his house—enough to build another house or couple of houses on. That extra ground would undoubtedly be very valuable for such a purpose. Is he to assess himself according to its building value? If so, the burden will be very heavy, and will probably "force the land into the market"—to the great loss of those who enjoy the sight of his trees and grass almost as much as he does, and who think that a bit of open space in a crowded district is a common and not a selfish possession. But this, I suppose, is "vacant ground," which the proposers of the bill had most in their minds—at least, no provision is made for exempting any but "open spaces held and enjoyed by the public."

In these circumstances, what could a man do but leave the valuation to the assessor? And it is interesting to observe that this is just what the Scottish witnesses before the Commission proposed should be

done; indeed, they never seemed to dream of any man assessing himself. "I would leave that to the assessor," is the ordinary answer when the witness finds the problem too difficult. But if the valuation is left to the assessor, it seems to me to defeat the very canon laid down; for the assessor knows nothing of my willingness to sell any more than he knows of other people's willingness to buy. All he knows about is my willingness to accept his valuation. I think it may safely be said that this would certainly have the effect of putting the land valuation pretty high, as comparatively few people have the courage, or energy, or time, or information to appeal—particularly as an appeal involves that they are able to advance reasons which I have just shown to be exceedingly difficult to arrive at.

Turn now to the second group of cases, where the proprietors and occupiers are different people. Here the proprietor uses his buildings—say tenements, warehouses, or shops—as capital, and rents them out. The present basis of his taxation is simple enough; it is the rental obtained: and the proprietor is not asked whether he thinks he gets too much or too little. Now he is asked what is the capital value of his ground as distinct from the buildings, "as between a willing seller and a willing buyer."

But capital value in such a case has no meaning but capitalised value, and capitalised value means simply a multiple of the income value, and the only income value of which he knows anything is the income he gets from the tenants who occupy the buildings. He is asked, then, apparently, to divide

the rent he draws into two portions—one credited to the buildings, the other to the land, and to capitalise the latter; in other words, the basis of his valuation is not capital value but income. Well, I do not see how he can do this without instituting comparisons with feus and sales of ground in the locality, and here he meets all the difficulties already discussed, intensified by this, that the rents in business quarters for similar property will vary as much as 50 per cent. or so within the one street and from side to side of the street.

This, however, would be a simple calculation compared with what the witnesses before the Commission declared was the intention of the bill. The proprietor, it seems, is not to take his rental as the sum divisible. The land value required is not limited by the rental he receives minus the rental of the buildings. It is the value which would be obtained if the ground were fully utilised and, moreover, were put to its best use. This is stated again and again in the evidence. "Take the University of Glasgow," said Lord Burleigh, "and the land round it; what would you do in that case? Would you assess the University upon all that value as building land—all the land which is laid out as ornamental ground?" "I think," replied the witness, "the assessor would approach it in the very same way as he would approach the land of any other owner, and would take this land at its value if it were utilised to the best advantage, and assess it upon that." It may be supposed that I am prejudiced as a professor in alarm about his salary, but the next question and answer show that a still more august

body than the University has something to be alarmed about. "Take the Queen's Park, Glasgow; how would you deal with it?" "In the very same way." "Who would pay the rates upon that?" "The Corporation of Glasgow would pay them to themselves." It is a fine thing to have a logical mind and the courage to express it.

I confess that I am unable to conceive where such a valuation would lead us. If this is the canon to be applied, the assessor will be bound, in each case, to consider the uses to which each piece of ground might be put: to tax a man heavily when he owns a two-storey building when he might have a five-storey one on the same plot, or when he is conscientious enough to let his shop for a grocery when he might have made it into a public house. It is evident that, in every city which has grown, there are buildings which do not "fully utilise" their sites, but which nevertheless would not repay the expense of pulling down and rebuilding. We know a good deal of the high pressure of modern life: what will it be when a man is to be taxed out of his property because he is unable or unwilling to put it to the other use, which, the assessor may think, is a more lucrative one?

A third group of cases is that of the so-called "vacant ground." Here we deal with an entirely different class of proprietors from those already discussed. They are to be taxed directly, instead of through a third party; they cannot shift the burden on to any previous owner; and, unlike superiors, they have something to say on their valuation. It is at the same time the class which has fewest friends;

the best that is ever said for them is that sometimes their interest has coincided with the public interest, inasmuch as they have laid down feuing plans and prevented property from being planted down higgledy-piggledy. There is probably not a proprietor in the West End but has cause to thank the late Mr. Montgomerie-Fleming for the amenity of Kelvinside as a residential suburb. But, as Kelvinside is west and not east, this does not carry much weight with those who think mainly about the congestion of the working-class districts, and the desirableness of making the most of the limited area on which working people must live. But even in the worst case, that of persons who speculate in land and, by restricting the supply, raise adjoining rents till the value of their vacant ground rises to the figure at which they are willing to feu,[1] the bill must lay down canons of valuation which can be applied. Is the willing seller and buyer canon any clearer in this instance? It seems a simpler case in this regard, that it is not complicated with considerations of actual buildings rental. But this does not go very far; for not only is the "willing seller," if I may say so, unwilling to sell, but the willing buyer bases and must base his offer on the rental he can get from the buildings he proposes to erect. Thus it comes back to calculations of buildings rental after all. It is interesting to note how circumstances here alter

[1] "Is it the practice at the present time for land to be held for the rise?" "I know people who do it." "Do you approve of that?" "People have to do what the circumstances demand of them." "Do you think it is a proper thing?" "I am doing it myself."—Mr. Peter Burt, *Royal Commission on Local Taxation*, vol. iii. of Evidence, p. 64.

cases. When the compulsory purchase of such land by a Corporation is in question, we hear a great deal to the effect that the price given should be "prairie value." But, when it is a question of the same Corporation assessing similar land for taxation, it is discovered that its value has no relation to prairie value!

The "agricultural value" of land within a city can, indeed, be easily ascertained by advertising it for grazing—it is not usually fit for anything else—but is not this, in all probability, the value which the owner has been getting; the value which the assessor will certainly be expected to disallow? The feuing value can be ascertained, so far as I can see, only by putting it up to auction, and this is compulsory sale. If, however, the assessor puts a value on the ground, and taxes the proprietor on this, it will be awkward if the owner has finally to dispose of it at a lower price, and will, one would think, suggest claims of compensation.

The more it is studied the more, I imagine, shall we find that the assessor's task here is just as difficult as in the other cases; that he gets no assistance from the canon of the willing seller and willing buyer; and that the lawyers will, in this as in the other cases, find a new and lucrative department added to their business in the framing and advocacy of appeals.

It will be answered, I suppose, that in all this I am making difficulties: I am assuming that the bill means what it says, and that every proprietor is to be asked to make these calculations, whereas everybody understands that it is the assessor who will have

to make them. Well, I grant that, if it were an easy matter for the assessor to make them, there would be less objection. I imagine that the provision for the proprietor assessing himself was put in because of the enormous injustice that might arise from the fiat of an incapable valuator: the person concerned should at least be able to claim the initiative. But I submit that the difficulties I have tried to present are inherent in any valuation which departs widely from actual return or income.

To anyone who has really grasped the difficulties, it is nothing short of amazing to witness the airy way in which those who are determined to tax land values dismiss the question. "It is done every day," they say, and, when asked where it is done, they instance the case of new railways, as if new railways were continually being cut through our crowded streets. One witness before the Commission, when asked how he would revalue Buchanan Street, said: "It is a very common occurrence for an insurance or other company to purchase a block for the purpose of taking down the old buildings and erecting a new one; they really purchase the ground at ground value and no more, and that would be a very good guide to the assessor in determining the value in the neighbourhood of the block sold." "You would agree with me," said Lord Burleigh, "I suppose, that the land fronting Buchanan Street would be much more valuable than that adjoining it but not fronting it?" "Yes." "And there would be gradations of value according to the distance it was from the good street frontage?" "Yes." "Would that not introduce so many and so difficult

problems that it would be scarcely possible to arrive at a decision that would be accepted?" "No, I do not think it," replied the witness![1]

On the other hand, Mr. James Henry, the City Assessor of Glasgow, said: "It is very difficult indeed in cases where a railway scheme is being promoted, and the railway company are taking ground for the purpose of the railway—they have arbitration cases going on for days over the price of a very small piece of ground in order to arrive at the value." And again: "When you attempt to separate the value of the land from the rental, from what the subject as a whole is producing, it is altogether a matter of opinion as to what the value of the land is."[2]

In short, Lord Farrer's words seem to me to be absolutely true: "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

[1] Vol. iii. of Evidence, p. 19. [2] *Ibid.*, p. 38.

there is no experience his judgment is untrustworthy." [1]

But surely a more fundamental difficulty remains. Hitherto the statement has passed without question that each site *has* a value independent of the buildings, and that the difficulty is only in ascertaining it. But building land, after all, is subject to the same economic determinations as other land; that is to say, the value of no piece of land is inherent, but varies according to the price of what is grown or built on it. The particular crop which building land produces is buildings; but we are expressly forbidden to accept the price of the product—the actual rental—as a basis of valuation. The only other way is to take it as determined by the rack-rent of the building which most fully utilises and makes the most of the site. This is hypothetical enough, but even a hypothetical value does not hang in the air; it must, at least, be determined by some actual value—the income which the best possible tenant earns. Thus our assessor is asked to find out what some person—he knows not who—could make of the ground in circumstances

[1] *Memoranda presented to the Royal Commission on Local Taxation*, p. 82. Compare also Mr. G. H. Blunden:—"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."—*Ibid.*, p. 194.

at which he can only guess. In these difficulties we may freely extend our sympathies to the assessor who finds such calculations thrown upon him, has to make a different set of calculations for almost every case, and has to be prepared, on appeal, to defend and give reasons for every calculation.[1]

It will be observed that, up till this point, I have expressed no opinion on the general principle of the taxation of land values. Even if the taxing of land values were a recognised economic heresy, we have learned, in questions of taxation, to be tolerant of many things inconsistent with strict economic theory. Like most professional economists, I have been anxiously watching if from the present agitation would emerge any practical scheme of redressing the anomalies which undoubtedly exist in our local taxation according to rental. But when a bill bearing the great name of the Municipality of Glasgow assumes the policy of taxing land values and lays down a canon for ascertaining them, it affirms not only that such taxation is theoretically sound, but that it is practically workable. Now, while the principle of taxing land is accredited by many honoured names in the past, and the policy of taxing

[1] "To apply one's mind to the consideration of the many questions involved in ascertaining the selling price of even one site in Argyle Street, or any other of the leading business streets in Glasgow, would require time and thought; but when it is remembered that in Glasgow this operation would have to be repeated many thousands of times, it would appear that one hundredth part of the work could not be overtaken in any single year together with the other duties that have at present to be performed by the assessor. Indeed, life itself would appear to be too short for a work of such magnitude."—Mr. James Reith, Burgh Assessor of Paisley.

land values has many influential advocates in the present, this is the first scheme which has worked it out in detail, and the Corporation of Glasgow is the first body which has applied for powers to carry it out. But in looking closely at the canon of valuation laid down it seems to me to raise the greatest possible difficulties. These difficulties cannot be ignored, even if one is convinced as to the general principle. To mix up redistribution of incidence with increase of revenue and accredit it by the bribe of reducing rents; to tax one class in order to repair anomalies created by taxing another; to lay down for individuals and assessors a new basis of valuation in a hypothetical price unknown to economists, seems to me enough to discredit the best of causes.

CHAPTER V.

THE GLASGOW BILL: ITS TAXATION OF FEU-DUTIES.

THE second difficulty in the Glasgow bill is the taxation of feu-duties and ground annuals.

The most serious result, perhaps, would be to change the character of the feu-duty as an investment. The owner of feu-duties—who may be the original superior, but more probably is a person who has bought the right from the first superior, and, more probably still, is a body of testamentary trustees, a friendly society, or one of the large corporations, insurance, charitable, educational, or religious, in the safety and wellbeing of which millions are interested—is taxed, not by a new *ad valorem* tax on feu-duties, but by an amount that varies with the particular feu. And he has absolutely no say or representation in the fixing of the rate—a fact which surely offends against the old canon that taxation must be accompanied by representation.

For instance, suppose I pay a feu-duty of £20 to the Church of Scotland. Probably this means a return of 3 per cent. on £666 of the Church funds.

By the new Act I am taxed, perhaps, 1s. per £ on £40. This means that the Church now gets £19 instead of £20, and that the Church has had no voice whatever in the determination of the rate of its new burden. But next year the assessment is raised to 2s. per £, and another £1 comes off the Church. It is evidently the same if feus are held in burghs that impose different rates of assessment. But if the ground feued falls outside the limits of any burghs, there is no deduction. In short, the character of the feu-duty is changed, from that of an investment yielding a fixed annual interest (subject to the varying rates of income-tax), to that of an investment the return to which will vary from feu to feu and from time to time.

But, apart from this, we have to consider that, in Scotland, the "superior" is not the analogue of the London ground-owner. In London ground is leased, and, on the expiry of the lease, the landowner enters into possession both of ground and buildings erected thereon. But in Scotland the landowner sells his land in perpetuity for a fixed and unchangeable annual sum, without power of control or re-entry so long as the sum is paid. He is now to be taxed 2s. on what he receives in feu-duty. Why? On which of the recognised principles of taxation?[1] Does he benefit by municipal improvements, or is he rendered more able to pay by the service? Is not our superior in an entirely different category from the English ground-rent owner who, at the end of the lease, enters again into full possession of his ground with all its increased value? During the currency of the

[1] See p. 14.

long lease the real value of the ground-rent is rising annually. It is not right to say that this value is merely potential. It is so only in the sense that the value of a sown field is potential till it is reaped. But the farmer sells his potatoes in the ground at one price in January, at another price in March, at another in July; at any moment the owner of land held on lease may sell it for a capital sum representing that increased value, and, if he is not taxed, he escapes scot-free all the years of the lease. But to tax the owner of a feu-duty is not to tax on account of benefit received or of growing ability to pay, for he never enters into any increased value: it is simply to penalise a person who cannot escape.

Is there, then, anything to be said for taxing feu-duties?

It has been suggested that a feu-duty gets more secure as money is spent by a municipality in improvements which raise the value of house property, and that this extra security deserves the recognition of taxation. Is it not the case that feu-duties have risen in price of late years?

Yes, they have; but the reason is simple. They are already amply secured; they do not rise in value with additional security. It is undisputed, I think, that the late rise in value was simply a concomitant and expression of the falling rate of interest. Nay, has there not been a fall in their value, from thirty-five years' purchase to twenty-eight years' purchase, during the last few months, just because the rate of return to capital has been rising again?

This contains also the answer to another possible contention; namely, the blind bargain argument. It

might be said that, when the ground-owner feued off his land and the occupier took on himself the paying of rates, no one could anticipate the new taxation which has been imposed. Why should the superior not bear a share of this added burden? The answer is obvious. The reader will remember that the London contention was that it should not all fall on the occupier, but be divided at least with the site-owners, *because they benefited*.[1] Well, here is one class which does not benefit, the feu-owners. But there are two classes which do benefit, the occupier and the "proprietor"—the man who pays the feu-duty. With us, in short, it is not the superior—the land-owner proper—who is in the same position as the site-owner in London, but the proprietor.

One doubt, however, may remain. Take the case of the many landowners round about old Glasgow who feued off their land fifty years ago, and still hold these feus. Fifty years ago the feus may have been worth twenty years' purchase: now they are worth half as much again. Ought not this unearned increment to be taxed?

Yes; if we decide to tax all unearned increment, but not otherwise: for this increase is a phenomenon of the fall in interest, not of the rise in value of land. Take any five per cent. stock of fifty years ago. If it still pays five per cent. its capital value will have almost doubled, because the interest rate has gone down. Let the rate of interest again go up to five per cent. and there will be no unearned increment either in stocks or feu-duties.

But there is more than this. The unearned incre-

[1] Pp. 49-51.

ment of long holders is always dangled before us: one would think that the typical landowner to-day had kept his land in the family since the Conquest. I suppose half the feu-duties on Scottish land are held to-day in the family. What about the other half? They have been sold over and over again. They now belong to people who bought the feu-duties at or above the price at which they sell to-day, and who thus have no unearned increment. Why are these people to be taxed? But it is impossible to separate the two classes, taxing the one and not the other. To get at the holders of feu-duties, then, is not always to get at the people who made the bargain, even if it were a blind bargain for the buyer. Many of them have escaped by sale and are out of reach. To tax the people who have bought, is clearly to tax people simply because they are landowners—not because they are people who have benefited and because they hold an improved property. It is justifiable only as a part of the confiscation of rent.[1]

[1] "Supposing the man who has feued his land has done what some of them do—has sold the proceeds of his feu-duties for a certain number of years' purchase, varying from 22½, which used to be about the price, to 30 years, which is now the price—sold it, we will say, to an insurance company or building society, or a church, would you still take the proceeds from the present holder?" "I am not anticipating that I will be spared to take them from anybody, you know, but, as I have said, proceeding as I do on the initial principle that these land values belong to the community, I dare not acknowledge any difference between one holder and another."—Mr. Samuel Chisholm, Lord Provost of Glasgow, vol. iii. of Evidence, p. 90.

CHAPTER VI.

THE GLASGOW BILL: ITS DOUBLE TAXATION OF THE PROPRIETOR.

I HAVE said that the analogue of the London site-owner is the Scottish proprietor.[1] If it be right that the London site-owner should be taxed because he benefits, and if it be proved that he does benefit, then it is right to tax the Scottish proprietor. So if the promoters of the Glasgow bill consent to go on the London lines, they will drop the deduction to be made on feu-duties, and leave the whole tax on the shoulders of the proprietor. For this, indeed, there would be all the argument used by the London County Council.

But those who imagine that the Glasgow bill follows the same policy as the London resolutions must be told that the Scots system differs from the English in that we already tax the proprietor—already divide certain rates equally between occupier and owner. The rates we divide in Glasgow are City Improvements, Public Health, Sewage, Municipal Buildings, Registration of Births, etc., Registration of

[1] Pp. 80-82.

Voters, Valuation of Lands, Prison Payments, Clyde Embankments, General Purposes, Contagious Diseases (Animals), Lunacy, Roads and Bridges (Maintenance), the Poor Rate, and the School Rate. The occupier pays the whole of Police, Sanitary, Statute Labour, Parks and Galleries, Juvenile Delinquency, and the Domestic Water Rate. The owner pays the Public Water Rate and the Road Debt. In all, of Municipal Rates (1898-99) the occupier pays 2s. $4\frac{3}{16}$d. on rents of £10 and upward, and 1s $9\frac{1}{4}$d. on rents under £10: the owner pays $8\frac{11}{16}$d. Of Poor Rates each pays $4\frac{31}{32}$d., and of School Rates $5\frac{1}{4}$d.[1]

Thus in Scotland we already do what London asks permission to do. Without paying any regard to this, the Glasgow bill proposes to lay 2s. per £ *more* on the owner; and, if the bill is amended by taking out the provisions for taxing feu-duties, the proprietor would pay the whole of this 2s. Surely this entire disregard of the fact that the Scottish proprietor already pays local taxes, evidences that the promoters have in their mind something very different from equal distribution of taxation.

[1] Of the £653,000 of total assessments imposed and collected by the Police Department in 1898-99, £179,219 fell upon owners. The Public Water Rate (owners) amounted to £18,480 against the £47,486 of Domestic Water Rate (occupiers).

CHAPTER VII.

THE GLASGOW BILL: ITS PURPOSE.

If we ask, finally, how the bill in its working out corresponds with the purposes meant to be served, there is the peculiar difficulty that there is no entirely authoritative statement of what the intentions of its promoters were.

It is not simply a measure to "allocate the burden more equitably" by shifting part of it to the superior. In the report accepted by the Corporation on 17th June, 1895, which report the present bill proposed to carry out and embody, it was recommended that the existing system, whereby proprietors are taxed on the same valuation (buildings rental) as the occupiers, should be replaced by a system where the proprietor was taxed on a special valuation (the land value), the occupier being taxed on rental as before. This was ostensibly a proposal to "change the basis of taxation" as regards proprietors from property rental to land value, at the same time as it divided the burden between proprietor and superior. But no additional tax was spoken of; so far as appeared from the terms, it was merely a measure to divide the

existing amount of taxation between the two. In other words, the gross amount at present paid by the proprietors was to be taken, and a rate per £ imposed on the new valuation which would produce just the same amount. But, as the bill now stands, proprietors are still to be taxed in the same way as at present; they are still to pay their $8\frac{11}{16}$d. per £ of rental. But, as I have said, they are to pay in addition a new tax on the new basis, getting relief from the superior only if the land value is the same as or less than the feu-duty.

In the letter already referred to, Mr. Burt has given us a statement of "what is the object to be attained by the bill." "The advocates of the taxation of land values," he says, "have always contended that the most important effect of the reform would be the breaking up of land monopoly and the forcing of useful land into the market at a reasonable price. This, again, in encouraging building, would have the effect of reducing rents, and such a reduction of rents, it is admitted, would be a desirable thing in the interests of the people."

I suppose a reduction in the price of anything is a desirable thing in the interests of the people, and even moderate men might go the length of saying that the taxing of ground still unfeued is justifiable, though not perhaps justified by the consequent reduction of rent. But the bill goes much further than this. Unless the "land value" is the same as or less than the feu-duty, it imposes a new tax on proprietors and reduces the net return of their property. This, indeed, of itself would not reduce rents —the fact that a proprietor gets less return is no

reason why he should still further reduce that return. But if Mr. Burt be right in his contention that the tax will reduce the price of new feus, and that this will encourage building (both of which statements have been energetically denied by writers of the opposite side), the competition from the buildings then being erected on the cheaper feus will force the older proprietors to reduce. This, however, is better described as reducing rents, not by "breaking up the land monopoly," but by penalising the proprietor, although the two things work into one another.

When, however, the purpose of a bill is ambiguous from its terms, one naturally turns to its preamble to see what it is all about; what it seeks to remedy; why it proposes to make changes, particularly when the changes are no less than revolutionary. But there is no preamble.

As there is no preamble, I propose to provide it with one. It would run something like this—allowing for my want of practice in drafting bills: "Whereas private property in land is a robbery not only in the past but in the present; and whereas it would be perfectly just, as well as legitimate and expedient, to confiscate such land without compensation, and take it into possession of the government as representing the whole people; and whereas there is a simpler, easier, and quieter way of doing the same thing: Be it enacted by the Queen's Most Excellent Majesty," etc., etc.

The words are those of Mr. Henry George, and I say they would be an appropriate preamble just because the bill is purely and undisguisedly the work of the Single Taxers; is, in fact, the first signal

emergence of Georgism into the practical arena, and professes to be a ten per cent. instalment of the entire confiscation of land rent, on the lines laid down in *Progress and Poverty.*

The 2s. is only a beginning, said its chief promoter before the Royal Commission. "I hold that nothing short of 20s. in the £ will be a complete settlement of the question."[1] "What is to be the next step?" was asked of another of its promoters. "Increase the tax upon the value of the land," he replied. "Until you take it all?" "Until you take 20s. in the £."[2]

My own feeling is that, when a bill is put forward proposing a new "tax" which is openly said to be not a tax but a method of fine, it puts itself beyond the pale of serious discussion. A tax is the payment for a service rendered by the government, and the difficult question concerning it is the allocation of the expense according to benefit received from the service, or according to ability to pay for it. But the Single Tax is not a payment for services rendered to the owners of land: it is confiscation of their property on the ground that private property in land is robbery; it is not a raising of revenue to return that revenue in blessing to those from whom it is taken, but a taking of revenue from one class in order to spread relief from taxation over all other classes. It is the proposal of men who are in earnest about one thing, but perceive that it is necessary to disguise it as if it were another thing. There was once a Highlander who was arrested for

[1] Bailie Ferguson, vol. iii. of Evidence, question 16,872.

[2] Mr. Peter Burt, *ibid.*, question 16,175-6.

stealing a cow, and was asked by a sympathising brother why he had not bought it and forgotten to pay for it! It is well that the citizens of Glasgow should understand that, in the expressed opinion of its promoters before the Royal Commission, the 2s. is merely a beginning. It is well they should know that, in the opinion of their Treasurer, there is no difference between ground values and feu-duties.[1] It is well they should know that, in the opinion of their Lord Provost, it should make no difference whether the person taxed out of his property is an ancestral landowner who has had all the increment, or the purchaser of yesterday who has had none.[2]

But one fact must, in honesty, be recognised. The bill passed the Corporation by 37 votes to 33. All these 37 were not Single Taxers. To quote the words of one of themselves: "It is an open secret that many of those who cast their votes finally in favour of the question did so very reluctantly and under compulsion." And I have been told from outside that the majority voted as they did, not because they believed in the promoters, not because they thought very much of the bill as it stood, but because they were convinced that "there is something in the agitation for the taxation of land values." It is for this reason that I have discussed the bill as it stands—not as a ten per cent. instalment of confiscation, but as the provision for a 2s. per £ tax on site values.

[1] Councillor James Gray, vol. iii. of Evidence, question 17,242.
[2] P. 83, note.

CHAPTER VIII.

CONCLUSIONS.

WHAT may we gather, then, from the two schemes we have considered as to the agitation for the taxation of land values? So far as I can see, the agitation covers no less than five distinct, though more or less vague, convictions.

First.—It is partly the expression of people who experience increased and increasing rates; people who have to reside in the localities where the rates are high; people who believe that they really pay all the rates, and do not believe that the benefit they receive corresponds with the price they pay. It is probably the cry of people who do not particularly want municipal improvements: they would be content with much less, but their opinion is not asked. And I think we must do this class the justice of pointing out that the standard of municipal service is in many respects higher than the poorer ratepayers care for. It is not from them that the demand comes for sanitation, for police, for baths, art galleries, free libraries, and the like. We, in our corporate wisdom, say that the city must be made healthy and beautiful.

But the poor do not feel this as we do, and much of our legislation must appear to them like compelling people to take a bath—only that we also compel them to pay for it. To tell such people that rates must rise is to evoke an agitation to put the burden on some other shoulders. If this latter argument be admitted, I submit that it leads to some form of progressive local taxation, such as Mr. Costelloe suggests in his municipal death-duty; but I do not see that it is, in itself, any argument for the taxation of land values.

Second.—It is partly the expression of those who believe that the improvements which local taxation pays for are largely "arterial," and that arterial improvements add chiefly to the value of sites. This is quite legitimate argument. The double question that has to be answered here is—whether the site-owners are not already taxed to the full amount,[1] and whether the proprietors in Scotland are not already paying perhaps more than their share when they pay half the Poor Rate, half the School Rate, and a third of the Municipal Rates.[2]

Third.—It is partly the expression of those who think that there are many landowners keeping back municipal progress, and raising the rents of the congested districts, by holding up land. This is a very specious argument. Land in a city is the most notable instance of a necessary thing limited in supply, with demand, to all appearance, constantly increasing. I do not in the least wonder that many people are so much impressed with the necessity of such land for the living of the many, that they think

[1] See p. 43. [2] See p. 84.

public powers, in this respect, should be taken to put a limit on private powers. It is, indeed, a grievous thing when some landowner diverts the natural course of a city's expansion, and spoils its amenity by holding back ground which the wants of the district really demand.

But it is eloquent of the difficulties of the subject that, although this is mentioned by the London County Council, it is not pushed as the other resolutions are, and was not taken up in Mr. Costelloe's evidence. It is not one of the "main resolutions": it is, says the statement, of a "subsidiary character."[1]

As I have already hinted,[2] the taxation of vacant building ground seems to stand on a different footing from the other. It has a justification which is wanting in the case of ground leased or feued for building. The latter, as we have seen,[3] is taxed in anticipation. Vacant ground is not. All the time that it is "held up," it pays nothing (or a nominal sum) to imperial or local taxation. It may be the case that the gains are not quite so great as many people think, but this does not affect the fact that land, which might be yielding a revenue to the government, is yielding nothing, and that others have to pay higher rates in consequence. There seems accordingly a strong *primâ facie* case for such taxation. The Royal Commission on the Housing of the Working Classes recommended it, although the Select Committee on Town Holdings declared against it.

The chief difficulties are:

(1) It may be possible to assess vacant land within

[1] Evidence, vol. iii., p. 320. [2] P. 71. [3] P. 44.

a congested area without serious mistake, but, outside the area already built on, it is impossible, even within burghs, to predict when and to what degree agricultural land will become building ground.[1]

(2) In Lord Salisbury's words: "There may possibly be something to be said for a general recourse to the American system of taxing capital instead of income values; but to adopt it in the isolated case of vacant land in or about towns, would not only lead to much evasion, but would have injurious sanitary effects. It would operate as a penalty on all open spaces except those belonging to a public authority. Urban or suburban gardens would especially suffer. On the other hand, when any pecuniary advantage was to be gained by keeping the land vacant, its capital value could be easily reduced by collusive alienations of portions of it. By a colourable sale of the outside edge, the capital value of an interior block could be, for the time, to a great extent destroyed."[2]

(3) The taxation of vacant ground by itself does not seem practicable: it would be unreasonable to

[1] "Take the Burgh of Renfrew, which contains a very large area of land already occupied only for agricultural purposes. Some of it is a mile and a half distant from the town proper, and not likely, perhaps, to be feued within the next fifty years. The present selling price of this land at its most distant part would not exceed £50 an acre, but land near the town has recently been feued at £20 an acre, equal to a selling price of £660. Now, how would the assessor of the Burgh of Renfrew value the selling price of the whole of the land between these extremes? Where would the £660 land stop and the £50 land begin?"—Mr. James Reith, Burgh Assessor of Paisley.

[2] *Memorandum to Royal Commission on Housing of the Working Classes.*

tax it on a hypothetical value without taxing occupied ground on a similar calculation, and this brings in all the difficulties already raised.

(4) Whether it would "force land into the market" for building may be doubted. It would, of course, tend to force its sale; but, as the sale would be at a reduced price—owing to the impending tax—it might force it only into the hands of other and wealthier holders.

(5) It would prevent any well-considered feuing plan, such as has prevented premature building and preserved the amenity of our residential suburbs.

To my mind, what is wanted here is something which has not yet been provided—a careful statistical investigation of where and what the land is which is being held back when it might advantageously be taken for building purposes.[1] It is not enough, for instance, to point out that Mr. Parker Smith has not feued his fine estate of Jordanhill. The question is whether the feuing of Jordanhill for workmen's houses would be in the interest of the whole of the citizens. For the comfortable classes also must be housed, and it is easy to see that, if one-roomed houses are built in Great Western Road, the comfortable classes are likely to be driven out of the city altogether. It looks as if the ideal of some people were that the city is meant for poor men, and that every consideration must give way to housing these

[1] Those who hazard the statement that the supply of land in great cities is always short relative to the housing demand, may be able to explain the official statement of the City Assessor, that, against a total of 151,208 occupied dwellings in Glasgow in 1898, there were no less than 4,642 unoccupied, representing a rental of over £50,000.

poor men. For myself, I do not think much of that ideal. There is far too much segregation of classes already. It is not a good thing that a city should be a collection of five-storey one-roomed tenements, and it is not inappropriate to ask where the revenues of the city are to come from if the rich are driven ten or twenty miles away Surely it is the stalls which pay for the pit, as well as the pit which pays for the stalls! I hope to see the day when the housing problem will be solved in a very different way; as it has been in many cities of America—by electric trams running at fifteen miles an hour, conveying the poor man to fresh air outside when his city work is done.

Fourth.—It is partly the popular cry against unearned increment. I do not think that the people who use this term so glibly ever ask themselves what is *earned* increment. But without a conception and definition of earned increment, the adjective "unearned" is meaningless. Mr. John Burns once said that nobody was "worth" more than £500 a year. It would have been quite as logical to say £50. If a working man were to ask himself why it is that he gets 35s. a week, when his father, not less skilled, not less hard-working, was glad to get 22s., he might find an object lesson in earned and unearned increment. In short, the taxing of increment on the ground that it is unearned, introduces canons of remuneration known as yet only to Socialism.

There is only one reason that I can see for taxing exclusively the increment of land value, namely, that it is comparatively easy to do it. When land on the border of a city jumps from 40s. an acre to £40,

the increment catches every eye; and, because it usually remains in the hands of one person, it seems easy to "get at" him. But when the shares of a successful business rise to seven or eight times their par value, no one proposes to tax the holders—for the reason, I suppose, that the shares are in many hands, and are bought and sold every day. Is the possibility of "getting at" a person to be the new canon of taxation? Would it not be a caricature of equity to tax a member of the Coats family on any land he may hold in Paisley, and take no notice of his shares in J. & P. Coats?[1]

Fifth.—It is partly the expression of a larger hope. I am afraid that it is the response of the unthinking majority to the bribe set before them by the personage whom Adam Smith did not scruple to call "that insidious and crafty animal vulgarly called a politician."

Suppose the London County Council gets its way and imposes 6d. per £ on site values. This will produce £375,000, against total rates of over £10,000,000. Is it this drop in the bucket that rouses all the enthusiasm? I imagine not. I fear that the taxation of land values has got into the popular imagination as nothing less than the confiscation of rent. It is the £2,000,000 of land values in Glasgow that we aim at "appropriating," says Bailie Ferguson.[2] Considering that the

[1] See further p. 112.

[2] "You do not think it is confiscation to take a shilling a year for twenty years, so that at the end of twenty years you will get the whole sovereign: but it would be confiscation to take the whole twenty shillings at once?" "I did not say confiscation, but something like confiscation."—Question 16,846, vol. iii. of Evidence.

present rates come to only £600,000, and that an eloquent tongue can suggest how many good things may be got for the odd £1,400,000, one can understand the power of such an election cry. It is, says the Single Taxer, not the petty £375,000, but the whole £15,000,000 of land values in London that we aim at taking. Why stop at London? Promise the mob that you will confiscate "the whole £300,000,000 of British rents," and I think one can understand how the resolution approving of the taxation of land values is carried amid whirlwinds of applause.

But this, I submit, is pure Henry Georgism.

THE SINGLE TAX

"*What I propose as the simple yet sovereign remedy which will raise wages, increase the earnings of capital, extirpate pauperism, abolish poverty, give remunerative employment to whoever wishes it, afford free scope to human powers, lessen crime, elevate morals and taste and intelligence, purify government, and carry civilisation to yet nobler heights, is*—to appropriate rent by taxation."—*Progress and Poverty*, p. 288.

In the preceding pages frequent reference has been made to the doctrines of the late Mr. Henry George on the subject of taxation. Some of us can remember the sensation which *Progress and Poverty* made on its appearance in 1880. Whether or not it is, as he claimed, "the most successful economic work ever published," it is certain that very many were for the moment carried off their feet by its earnestness, its plausibility, and its headlong rhetoric, and spoke of it as a new departure—if not a new gospel. A less well-satisfied man than Mr. George, however, might have taken thought over what he called the "contemptuous silence" of the economists towards "a book circulating by thousands in the three great English-speaking countries, and translated into all the important modern languages." Unfortunately

for himself, he put it down to jealousy, and, worse, to dishonesty; and restated his theories with the same crudity, the same pretentiousness, and growing violence. How right the economists were, any-one may convince himself by a casual glance over his posthumous *Science of Political Economy*, in which he undertook to "reconstruct" the science, tracing its rise and partial development a century ago, "its gradual emasculation, and at last abandonment by its professed teachers."[1] I should, then, have thought that to write on the Single Tax was simply that form of intellectual exercise known as "flogging a dead horse," were it not that its advocates have joined hands with the advocates of the quite distinct Taxation of Land Values, and have, indeed, hailed the Glasgow Bill as a recognition and instalment of

[1] The following passage may suggest what amount of equipment Mr. George had for his "reconstruction": "The science of Political Economy, as founded by Adam Smith, and taught authoritatively in 1880, has now been utterly abandoned, its teachings being referred to as teachings of the 'classical school' of political economy, now obsolete. What has succeeded is usually denominated the Austrian school, for no other reason that I can discover than that 'far kine have long horns.' If it has any principles, I have been utterly unable to find them. The inquirer is usually referred to the incomprehensible works of Professor Alfred Marshall, of Cambridge, England . . . or to a lot of German works written by men he never heard of, and whose names he cannot even pronounce. This pseudo-science gets its name from a foreign language, and uses for its terms words adapted from the German —words which have no place and no meaning in an English work. It is, indeed, admirably calculated to serve the purpose of those powerful interests dominant in the colleges under our organisation, that must fear a simple and understandable political economy, and who vaguely wish to have the poor boys who are subjected to it by their professors rendered incapable of thought on economic subjects."—*The Science of Political Economy*, p. 208.

the revolution proposed by Mr. George. When a majority of the most advanced Corporation in the kingdom draft a public bill on his principles and get it brought into Parliament, it seems time to break silence.

To compare the proposals of the Single Tax with our recognised system, it may be convenient to recapitulate shortly the principles on which our taxation is based.[1]

There are certain commodities and services which have been at one time or other purveyed by private industry, but, in the development of civilisation, have fallen to the government; that is, to a committee of ourselves which we instruct to render us these services.[2] Certain of them are rendered direct to the individual, and, being measurable either in cost or benefit, are paid for exactly as ordinary commodities and services are.[3] But the majority are common services whose cost or benefit cannot be allocated to the individual benefited.[4] Taxation is the payment for these services, and the principle of payment is equality of burden or sacrifice.[5]

To get these common services (which, like all government goods, are part of our National Income of £1,500,000,000) we have to give up a part of our income, just as we give up another part to buy bread and butter. But, whereas we say bluntly that we pay a price for bread and butter, and enter the price among our household expenses, we prefer to say that we have to pay a "contribution" to the government for our protection, justice, etc.; and, in

[1] See *passim*, pp. 1-35. [2] See p. 6.
[3] See p. 15. [4] See p. 16. [5] See p. 21.

doing so, it may be that we have given rather a misleading direction to popular ideas on the subject. There are three reasons for using this term in our systems of Public Finance.

First. Modern taxation is the historical survival of times when the monarch asked his people for a "contribution" towards expenses which were insufficiently provided by his own income or by that of the Crown Lands, and very often levied the contribution on principles of his own for purposes on which their approval was not asked. And it may be noticed, in passing, that the fact of our taxation being an evolution from times when the "force" which imposed taxation was not the general will but a power claiming divine right, sanction, and privilege, is to blame for many anomalies which still disfigure our system, and are emphasised by some as proof of the cynical saying of Colbert, that the art of taxation consists in so plucking the goose as to procure the greatest quantity of feathers with the least possible amount of hissing.

Second. The "idea" of "contribution" is in harmony with that philosophical conception of the State which looks on it as the larger family within which men find their liberty and the possibility of "being themselves": men should contribute to the larger household as they do to their own smaller ones. It may, however, be confessed that the ordinary Englishman, not being a metaphysician by birth like my countrymen, is quite insensible to the claim of the State as his "larger self," and is, indeed, very ready to cheat his larger self out of its due contribution.

Third, and chiefly, the element of compulsion, and the method in which the total sum wanted is distributed and assessed among the taxpayers, seem to conflict with the very idea of price. In direct taxation, we have to pay for government commodities, not according to our estimate of what they are worth to us, but according to the government's estimate of what we are worth.

This difficulty did not come into prominence so long as economists held by the Benefit theory. According to this theory, the payment which we call taxation was just what the various classes of citizens would pay without compulsion if they were conscientious, if they realised that government services were goods, and if they recognised that the benefits conferred by these goods were differential. Taxes, in short, were supposed to be modelled on the type of a water-rate, where a rich man pays much because he uses much water, and a poor man little because he uses little—"to whom much is given, of them much shall be required." This theory broke down, however, at three points—(1) that it was impossible to assess, even in the roughest way, the benefit of much of our taxation to the individual benefited—the pauper, for instance, benefiting most and paying nothing; (2) that a great many of those who benefited were not able to pay in the measure of the benefit conferred; and (3) that, in modern communities, it is the rich who set the standard of government and municipal service, and demand many things, such as clean and well-lit streets, rapid letter transit,

and the like, which the poor would neither of themselves demand nor be willing to pay for.[1]

This theory, I may say, had its origin in times when the privileged classes had managed to roll the bulk of the taxes on to the more helpless classes; when, accordingly, the insistence that those should pay who benefited was used to compel attention to the fact that those who benefited most were paying little or nothing. It was applicable, again, in later times when the duty of a government was supposed to be limited to the protection of life and property, and taxation could be regarded as a kind of insurance premium. As to its still appropriate place in respect of many government services such as fees and municipal industries, and its subsidiary position in local taxation, I have said enough in a previous chapter.[2] But as regards the largest departments of imperial taxation, this theory has long been abandoned.

In the Equal Burden theory which took its place, the political idea of taxes as contributions levied by a government has very much put into the background the economic idea of taxes as prices paid for goods. Certainly in this theory, especially when stated in blunt terms as payment according to the subject's "ability to pay," we have the entire abandonment of any suggestion that the payment for government goods which we call taxation is determined like a competitive price. It is considered that, in these common benefits, the citizens benefit equally, and therefore should pay equally. Yet the price demanded of the citizens is not an equal

[1] See p. 91. [2] Pp. 15-28.

money price. I submit that we are too much under the influence of modern phenomena when we limit our idea of price to competitive money price—the figure at which a free demand and a free supply come into equilibrium. The root idea of price is surely that of a *quid pro quo* in exchange, and covers such things as monopoly price, customary price, the mediaeval fair price, the price paid by us to our medical man, the price charged an Englishman in a Continental shop or in an Eastern bazaar, and, perhaps I might add, the collective bargaining price. In short, the theory of our taxation is that we pay a price for government services, that we all pay a price, and that we all pay the same price; only it is not a competitive price, but an equal sacrifice price. How this equal sacrifice may be represented by the rich man paying pounds and the poor man paying pence, I have already shown.[1]

The fundamental principle of our taxation, then, is

[1] P. 23. Of course, it is the easiest thing in the world to bring forward individual cases which seem to conflict with this theory. Political and practical exigencies occasionally play wild work with it. All the same, there is, and for a long time has been, an economic theory of taxation. If we are still far from completely adapting our practice to that theory, we are at least far ahead of all the world in this respect. The fundamental truth, then, that taxation is a price for value received by every citizen should not be concealed by the expression "compulsory contribution." In matters of taxation, it seems to me, we cannot be too careful to keep it clearly before the citizens that taxation is not a tribute, not even a burden any more than is the paying for other forms of bread and butter, not something to be dodged, not something to be shifted on to other people's shoulders, but something charged on a clear principle of *quid pro quo*, something to be honourably paid to the government in exchange for necessaries of life. We are not penalised because we are rich; we do not escape because we are poor. We all pay an equal price in sacrifice.

that it is an equal sacrifice payment by every citizen for general services rendered him. What, now, is the Single Tax?

As its name indicates, the Single Tax is intended to take the place of all other taxes, Imperial and local. There is a fund which God, says Mr. George, has provided for taxation, just as "God has intended the milk of the mother for the nourishment of the babe." It is land rent; for rent, by its very definition, is a surplus, something that remains when capital has got its interest, the employer his profit, and the workman his wage. It is, indeed, something that does not enter into the cost of production of commodities. Therefore its abolition or its appropriation would not affect prices. It is, besides, a fund which steadily increases, and that without labour or credit to anyone, simply by the increase of man and the improvements in the arts. Unfortunately, this fund is now in private hands. Land is by law as much private property as any product of industry. But it never should have been private property, and the law which has made it so can disestablish and disendow the owners, just as it did the Irish Church. Once the modern State has resumed what the historical State had no right to part with, we have a fund large enough to pay all our imperial and local taxation—say £300,000,000 a year—and all capital and labour are relieved.

This, I think, is a perfectly fair statement of the Single Tax doctrine; and, undoubtedly, there is a simplicity about it which compares very delightfully with ours. It conceives of the government having,

or desiring to have, a private estate, the land of the nation, the produce of which goes to defray the expenses of government; whereas our present system makes the government dependent year by year on the taxpayers for the funds which it is to administer.

But, whenever thus stated, it becomes clear that these two are not rival systems of taxation at all. The *impôt unique* of the Physiocrats, which has a superficial likeness to the Single Tax, was a rival system. All taxes, they said, must ultimately rest on land; it is the only thing on which they can rest. Instead, then, of a round-about system of laying them first on this and that, and having them shifted in the end, let us take the more economical way of placing the taxation direct on land. In either case it is the same shoulders which bear it; what we shall save is friction and expense. But Henry George's doctrine was not a theory of taxation, but a deduction from his theory of the cause of poverty. He has, indeed, many hard things and true things to say of American taxation, particularly of taxation by Protection, and in what he condemns we are all on this side, I imagine, agreed with him. But he was not led to his theory by consideration of the evils of the present system of taxation and by the search for a better. His problem was the association of poverty with progress. He asserts—which is untrue—that the rich are growing richer and the poor poorer, "as though an immense wedge were being forced through society, elevating those above and crushing down those below." "The cause which determines which part of the produce will go

to the landowner," he says, "necessarily determines what part of the produce shall be left for labour and capital." Now, there are two things always with us —the increase of population and improvement in the arts. Either of these by itself would, and both of them together do, increase the proportion of the aggregate produce which is taken in rent, and wages and interest fall together. But as land is the one thing which does not increase in amount, and as it is at once the great reservoir, corn-field, building ground, and walking ground of humanity, those who own it command their own terms from those who use it. Thus, as society grows in numbers and wealth, rent takes everything but subsistence wages and subsistence interest.

It may be granted that, when a man once convinces himself of this, the rest is easy. It is right for an outraged community to confiscate the land, and that without any compensation to the holders. It cannot be unjust to do so, for rent is itself the great injustice. "It is not merely a robbery in the past; it is a robbery in the present," and it cannot, of course, be unjust for the State to confiscate stolen property. "Why should we hesitate about making short work of such a system?" "We must make land common property." One way of doing it would be to "formally confiscate all the land and formally let it out to the highest bidders"; but as a "simpler, easier, and quieter way of doing the same thing"—"avoiding a needless shock to present customs and habit of thought" and a "needless extension of governmental machinery"—he proposed to "confiscate rent"; that is, to "appropriate rent

by taxation."[1] If rent was appropriated, then, of course, the State would have funds enough and to spare for all purposes, and would not require a revenue, and so our present taxation would come to an end.

It is clear, then, that, to put forward the Single Tax as a tax, is to draw away attention from the real nature of the proposal. The essence of our present system is that, in the division of labour, we set aside a class of ourselves to provide for us certain services which are necessaries for our very life. Our problem is how equitably to apportion the payment on a principle which is intelligible and will command the respect of the taxpayers. And our taxation is, I claim, an honest attempt to charge us individually an equal sacrifice price for the services rendered to us collectively. Mr. George proposes that the same services should be rendered, but they are not to be paid for by the people who benefit. One class, the landowners of the country, are arraigned before him, and pronounced guilty of having in their possession something which they should not have; and he proposes to pay for the government services as courts of justice might conceivably pay their judges and officers—by fines. The Single Tax, in short, is a proposal to kill three birds with one stone—to abolish private property in land, to lay violent hands on the revenues of one class without compensation, and to make taxation unnecessary by using these revenues. It is not a system of taxation, but a *method* of confiscation. Once this is seen, all the advantages adduced for

[1] *Progress and Poverty*, Book viii., Chap. 2.

the Single Tax—I do not care how great they are or seem to be—are seen to be nothing more than bribes.[1]

Like all professional economists, I should have thought that to show that this scheme is not a rival system of taxation, but undisguised[2] confiscation, was enough ; and this, among other reasons, is the explanation of the "contemptuous silence" on the part of the economists[3] which Mr. George so bitterly

[1] It will now be seen more clearly how completely the Single Taxers have misled those who voted for the Glasgow Bill under the impression that they were giving their adhesion merely to "the principle of taxing land values." On p. 61 I showed that the bill provided for the common taxation of four classes who did not seem to have much in common—owners of vacant ground in congested areas, owners of land built upon, owners of feu-duties, and owners of land and property subject to feu-duties. It is evident now why these classes are to be taxed. It is not that they have been escaping taxation ; it is not that they have been getting an extra advantage which makes them better able to pay taxation. This may be the case or it may not ; the one reason they are to be taxed is that this bill is a ten per cent. instalment of the complete confiscation of rent, and rent is to be taxed this ten per cent. wherever it is found : whether the source of it has come by lines of inheritance since the Conquest or by purchase yesterday ; whether it is held by individuals, or by friendly societies and trade unions ; even, indeed, when it is in the hands of municipalities themselves. It is useless to point out that this violates all previous canons of taxation, and hits both those who have sinned and those who have been sinned against under our land system. The one answer is : If you are drawing rent you are in possession of stolen property, and you may be thankful that you are fined only ten per cent.—meantime.

[2] I say "undisguised," for, in Glasgow at least, it is now definitely confessed that "it is not a tax."

"To prevent any misunderstanding, I ought perhaps to state explicitly that I regard the proposal to confiscate the property of landowners without compensation as unworthy of serious discussion.' —Sidgwick, *The Elements of Politics*, p. 141.

resented. But late discussions with the Single Tax advocates have convinced me that the bribe offered has so far debased public opinion among a large section (who have power to express their opinions through their representatives on local and imperial bodies) that, with them, the word "confiscation" no longer carries its own condemnation. If this idea spreads much further among the masses we shall have to expound the first principles of public morals on political platforms. In short, from various expressions in my own city, I am a little afraid that the land question, in this its most recent form, is likely to be the new battle-ground of poor against rich, the economists in this case being regarded, thanks to Mr. George, as holding briefs for the oppressors. It is for this reason that I think it advisable to treat the Single Tax so far seriously as to put down briefly some of the more evident objections to it.

(i.) Confiscation of any property to which the holder has had an *ex facie* valid title for forty years is, of course, barred by prescription, the principle by which unquestioned possession for that length of time gives a title-in-law to the holder. The *rationale* of the principle is twofold: (*a*) that, after forty years, it is as impossible to prove the honest aquisition of anything as to prove the reverse; so that, without such a provision, no property would be safe from those powerful enough to raise an action. And it should be noted that the disciples of Mr. George who are strongest for this particular confiscation, are quite as strong against the confiscation of capital; (*b*) that, in the course of forty years, all sorts of

calculations, contracts, obligations, plans, etc., have been based on the possession and expectation of property; so that the disturbance consequent on confiscation would spread far beyond the persons primarily concerned, and affect numbers of wholly innocent people. It would, then, be a notable precedent for further aggressions on private property, if the first form of wealth confiscated was one safeguarded, not only by prescriptive right, but by the strongest titles which law could devise. And it would be attended by a disturbance to the whole organic industrial life of the community of which, I venture to say, none of its advocates has formed the very faintest conception.

(ii.) The confiscation of rent is defended on the ground that it is, at worst, the taking of "unearned increment"—something due, either to growing hardship as increasing numbers demand increasing food and building ground, or to improvements made by public money.[1]

[1] Mill is responsible for the expression "unearned increment." But, as he is often credited with the confiscatory doctrines which he expressly called "unjust," it may be well to call attention to the fact that his base line, above which the State might, he thought, "without any violation of the principles on which private property is grounded," tax any increment, was the *present market price* of land. His words are these: "The only admissible mode of proceeding would be by a general measure. The first step should be a valuation of all the land in the country. The present value of all land should be exempt from the tax; but after an interval had elapsed, during which society had increased in population and capital, a rough estimate might be made of the spontaneous increase which had accrued to rent since the valuation was made. Of this the average price of produce would be some criterion if that had risen, it would be certain that rent had increased, and (as already shown) even in a greater ratio than the rise in price. On

Objection may be taken *in limine* to begging of the question by the unhesitating condemnation of "unearned" without any definition of "earned," and without any consideration of "unearned decrement"; and to the fining of land increment while passing by other notorious forms of increment, quite as "unearned," such as money, monopolies, etc. It may be questioned whether the mere increase of wealth does not give an increment to all participants in the increasing National Income, irrespective of any "deserving" such as might be supposed to accrue to increased work or sacrifice.[1] And, again, it may be asked whether the "public money," which made the improvements, was subscribed by those who are to get it in reduction of rent and in "relief of taxation."

But, independently of this, the serious objection is that the measure would not reach great numbers of those who have enjoyed the increment, but would fall on those who have *bought* from them at prices which included the increment. The class aimed at is the "aristocracy," the assertion being that, in

this and other data, an approximate estimate might be made, how much value had been added to the land of the country by natural causes; and in laying on a general land-tax, which for fear of miscalculation should be considerably within the amount thus indicated, there would be an assurance of not touching any increase of income which might be the result of capital expended or industry exerted by the proprietor. . . . From the present date or any subseqent time at which the legislature may think fit to assert the principle, I see no objection to declaring that the future increment of rent should be liable to special taxation; in doing which all injustice to the landlords would be obviated, if the present market price of their land were secured to them; since that includes the present value of all future expectations."—*Principles*, v. ii. 5.

[1] Cf. p. 96.

hereditary succession, they have been robbing the people for eight centuries; the class hit would be very largely not only the comfortable but the poorer classes, whether directly, or through the great corporations in which they are deeply interested, such as churches, charities, insurance offices, friendly societies, trade unions, co-operative societies, etc. If it be impossible to gain a hearing on grounds of "justice" from people who have persuaded themselves that justice always works against the rich, it may be possible by showing that the punishment would fall very largely—perhaps chiefly—not on the presumed evil-doers, but on themselves.

(iii.) Suppose the Single Tax established, it would end that connection between taxation and parliamentary institutions which began at Runnymede, and has made us the freeest people in the world. It would put an income into the hands of the government, while removing the constant check of coming to the people for supply. And as the present vote is based on taxation, it would, I suppose, bring in manhood suffrage: that is, it would give this Fortunatus Purse into the control of the masses, while removing from them the salutary necessity of first filling it. It would, in short, be an overturn of the present British constitution.

It is generally assumed that the new income from the confiscated rents would be much greater than what we at present require. If Bailie Ferguson's figure of £300,000,000 is correct, this would be so; and one may guess what would be the temptation to corruption and pauperising expenditure. If, however, it should turn out to be smaller, it would

be necessary, as rent is a "natural" surplus, to have recourse to the old system to make up the balance, after we had abandoned or disorganised the machinery for collecting it—or find another class of income to confiscate.

(iv.) It would relieve from taxation those whom we have considered most obviously bound to pay taxes, and who paid them with least murmur, the comfortable and capitalist classes. Socialists, in fact, when they are not kept quiet by the consideration that it is a long step in their direction, may well denounce the Single Tax as a measure which relieves their favourite enemies. It is a measure strongly advocated as a relief of industry,[1] the "relief" spoken of being the relief of employers—not from rent, for the State steps into the place of the private landowner, but from taxes, with its assumed results of lower prices, increased demand for goods, increased demand for labour, and increased wages. It might as well be added "increased profits." Thus it is a confiscation of the income of one set of capitalists—the landed class—in aid of the incomes of another set of capitalists. The question might very well be put: "Where, in all this shower of blessing, does the working man come in?"

I have heard it argued, indeed, that the working man is taxed, not only in his tea, tobacco, and liquor, but in every commodity he buys, inasmuch as no one

[1] It would be a pity if so great a confiscation did not have some good effects, but it may be as well to remember that this is not £300,000,000 added to the National Income, but £300,000,000 transferred from a class of the community to the whole body of tax and ratepayers. More than one nation, in historical times, has found that the confiscation of the church lands did not mean the abolition of poverty.

can manufacture anything without first paying for the privilege in the shape of rent. But, of course, this is to deny the Ricardian proposition that rent does not enter into price, while the whole doctrine of the Single Tax is founded on the Ricardian law from which this is the direct and unquestioned deduction.[1]

The same answer applies to the contention that industry in towns is restricted by high rents. As rent does not enter into price, it is evident that high rents must be the equivalent of some differential advantage: otherwise town manufacturers could not compete with rivals on the outskirts. The assertion, indeed, is commonly made, about certain London industries, that the reason why they contrive to remain in congested districts and yet pay high rents, is because of cheap women's labour—too often subsidised. If so, perhaps this is the differential advantage, and it is not one that should be further encouraged.

(v.) It would, as the Single Tax, put an end to the taxation of commodities, and it is, indeed, buttressed up by the contention that indirect taxation is a means of putting burdens on the poor without their being aware of it. As usual, it is ignored that the rich, in addition to their income taxes and death duties, also pay indirect taxes,[2] and that there is a

[1] To suggest, as is sometimes done, that manufacturers include their taxes in the price of their goods, and thus make the consumer pay them, is as worthy of serious argument as would be the contention that manufacturers contrive to charge up their butcher's bill to the consumer. See p. 10.

[2] Cf. page 26, note.

good deal to be said for it as tending to Professor Sidgwick's ideal of making taxation proportional to superfluous consumption, and so equalising sacrifices more nearly than by the rule of proportioning taxation to total income.[1] But, apart from this, as the great bulk of our indirect taxation is raised from liquors, this would put an end to at least one moral purpose served by our system, the raising the price of liquors. There are those, no doubt, who think that "free trade in drink" would tend to promote temperance. Perhaps it is enough to recall the chapter in Mr. Lecky's *History of England in the Eighteenth Century*, where he narrates what happened in the early part of that century when the Excise taxes were removed, and the expression, "drunk for a penny, dead drunk for twopence, and straw into the bargain," was not a joke, but a common wording of the signboards above the gin shops.[2]

All these objections, I am aware, fall on deaf ears once people have embraced the faith that private owning of land is an "injustice." Ever since the world began men have responded to the appeal for justice, and ever since the world began has justice been found the last and most disputed question of all philosophies. The same objections, they say, were urged against the abolition of slavery, and, although slavery was an institution sanctioned by the State, it was swept away once the

[1] *The Principles of Political Economy*, 2nd edit., p. 567; also *Memoranda presented to the Royal Commission on Local Taxation*, p. 101.

[2] Vol. i., 479.

national conscience recognised the rights of man. And this, we are told by their leader, is a far more serious question than slavery.

To put landowning in the same category with slave-owning, is, of course, to prejudge the case; to say that the arguments were wrong in the one case is not in the least to prove that they are wrong in the other. I quite admit that there are peculiarities in land which make the private possession of it peculiarly open to abuse, and would justify a State in attaching to it peculiar responsibilities. But I submit that a fierce light beats upon the owners of land. Their gains are blazoned by every reformer: their losses are hidden and frankly disbelieved. The iron of their "trespassers beware" has entered our soul: we expect them to be arrogant and supercilious, and it would be a wonder if we did not find them so: if they show the old virtues of English landlordism, we call them at best benevolent despots. In short, I seem to see that the indignation generated by the action of a few selfish autocrats straining their rights, is out of all proportion to the injury done to the people by it. And that the evils complained of are such as to justify anything like confiscation, or even fine, I entirely deny.

Among people who amuse themselves with "natural theology," it is easy to point out that land is eternally limited while population is not, and to deduce the conclusion that, as the Creator is responsible for both facts, He could never have meant the possession of land to be entailed on one set of owners. Mr. George tells us that the Almighty has forbidden private property in land "by a decree written upon

the constitution of things," just in the same way as Aristotle said that slavery was written "in the constitution of the universe"; just in the same way as devout Socialists tell us that nothing satisfies the Christian idea but equality of possessions. One gets a little tired of home-made theology; but it may be granted at once that, if landowners were free to exercise their powers, and liked to exercise them, they could make things exceedingly uncomfortable for the rest of us. But, happily, landowners are not men who are removed from ordinary economic considerations. They are, as a rule, just as anxious to draw an income from their land as we are to make an income by the use of it. Although they are few compared with the whole population, they do compete with each other to hire or sell their land, and, in times when our little island is so closely connected with millions of acres of virgin soil in other countries, it is absurd to say that the monopoly is an "iron" one.

The Royal Commission on Agricultural Depression (1897), on calculations made by Sir Alfred Milner and Sir Robert Giffen, reported that the capital value of rural land, as compared with other forms of property, had enormously altered within the previous twenty or thirty years, and put down the fall at no less than £1,000,000,000, or 50 per cent.; adding that "over a very considerable part of this country, true rent has entirely vanished, since the owners are not receiving the ordinary interest upon the sum which it would cost to erect buildings, fences, etc., as good as those now existing." One may well doubt the value of Royal Commissions, to

the citizens at least, if a few striking figures of land increment are held to contradict all the calculations of our most careful statisticians.

As regards urban land, it probably, on the whole, tends to rise, although even here there are long periods when it falls back. When the City Improvement Trust in Glasgow took compulsory powers and bought up large tracts in the most congested districts, it was found a very bad investment, from a pecuniary point of view, for many a year afterwards, and the citizens were not sparing in their criticism. Even to-day there are great districts now being feued at the same price as was offered the owners twenty years ago. How is it possible to reconcile the catch phrase, that "all improvements register themselves in land," with such a fact as this? Does anyone deny that wealth, steadily and greatly increasing year by year, "registers itself" in cheap goods, improved environment, and, generally, in higher wages? Does anyone believe that the petty £35,000 annual increase in the ground rent of Glasgow "registers" the growth of wealth in that city?

It is, of course, regrettable that Glasgow, like other cities, once parted with lands of its own for a small sum, and had to buy them back for public purposes at a very high figure. But on the general question of municipalities owning land, I would call attention to Professor Marshall's suggestive calculation. "The discounted value of a very distant rise in the value of land is much less than is commonly supposed. For instance, if we take interest only at five per cent. (and, of course, a much higher rate pre-

vailed during the Middle Ages), £1 invested at compound interest would amount to about £130 in 100 years, £17,000 in 200 years, and £40,000,000,000 in 500 years. Therefore an expenditure by the State of £1 in securing to itself the reversion of a rise in the value of land which came into operation now for the first time, would have been a bad investment unless the value of that rise now exceeded £130, if the payment was made 100 years ago: if 200 years ago, the gain ought now to amount to £17,000; if 500 years ago, to £40,000,000,000."[1]

In any case, I should deny that this is a fit subject on which to assert the last right of revolution. I should disbelieve in a millennium brought about by the violent confiscation of that which law and order have pronounced peculiarly sacred. I should say that, in the interests of a people rising so rapidly into the possession of wealth and capital, it is expedient rather to confirm the traditions of property than to overthrow them.

As things are, the land of the nation has for eight centuries been regarded as private property, and has passed from hand to hand in sale, gift, and bequest, under the weightiest sanctions and safeguards which legislation can give. For the State, then, to confiscate this land without compensation, is to go back on its history for all these centuries; to declare that there is a power above the State which made this legal right a moral wrong; and this is to appeal from the highest court we know to a philosophical conception.

I should be the last to say that there is not, in

[1] *Principles of Economics*, 4th edit., p. 718, note.

the ultimate resort, such an appeal—an appeal from the will of the majority to the General Will; but we must be very sure that it is the General Will, and not the will of a majority which may turn into a minority at the next turn of the political wheel.

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