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URBAN RATES

[IN this paper, published under the title of "Incidence of Urban Rates" in the *ECONOMIC JOURNAL* for 1900, the answers of several leading economists to questions put by the Royal Commission on Local Taxation are discussed with special reference to three leading questions. Firstly, the utilitarian criterion is restated with special reference to Local Taxation. Secondly, the incidence of a tax or rate levied on the occupation and rent of house premises is once more brought up for discussion. There is developed the attack begun in a former paper (S) upon the classical doctrine that the proportion of the impost falling on the occupier can be assigned from the proportion of the ground rent to the total rent of the premises. Lastly, various proposals for raising a revenue from ground rent or site-value are considered. Mill's proposal, confined to unearned increment, is entirely approved. It is shown that had this plan been adopted for London, in the 'sixties of last century, there would in 1900, without any shock having been given to the rights and expediencies of property, be flowing into the local treasury an additional revenue of some two millions annually. Other schemes, not adapted like Mill's to secure equity in distribution, and to avoid discouragement to production, are examined and condemned. The condemnation might have been less sweeping, if I had had before me at the time of writing (1900) the views expressed by Professor Pigou in his *Policy of Land Taxation*, 1909, set forth in the context of the following passage: "Let us eliminate for a moment the consideration of equitable distribution and focus attention upon the varying degree in which different taxes inflict indirect injury on the community in general." That a tax on rent other than what is unearned increment has some advantage on productional grounds was perhaps not sufficiently taken into account in the arguments employed in this paper. But arguments should always be interpreted by what they are intended to refute; and it will be found that the schemes against which the polemic here reprinted was directed were not characterised by any regard for productional advantages, but were

based on erroneous estimates of the income accruing from land as distinct from labour, confusion between rent proper and rent "as it is constituted," in Ricardo's phrase, that is, quasi-rent, metaphysical conceptions as to the peculiarities of property in land, culminating in the dictum of the single-taxer which puts a land-owner on a par with a slave-owner, in fine, the influence of Mill's doctrine distorted and misapplied by socialistic rapacity and superstition.]

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Incidence here denotes all those effects<sup>1</sup> of taxation with which the economist is concerned. The title thus interpreted covers part of the ground which the Royal Commission on Local Taxation has recently illuminated by the publication of "Memoranda" relating to the "Classification and Incidence" of taxes.<sup>2</sup> The Commission have accomplished a remarkable feat; they have improved on the British Blue Book. The oral examination of witnesses which characterises our Parliamentary inquiries is admirably adapted for eliciting authentic facts and expert opinion. But for the purpose of exhibiting trains of economic theory questions urged without concert are less serviceable—the Platonic dialogue itself would hardly be continuous enough for this purpose. It was therefore a brilliant idea to substitute paper work for *virâ voce* examination. The reader who compares and combines the different answers given to the same questions may hope to obtain a more accurate and complete statement than if he had followed any one authority. He may not only obtain a corrected result, but may also test its correctness, if he employ this unique opportunity of observing how far propositions in political economy present the essential characteristic of science, consensus. With this *double* object in view it is now proposed to reconsider some of the matters about which the Commission inquired. A *third* purpose may at the same time

<sup>1</sup> Compare Mr. Cannan (at p. 166 of the *Memoranda* referred to in the next note): "I have no doubt that it is better to eschew the use of the term 'incidence' of taxation. . . . It is far better to consider the *effects* of taxation." Thus the effect of a tax on bicycles, according to Mr. Cannan's usage, reaches "not only to those who use bicycles, and benefit because other people use them, but also to those who would have used bicycles, or would have benefited by other people using them, if the obstruction of the tax had not intervened." According to the present writer's usage, the effect would also reach to the landlords of Coventry, so far as their rent might be reduced by the check to the production of bicycles.

<sup>2</sup> *Memoranda chiefly relating to the Classification and Incidence of Imperial and Local Taxes*, issued by the Royal Commission on Local Taxation, 1899 [C. 9528]; hereinafter referred to as "*Mem.*"

be subserved : to criticise some popular proposals in more detail than the original questions suggested. The reconsideration retains the form of answers to an examination paper. The questions cover less ground than the original ones ; the answers are correspondingly narrowed, and are further abridged by the writer's contenting himself with a bare reference to much of what he has said in answer to the Commission.

#### QUESTIONS.

I. According to what first principles should the burden of taxation be distributed ?

II. What are the effects of (1) an imperial tax, (2) a local rate, levied upon the occupiers of houses in proportion to rent or letting value ?

III. Distinguish and discuss schemes which have been proposed for rating owners of urban lands and buildings.

#### ANSWERS.

I. *First Principles of Taxation.*—An individual cannot hope to reveal new axioms of conduct. He can at most fructify principles already implanted in the mind of his contemporaries ; much as one member of a committee may frame a resolution expressing the sense of the majority. In this spirit is submitted as a canon now generally acceptable, that in distributing the burden of taxation regard should be had to the "wants and feelings," in Mill's phrase,<sup>1</sup> of the taxpayer. It is not merely that "every tax ought to be levied at the time or in the manner in which it is most likely to be convenient to the contributor to pay it" ; consideration of the sacrifice incurred by the taxpayer dictates not only Adam Smith's third and second canon, but also the modern equivalent of his first. "It was not the amount of taxation," writes Sir Alfred Milner of Egypt under Ismail, "which did the mischief, it was above all the irregular, cruel and arbitrary manner in which the taxes were collected." In civilised countries there is no hesitation about condemning an injurious manner of levying taxes, the question is how the amount should be apportioned as between the different classes of contributors. It would be judged intolerable in the present age that the poor should bear the greater part of taxation, as under the *ancien régime*, or even a part proportioned to their income, as seemed

<sup>1</sup> Book V. ch. ii. § 4.

reasonable to McCulloch<sup>1</sup> and Cornewall Lewis.<sup>2</sup> The rationale of the distribution which now finds favour appears to be no other than those laws of sentence or "pathological propositions," upon which, according to Bentham, "the good of equality is founded,"<sup>3</sup> by a constructive reasoning which is approved by Professor Sidgwick.<sup>4</sup> Alike with respect to property and taxation, the fundamental "law of diminishing utility" would carry us very far in the direction of socialism, if this principle of utilitarian distribution were not cut into by another utilitarian principle, founded on the danger of restricting production.

"In considering the economic effects of taxes, we have to allow weight to *productional*, as well as *distributional*, consequences, and sometimes to allow more weight to the former."<sup>5</sup>

"Even in the interests of equity canons based on mere considerations of equity are often of but secondary importance in practice."<sup>6</sup>

This principle also has what may be called its formal side, relating to the immediate consequences of taxation, expressed in Adam Smith's *fourth* canon, and in that which a modern authority has called the "first and most important of the principles that should guide the practical financier"—that "taxation should be productive."<sup>7</sup> It may be, in the present state of civilisation, that this preliminary "productional" condition cannot be satisfied without prejudice to "distributional" requirements, and the utilitarian must sadly acquiesce in an otherwise undesirable inequality of taxation as "inequitable and inevitable."<sup>8</sup> But beyond the condition that taxes should be productive to the Treasury, there are wider productional advantages to be taken into account:

"Speaking generally, those systems of finance have caused the least injustice and hardship which have most favoured the development of the energies and inventiveness of the people, which have hindered them the least in the selection of those routes for the satisfaction of their wants." . . .<sup>9</sup>

<sup>1</sup> *Edinburgh Review*, Vol. LVII. p. 162.

<sup>2</sup> Report of the Select Committee on Parochial Assessments [1850. No. 622]. Evidence of Sir G. C. Lewis (Q. 2379). "My own opinion is unfavourable to a graduated income tax, as I wish to see all persons contribute equally from their means."

<sup>3</sup> *Principles of the Civil Code*, Part I., ch. vi.

<sup>4</sup> *Political Economy*, Book III., ch. vii. § 1. *Politics*, ch. i. p. 9.

<sup>5</sup> Sidgwick, *Mem.*, p. 109.

<sup>6</sup> Marshall, *Mem.*, p. 114.

<sup>7</sup> Bastable, *Public Finance*, III. 7, § 5.

<sup>8</sup> Mackay, *Mem.*, p. 220.

<sup>9</sup> Marshall, *Mem.*, p. 114 (immediately following the passage last quoted from the same expert).

To this head—production, including economy and efficiency—may be referred the following provision (if it does not rather belong to the class of political considerations<sup>1</sup> omitted in this article).

“So long as a person retains the right of voting on the levying and expenditure of taxes, it is not safe that he should wholly escape onerous taxes.”<sup>2</sup>

The infraction of utilitarian distribution thus threatened is avoided thus :

“It may be safe and reasonable to return to him or his children the equivalent of his payments in such benefits as will increase physical and mental health and vigour, and will not tend towards political conscription.”<sup>3</sup>

When these benefits are set off against that burden, ought the net sacrifice to be the same for every taxpayer? Or is the criterion not the equal sacrifice of each, but the least sacrifice of all? The authority of Mill is invoked for the first doctrine; the authority of Bentham may be invoked for the second. The two varieties of first principle have been balanced elsewhere;<sup>4</sup> the following additional consideration is now thrown into the scale. It being admitted that the *desideratum* is some compromise between the benefits and burdens of taxation, if with Professor Sidgwick we leave out of consideration the *political*<sup>5</sup> conditions of a good tax (upon which the amount and kind of taxation depend largely), those conditions which the economist is principally concerned to realise may thus *primâ facie* be envisaged; to obtain the nearest possible approximation to equality of sacrifice, with the least possible check to the production of wealth. But this provisional description is not an accurate definition. For in order to obtain a maximum in respect of two quantities, there seems to be postulated a *third* quantity dependent on them, the maximum of which constitutes the *quæsitum*. This *tertium quid* can be nothing else but utility, advantage in general considered as varying both with the totality of production and the equality of distribution. This dialectic is exactly parallel to that by which it is concluded that the first principle of utilitarianism is, *not* “the greatest happiness of the greatest number,” but

<sup>1</sup> *Cp.* note 5.

<sup>2</sup> Marshall, *Mem.*, p. 114.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Mem.*, pp. 127-8, and references there given.

<sup>5</sup> *Political Economy*, III., ch. viii. § 6. “There are very important political reasons for preferring some laws to others, and for seeking to realise certain ends in taxation generally which lie beyond the scope of a strictly economic discussion.”

the greatest quantum of happiness.<sup>1</sup> The more familiar statement has indeed some advantages. That it is more familiar is no small advantage; another is that it emphasises an essential condition of greatest happiness, that the means of happiness should not be monopolised by a few. The popular, as compared with the exact, formula has only one disadvantage: that it is nonsense. To find the maximum of one quantity, A, "of" or in relation to the maximum of another quantity, B, is a statement of a problem in the calculus of variations which no amount of authority can render other than inaccurate<sup>2</sup>—not the authority of Mill, not even that of Bentham. Maine must be understood as speaking of the substance, not the form, of the Greatest Happiness principle, when he concludes that

"The only possible, the only conceivable principle which can guide legislation on a great scale, is the greatest happiness of the greatest number."<sup>3</sup>

It is a refinement of esoteric philosophy to object that this only conceivable cannot be conceived; for the purpose of the author's political argument the popular form is the most forcible. May we not interpret with a similar freedom the experts who have professed the principle of equal sacrifice? Their object has been evidently to apply the principle to the practical questions of progressive taxation or exemption of minimum, not to define with theological precision what Lord Farrer calls "the mysteries of equal sacrifice." Consider, for instance, Mr. Courtney's<sup>4</sup> weighty judgment:

"With respect to all services which are recognised as common and indivisible the apportionment of their cost must follow the principles of taxation in general. As to this the answer which has most recommended itself to me is that taxation for common purposes should be levied from each member of a community according to the law of equal sacrifice, meaning thereby that each individual should be mulcted of such a sum as would, having relation to his means, involve the same sacrifice to the common want. The suggestion which has often been made of allowing to each member of the community an irreducible minimum necessary for the maintenance of existence, before considering the taxation of the overplus, is founded on an obscure appreciation of this doctrine of sacrifice, since the sacrifice becomes

<sup>1</sup> See Sidgwick, *Methods of Ethics*, Book IV. ch. i. § 2.

<sup>2</sup> *Cp.* below, **X**, p. 241.

<sup>3</sup> *Early forms of Government*, p. 400.

<sup>4</sup> Other experts who have explicitly professed the principle of equal sacrifice are Giffen, p. 25; Sidgwick, p. 101; Gonner, p. 145; Blunden, p. 188.

infinitely greater when this minimum is trenched upon. Correlative, however, to a reservation of the minimum is the suggestion that with the extension of the overplus the proportion of the tax may be increased, since the sacrifice diminishes as this extension increases. The principle of graduation of taxation thus appears to be dictated by considerations of pure justice, but it must be admitted that it is extremely difficult to apply a rule of graduation. It must be regulated by such conceptions as we may have of the tenacity of attachment of the normal man to growing possessions, and of the corresponding sacrifice involved in a tax on this tenacity. All we can hope for is some rude measure of apportionment approved by common morality."

The wisdom of these counsels would not be impaired if for the "same sacrifice" to each taxpayer we substitute the *least aggregate sacrifice*. What though the principle of least sacrifice might prescribe a *less than equal* sacrifice on the part of the poor man, yet, in view of the resistance of the "normal man" and other practical considerations, the prescription is only a counsel of perfection not practically distinct in its direction from the nearer, though still very distant, goal of equal sacrifice. May we not regard equal sacrifice as conducive to, and, in the phrase of Mr. Courtney, "founded on an obscure appreciation of," the prior principle?

*A fortiori*, this interpretation is applicable to those who, with Professor Bastable and Mr. Price, avoiding the mysteries of equal sacrifice, rest in the happy ambiguity of "taxation according to ability." Professor Bastable, indeed, when prescribing

"the canon of taxing according to ability, which may most conveniently be regarded as measured by amount of income,"<sup>1</sup> is presumably to be read in connection with the parallel passage in his *Public Finance*:<sup>2</sup>

"An equal charge will impose equal sacrifice on persons of equal 'faculty,' and where abilities are unequal, a corresponding inequality in the amount of taxation will realise the aim of equality of sacrifice."

But whether it is easier to say "ability" or "equal sacrifice," may not the practical arrangements suggested be just as well regarded as realising the aim of least sacrifice?

Still less do those who, with Professor Marshall, appeal to the "obligations of duty," or "the public conscience"<sup>3</sup> discriminate

<sup>1</sup> *Mem.*, p. 140.

<sup>2</sup> Book III. ch. iii. § 3.

<sup>3</sup> *Mem.*, p. 113. Compare Mr. Caillie (*Mem.*, p. 244), quoting Montesquieu: "The public revenues are not to be measured by what the people are able, but

against least sacrifice; upon any system of morals and politics. On the Utilitarian system the public conscience is informed by the Greatest Happiness principle. It is no clause of that principle that happiness, positive or negative, should be equally distributed.<sup>1</sup>

Nor does the equality of sacrifice derive any support from the equality of treatment asserted by some of the experts :

"No inequality of treatment shall be meted out as between individuals possessing similar amounts of wealth" (Cannan, p. 165).

"Equity demands, as a matter of course, that there shall be no exemptions of, or omissions to tax, particular classes or individuals" (Blunden, p. 189).

The equal treatment of different persons in identical cases is a condition underlying every reasoned theory of social conduct : formulated by Clarke as "a rule of righteousness," and sublimated by Professor Sidgwick into an axiom of Utilitarianism.<sup>2</sup> Now Utilitarianism, as stated above on the highest authority, aims at least, rather than equal, sacrifice.

Of course, it is not pretended that the Utilitarian maximum problem has been made easy by being made more intelligible. The difficulty of the *unit*,<sup>3</sup> which some regard as insuperable, still remains. "We cannot hope for more than a very rough approximation."<sup>4</sup> "No near approach to equity in taxation is attainable."<sup>5</sup> "But although the pursuit can never be wholly, or even very largely, successful, the quest is not therefore to be abandoned."<sup>6</sup> Faint as the light is of our guiding principle, it is infinitely preferable to the moral darkness which succeeds

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by what they ought to give" (Liv. XIII., ch. i.). It is in this spirit that Montesquieu says later : "Dans l'impôt de la personne la proportion injuste seroit celle qui suivrait exactement la proportion des biens" (Liv. XIII., ch. vii).

<sup>1</sup> Cp. Sidgwick, *Politics*, ch. xxx. § 2. "If it is meant that equality in the distribution of happiness is in itself to be aimed at, the maxim is certainly different from the general utilitarian principle which I have taken as fundamental. . . ." "To aim at equality in distribution of happiness may obviously be incompatible with aiming at the greatest happiness on the whole."

<sup>2</sup> "That the good of any one individual is of no more importance as a part of universal good than the good of any other." *Methods of Ethics*, Book III. ch. xiii. § 4.

<sup>3</sup> Attention may be called to Dr. A. Voigt's reflections on the measurement of economic advantage by *ordinal* numbers, degrees of utility being distinguished as *first, second, etc.*, in the order of magnitude, but not as multiples of a unit. (*Jahrb. f. d. Gesamt. Staats*, 1893, No. 4; noticed in the *ECONOMIC JOURNAL*, Vol. IV p. 202.)

<sup>4</sup> Sidgwick, *Mem.*, p. 101.

<sup>5</sup> Marshall, *Mem.*, p. 114.

<sup>6</sup> Blunden, *Mem.*, p. 189.



when regard for the feelings of the poor who bear the burden of taxation is extinguished. By what other test than sympathy with sacrifice is judgment to be formed upon what Mill calls<sup>1</sup> "the disproportionate weight" with which the customs and excise duties "press on the poorer classes"? Without that test could we even condemn the iniquities of the *ancien régime*? The more objective criterion of "productional" interests might indeed forbid such taxation of necessities as would prejudice efficiency. But would regard for production be an adequate inducement to exempt a minimum from income tax, or to spare the comforts of the masses? It is only the more intelligent "shepherds of the people" who, in order the more frequently to shear, will take care never to flay, their flocks.

The taxation thus far considered has been *onerous*, which may be defined as

"taxation to defray expenditure of which the benefit (if any) which accrues to the individual taxpayer is so vague and indirect that the principle of proportioning payment to benefit is inapplicable."<sup>2</sup>

When the benefits of Government can be allocated to individual recipients, the rule is that they should be paid for by the recipients.<sup>3</sup> This is desirable both on productional and distributional grounds; both to prevent the wasteful use of the service, and to secure an equitable distribution of net sacrifice as between those who use and those who do not use the service. But this general rule, as we have seen,<sup>4</sup> has an exception, when a benefit is intended as a compensation for an inevitable burden, and is not likely to be used wastefully. Generally when Government does make a charge for the use of a public service like the Post Office, the price which the consumer has to pay is not the measure of the benefit which he obtains, as in a regime of open competition.<sup>5</sup> Nor, if a service is supplied gratis to private individuals, as the use of a road maintained for military reasons at the national expense, or the free education of children,<sup>6</sup> is the cost to Government a measure of the benefit special to the individuals using the service. The question what services Government should undertake, what things people should be left to do for themselves, is not considered here.

<sup>1</sup> *Political Economy*, Book V., ch. vi. § 3.

<sup>2</sup> Sidgwick, *Mem.*, p. 110.

<sup>3</sup> *Cp.* Sidgwick, *Politics*, ch. xi. § 4; *Mem.*, p. 101; Courtney, *Mem.*, p. 85, last par.

<sup>4</sup> Above, p. 154.

<sup>5</sup> Exports in reply to the third question set by the Commission.

<sup>6</sup> Courtney, *Mem.*, p. 85.

These propositions, applied in the first instance to individual taxpayers, may be extended to the financial relations between the sovereign state and corporate units, such as municipalities and the component parts of a kingdom or empire. The large relief from the burden of taxation which *primâ facie* on distributional grounds should be afforded to the less prosperous subordinate communities, is restricted by the productional principle, that those who have a share in calling the tune should have a share in paying the piper.<sup>1</sup> However, the hurt thus done to distribution may be alleviated by imperial subventions. In the result there should be fulfilled the condition that the members of poorer corporations or other sections of the nation should suffer a sense of burden or sacrifice equal with, or at any rate not greater than, the onus felt by the richer classes. But the condition can only very approximately be realised, indeed only very imperfectly defined. For example, some exemption from taxation is reasonably claimed for Ireland, on account of her comparative poverty; but to draw up this claim with the precision of a commercial account shows a misconception of the whole theory. "The claim does not rest on grounds of arithmetic, but of human wants and feelings," as Mill says with reference to the "general principles of taxation." The short method of determining the contribution of the wealthier part of a United Kingdom by means of its available surplus is the more inadmissible in that it ignores the *productional* consideration of part of the "surplus" as necessary for efficiency.<sup>2</sup> But while remembering that the directions of our chief guide are not perfectly precise, let us not forget that they are the best we have; far better than the false simplicity of financial relations, which minds uninformed by Utilitarian philosophy are prone to accept. The specious maxim that the same commodity should be taxed identically in different regions may be instanced as one in which official routine would be apt to acquiesce, if uncontrolled by a regard for the feelings of the people who pay the taxes.

The condition that Governmental aid should not encourage waste is to be construed strictly in dealing with corporations. So insidious is the tendency of "doles" to pauperise. What grant could appear less demoralising than one for the maintenance of pauper lunatics? Yet, as Mr. Mackay brings evidence to prove,<sup>3</sup> the financial advantage to be gained by a locality if it can get

<sup>1</sup> *Cp. Farrer, Mem.*, p. 69.

<sup>2</sup> As pointed out by Professor Sidgwick in the *Memorandum* which he contributed to the "Financial Relations" Commission. *Cp. above*, §, p. 119.

<sup>3</sup> *Mem.*, p. 232.

some of its paupers classed as lunatics has led to unexpected abuse. It is pointed out by Mr. Cannan<sup>1</sup> that imperial subventions designed to alleviate the inequalities of natural advantages in different localities would tend to an uneconomic distribution of capital and population—though, on purely distributional grounds, as tending to equalise net burdens, such grants might be advocated. In estimating the benefit derived by a section of the nation from a public service special to that section it would not in general be proper to take the cost to the Government as the measure. Thus the benefit to the Irish people of the Constabulary maintained by imperial expenditure for partly imperial ends, is not to be measured by the whole, but only by a part—Sir Edward Hamilton has suggested half<sup>2</sup>—of that expenditure.

What services should be supplied by the central Government to the subordinate community is a question not considered here. But the case in which a municipality supplies its own wants has an aspect which concerns us. The burden of the contributions required for that purpose is to be distributed among the members of the subordinate community according to the principles which we have been investigating with respect to sovereign communities. Part of the local taxation will be *onerous* in this sense, that the benefit sought by the subordinate community as a whole cannot be allocated to the individual ratepayers. Onerous in a *secondary* sense let us say, in contradistinction to the use of the term with reference to *national* purposes. Is the bulk of ordinary local taxation to be regarded as onerous in this secondary sense? There is much to be said for this usage. As Professor Seligman puts it :

“ Even in local finance, where a general tax is levied to defray all the local expenditures, it cannot be maintained that the benefits arising from the action of the local judiciary, of the police, of the fire service, of the Board of Health, or of the other departments of local government, are separately measurable for each individual. . . .”

“ Although the particular area which is benefited is put into a separate class, the benefits to the individual of the class are general, not special, exclusive or individual benefits ” . . . “ as

<sup>1</sup> *Mem.*, p. 170.

<sup>2</sup> Evidence before the Financial Relations Commission (c. 7720, II., p. 116).  
“ In order to be absolutely fair towards Ireland, I will consider that half the charge the Irish Constabulary and Dublin Police is an imperial charge, just as if it were a military charge.”

to every one within the class, the tax is payable, whether the particular individual receives much or little benefit."<sup>1</sup>

Certainly it would be infelicitous to characterise local taxation as "beneficial" on the mere ground that the expenditure of the municipality is directed to its own as distinguished from the national purposes. The analogy of a corporation supplying its own wants is not with an individual paying beneficial taxation to the central Government, but with an individual who procures commodities for himself. On the other hand, it is to be considered that the expenditure on the usual objects of local taxation is apt to redound to the pecuniary advantage of the contributors more directly than the expenditure of onerous national taxation. The cleansing of streets and sewers has the result that the occupiers of residences in the improved neighbourhood enjoy a commodity of higher market value; but the removal of a stain from the national flag is not an asset to the average citizen even approximately proportionate to his share of taxation. The tendency of a national onerous tax to "make the more roving classes live abroad," acutely noticed by Mr. Sargant,<sup>2</sup> is indeed a phenomenon similar in kind with that competition between localities which renders non-remunerative local taxation distributed according to "ability" or "sacrifice" difficult.<sup>3</sup> But the difference in degree<sup>4</sup> seems to justify the usage of the experts.<sup>5</sup> Though in general theoretically the burden of taxation, in the case where the benefit sought by the community as a whole cannot be allocated among the individual members, ought to be distributed according to the same law of "sacrifice" or "ability" in a subordinate as in a sovereign community, yet in fact in our municipalities there does not occur much onerous taxation of this sort. What is called onerous local taxation is usually that which does not redound to the advantage of the ratepayers as a body directly or otherwise than as they are members of the nation, for instance, as much of the poor rates as does not conduce to the special benefit of the municipality.<sup>6</sup> Of onerous local taxation in this *primary* sense, it is evidently true that

<sup>1</sup> *Essays in Finance*, pp. 345-6.

<sup>2</sup> *Mem.*, p. 212.

<sup>3</sup> *Cp.* Cannan, *History of Local Taxation*, p. 132 *et seq.*

<sup>4</sup> *Ibid.* p. 133. "On the whole, it may be said that the [existing] system is more in accordance with . . . the principle . . . of taxation according to benefit than with . . . that of taxation according to ability."

<sup>5</sup> *Cp.* Sidgwick, *Mem.*, p. 111, par. 4; Marshall, p. 113 (on "remunerative" taxes); Bastable, 140, par. 2; Rice, p. 183, par. 2; *et passim*. According to Wagner (*Die Communalsteuerfrage*, p. 31), the principle of benefit has a greater scope in communal taxation, though still only the *second* leading-principle.

<sup>6</sup> Sidgwick, *Mem.*, p. 107.

"onerous taxes, Imperial and Local, must be treated as a whole."<sup>1</sup> It may be worth observing that this proposition contains a truth even in the secondary sense in which "onerous" relates to the purposes special to the municipality, but not assignable to its individual members. For although on productional grounds only members of the subsidiary community should contribute to advantages that are enjoyed only by that community,<sup>2</sup> yet the utilitarian distribution of a (substantial) burden of taxation that is onerous in the secondary sense among members of the subsidiary community will theoretically affect their relative prosperity, and thereby affect the distribution of taxation that is onerous in the primary sense. So true in every sense it is that

"the system of taxation, with regard to which all questions of equity must be considered, comprises both imperial and local taxes."<sup>3</sup>

Altogether the distinctions between national<sup>4</sup> and local, between onerous and beneficial taxation, are not so fundamental as to be the ground of essentially different regulations. All the received canons and categories appear subordinate to the golden rule, that the detriment attending an assigned amount of taxation should be a minimum, and the grand distinction between modes of detriment, diminution of the total production and aggravation of unequal distribution.

II. *Imposts on Occupiers*.—The effects of a tax or rate vary with a variety of cases, of which the definition in each context is commended to, without being intruded on, the attention of the critical reader. One essential difference is between new and old houses, those built and occupied before or after the imposition of the tax or rate. Let us begin with the first head, and under it first consider *dwelling-houses*. As to tenure, let us take as typical the English leasehold system; observing that, for our purpose, it does not much matter whether the lease is for 99, or for 999 years, or, as in the case of "feu duties," for ever.<sup>5</sup> Nor does it matter whether, in addition to the three principal parties—the ground landlord, the building owner, and the occupier—there is intercalated a fourth or fifth party, such as the holder of an "improved leasehold ground rent," or other sub-lessee.

<sup>1</sup> Marshall, p. 113.

<sup>2</sup> Sidgwick, *Mem.*, p. 99, last and penult. par.

<sup>3</sup> Gonner, *Mem.*, p. 159.

<sup>4</sup> "nicht principiell ganz verschieden," Wagner says of these (*Communalsteuerfrage*, IV.).

<sup>5</sup> The varieties of tenure prevalent in this country are clearly explained by Mr. Sargant in the first chapter of his *Urban Rating*.

An *ad valorem* tax on the gross rent which the occupier pays will obey the general law which governs taxes of consumable commodities. The economist has not to construct a special law of taxation for the taxing of houses, any more than the physicist has to construct a special law of gravitation for the tumbling of houses. It is deducible by received general reasoning that the three parties in the proposed typical case will be affected as follows. The occupier will suffer not only by paying more for the house accommodation which he continues to use, but also by forgoing part of what he would have used but for the impost.<sup>1</sup> "Residences in different places constituting rival commodities . . . a uniform tax may so disturb the balance of complex demand as to cause a certain rush of inhabitants from one town to another."<sup>2</sup> A similar disturbance of the marginal utility and the quantity demanded of different styles of house accommodation would result<sup>3</sup> (even from the uniform national house tax here contemplated, and, *a fortiori*, from the actual inhabited house duty). The capitalist building owner will not (in the long run) be damnified at all, or only inasmuch as, if house-building is a sensible portion of the total industry, general profits would be depressed.<sup>4</sup> The ground landlord will be damnified by the relaxed demand for sites. The reduction of ground rents will be greater, *ceteris paribus*, the greater the elasticity of the occupier's demand for house accommodation.<sup>5</sup>

<sup>1</sup> *Mem.*, p. 127, par. 1. Compare Mr. Cannan in the passage referred to above, at p. 172.

<sup>2</sup> *Mem.*, p. 130. It is possible that the *minimum* disturbance of this sort would result from a tax *not uniform*.

<sup>3</sup> It is conceivable that the demand for houses of a certain kind might be *increased* by the tax. *Cp.* Marshall, *Principles of Economics*, Book III. ch. iii. § 6, note :—"It is even conceivable, though not probable, that a simultaneous and proportionate fall in the price of all teas may diminish the demand for some particular kind of it." Adam Smith supposes that a tax "payable by the inhabitant" would diminish the competition for houses "of all other rents except the lower rent for which it would for some time increase the competition" (*Wealth of Nations*, Book V. ch. ii.). His reasoning is perfectly correct on a probable supposition that the demand for housing is tolerably elastic for the higher styles and rigid for the indispensable minimum of accommodation—conditions which it is not easy to state exactly without the use of symbols, such as those employed in the treatment of *correlated demand* by the present writer, above §, p. 72; referring to E.

<sup>4</sup> *Cp.* *ECONOMIC JOURNAL*, Vol. VII. p. 68, where the observation is traced to Professor Pantaleoni's original *Traslazione dei Tributi*.

<sup>5</sup> The evidence of this proposition is of a sort which frequently occurs in mathematical economics. The proposition is true, not universally, but probably, its quality depending on the form of a function which is unknown, but may be presumed in the long run of cases to be favourable to the proposition. Thus, in the case before us, it is conceivable, but improbable, that the less expensive buildings,

These propositions are sufficiently evidenced by the general reasoning of the older economists, supplemented by the modern doctrine of *margins*. If specific experience is demanded, it may be found in the evidence of Sir Sidney Waterlow before the Local Taxation Commission of 1870. The effects which a tax exerts upon the margins of production and consumption are clearly indicated in the following passages :—

“Supposing there were no local rates at all, the profits would have been so large that we should have been tempted immediately to increase supply.” (Q. 3411). . . .

“You cannot increase the quantity of land, but you may increase the quantity of building on a given piece of land, and if you put seven storey houses instead of two, of course you get an increased quantity of the article, and then the law of supply and demand comes in and affects the rent.” (Q. 3440.)

“There is . . . a limit in height both as affecting the cost of construction and the question of convenience to the tenants.” . . . “It is only in districts where there is a great demand for houses that you are able to build the flats one above the other, and the landlord is able at the same time to get a high ground rent.” (Q. 3516–7.)

The solution of the problem here offered is confirmed by its agreement with the conclusions of the experts, as evidenced by the following extracts read in connection with their contexts.

Farrer, p. 67 :—“Abolish the house duty and the Duke of Bedford’s income would probably be increased.”

p. 68 :—“The error of supposing that rates are wholly paid by the occupier of houses in towns, and are not shifted at all on to the reversioner.”

Courtney, p. 86 :—“Where there is no special advantage of site or position . . . the abolition of a house duty would be a relief to the occupier only, and the imposition of a house duty would be a burden on the occupier. Even if the duty had the effect of compelling the occupier to live in a house less commodious than he would otherwise obtain, the burden would still

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which would be resorted to in consequence of the tax, would be of a construction which required a larger area than the many-storeyed mansions which it was profitable before the tax to erect. The proof of the theorem that improvements in agriculture tend to reduction of rent appears to be of the kind here contemplated. (Cp. as to this theorem, Marshall, *Principles of Economics*, Book VI. ch. ix. final note.) Other instances occur in the mathematical theory of taxation in a regime of monopoly. (See Index, s.v. *A priori Probability*.)

rest upon him, not by making him pay more, but by giving him less for his money."

Sir Robert Giffen, p. 96 :—" The inhabited house duty is a consumption tax."

Sidgwick, p. 103 :—" When the tax has become *old*, it may be assumed that no part of it is borne by builders as such. . . . The rent paid for a house must be sufficient, speaking broadly, to allow the builder of new houses as much profit as he would have had if the tax had not been imposed . . . the tax must be assumed permanently to reduce in some degree the demand for houses. . . ."

p. 105 :—" The prevalent belief, that the extra burden of the high rates of London and other towns really falls in the main on the occupiers of houses as such, would seem not to be well-founded." . . .

Marshall, p. 117 :—" The inhabited house duty being onerous tends to check building."

Bastable, p. 141 :—" So far as demand for building is reduced by it [the inhabited house duty], the ground landlord is affected."

Gonner, p. 153 :—" It is levied on a consumable commodity, namely, a house, and thus will fall, in the first instance, on the immediate consumer. The consumer cannot shift it on to the owner, as in that case the profits of a particular trade would be specially taxed."

Cannan, p. 168 :—" Let us suppose that there has hitherto been no house tax, and that a universal tax of 5s. in the £ for unproductive purposes is placed on all dwelling-houses, and levied on the occupiers. Let us suppose also that the occupiers are on quarterly tenancies, all of which expire between the passing of the Act and its coming into force. The immediate effect must be a fall in house rent. All occupiers must restrict either their expenditure or their savings in some direction, and enough of them will try to reduce their expenditure on rent plus house-tax to make a great diminution in the demand for house room. As the number of houses has not yet been altered by the tax, the supply remains the same, and consequently the price must be reduced. But this reduction of rent, of course, reduces the capital value of houses; the capital value being reduced, some professional builders retire from the business and others become bankrupt, and the supply of houses is consequently reduced. Building stops, or proceeds at a slower rate, until building profits are restored to the ordinary level by a rise of house rent and the capital value of houses. The occupiers then have to pay more



for the same accommodation, or to be content with worse accommodation for the same money.

"A tax on a particular form of property does damage to the owners of property in general, as well as the consumers of the commodity connected with the particular class of property" . . . [a fact] "of trifling importance in the case of a tax on a small class of property."

Sargant, p. 212 :—"Among tendencies of the inhabited house duty . . . which tend to throw by anticipation small part of the constant rates . . . on to the owners of the sites, are (1) the tendency of the tax to make occupiers inhabit smaller houses or tenements."<sup>1</sup>

Mackay, p. 226 :—"There is only one market for capital and enterprise, and if the business of house-building is to go on, it must give the normal rate of profit to those engaged in it. The producer may evade the loss involved in the increased cost of production . . . by limiting supply till increased demand raises the price."

The experts who are not quoted as gathering with the doctrine here propounded are not to be understood as scattering against it. There seems to be only one irreconcilable dissentient, Mr. Gomme,<sup>2</sup> and even he is not very decided. Why then is a larger show of concord not exhibited? The answer to this question may be interesting to other students of synoptic economics.

In the first place writers of answers to the paper set by the Royal Commission very properly remembered that they were not undergoing an ordinary examination; and did not seek to cover the ground evenly, after the manner of a candidate who knows that his examiner is prohibited by an official rule from assigning more than a certain maximum to each answer. Mr. Cannan, for instance, whose answer as to the effect of a house tax on the occupier and building owner is in striking accord with ours, does not go on with us to mention the effect of ground rent on the decline of investment in building, having occasion to invoke that obvious corollary in a subsequent passage in connection with an original theory of his own. Again, Mr. Mackay, resuming the whole theory of incidence from an independent standpoint, gives a general support to our propositions which it is not possible to exhibit by a quotation within our limits.

Other writers have glanced away from our inquiry in an opposite direction, by keeping quite close to the question set by

<sup>1</sup> Mr. Sargant's head (2) is referred to on p. 161, above.

<sup>2</sup> *Mem.*, p. 241, last par.

the Commissioners. Their answer relates to the concrete incidents of the British Inhabited House Duty, not to the general question here proposed. It is thus that we may interpret Professor Bastable, when he writes :—

“Broadly speaking, this tax falls finally, as well as immediately, on the occupier. So far as demand for building is reduced by it, the ground landlord is affected, but this influence must be trifling.” (*Mem.*, p. 141.)

The inhabited house tax being small, if the demand for house accommodation is of an ordinary kind, not approaching perfect elasticity, which there is no reason to believe, the influence of the tax on the demand for ground must be “trifling.” The immediate context about the incidence of rates—said to be more complex owing (*inter alia*) to “their greater amount”—bears out this interpretation. A similar explanation is probably to be given of certain other round statements as to the incidence of the tax on the occupier, *e.g.*—

“Speaking generally, I think the inhabited house duty is borne by the occupier . . . the proposition remains generally true, as far as houses occupied for domestic purposes are concerned that inhabited house duty is paid by the occupier.” (Courtney, p. 86.)

It would seem from the context that Mr. Courtney's dictum rests upon a particular matter of fact concerning which the general theory here propounded makes no assumption, namely that the case “where there is no special advantage of site or position” (*loc. cit.*) may be regarded as the general one, rather than the case “where site or position forms an important part in the value of the house.” The assumption seems to have been made by some of the older economists,<sup>1</sup> and was probably truer in their time than now. However this may be, to assign a particular value to one of the coefficients in a general formula is not to invalidate the truth of that formula.

This last remark is to be borne in mind in considering Mr. Blunden's attitude of dissent. He finds that—

“the real incidence of this tax [the inhabited house duty] is normally and generally upon the occupier” (*Mem.*, p. 189), by assigning a particular value to a co-efficient which we have left undetermined, the elasticity of demand for house accommodation. He in effect puts *zero* for the value of this coefficient.

“The surrender of some portion of their customary house

<sup>1</sup> *Cp.* J. S. Mill, *Political Economy*, Book V. ch. iii. § 6, par. 5.

accommodation is for many reasons repugnant to the feelings of the great majority of householders, and would only be resorted to under the strongest pressure, and in a small proportion of cases" (*Mem.*, p. 190).

The question here raised is important in its bearing not only on an imperial house duty, but also on local house rates, so far as they are both onerous and uniform, or not tending to divert demand from one locality to another. It appears to the present writer impossible to reconcile Mr. Blunden's statement with general presumptions as expressed by Adam Smith in a well-known passage,<sup>1</sup> or with specific statements made by competent witnesses; for instance, some of those implied in passages above cited from Sir Sidney Waterlow's evidence above quoted, or the following:<sup>2</sup>

"[If we had raised rent] 'those who had three rooms would have gone into two rooms' . . . 'they are obliged [in such a case] to take . . . a cheaper tenement which is inferior in quality or accommodation.' " [Evidence of Sir Sidney Waterlow, *loc. cit.* Qs. 3433 and 3437.]

"When the distress came on, mechanics, formerly in receipt of good wages, and living in two or three rooms, packed themselves into one." [Evidence of Dudley Baxter before Select Committee on Local Taxation, 1870, No. 353, Q. 5799.]

Nor is Professor Seligman, to whom Mr. Blunden appeals, convincing when he maintains:

"House accommodation is in part an absolute necessity, in part, an expensive luxury. . . ."

"Many people prefer to maintain their supposed station in life at any cost. In such cases, a law on house accommodation tends, as in the case of all taxes on luxuries, to make them forgo other things which they deem less desirable."<sup>3</sup>

<sup>1</sup> *Wealth of Nations*, Book V. ch. ii. "He will therefore content himself with a worse house." . . . "The final payment of this tax would fall partly upon the inhabitant of the house, who, in order to pay his share, would be obliged to give up a part of his revenue." *Cp.* above, p. 71, and p. 84, note 7.

<sup>2</sup> It should be mentioned that Mr. Blunden appeals to specific personal experience on the other side. In a letter which he allows the present writer to refer to, Mr. Blunden says: "It is due to my daily observation of the facts (and not to any preconceived theory) that I hold the opinion that there is in actual life a much greater rigidity in the demand than has very usually been assumed. . . . I have for many years past, and in many localities, been engaged more or less in examining returns of rents paid, many of which are accompanied by statements of the income of the rent payers. . . . As a result of my experience, I have become convinced that the effects of high or rising rates in lowering the standard of house accommodation is ordinarily inappreciable."

<sup>3</sup> Seligman, *Shifting and Incidence*, 2nd ed., p. 153.

Upon general presumptions, should we not rather expect that intermediate between the class to whom the amount of house accommodation which they now enjoy is an absolute necessity and the class to whom it is an indispensable luxury, there would be a large class to whom house accommodation would be an article of the kind which has been called a mass-luxury, very apt to be consumed in greater quantities as the price decreases? <sup>1</sup> On the whole, no adequate reason seems to have been shown for dissenting from Professor Marshall's judgment:

"Where the condition of society is healthy, and there is no check to general prosperity, there seems to be an elastic demand for house-room on account of both the real conveniences and the social distinction which it affords." <sup>2</sup>

Mr. Price's position, so far as it is really different from that which is here taken, is to be explained by the last-mentioned circumstance, a different estimate of one of the quantities involved; but the difference is, for the most part, only apparent. Mr. Price says:

"The primary incidence of the inhabited house duty falls on the occupier, and it is probable that to a very large degree the real incidence of the tax corresponds with its primary and apparent incidence." <sup>3</sup>

But there is nothing in the reason which he assigns in the immediate context with which the present writer cannot wholly agree:

"Some, at least, of the reasons, which may be adduced in support of the theory that the burden of local rates is shifted from the occupier, do not apply to the case of the inhabited house duty. The occupier is unable to remove, or diminish, the burden, to any practical extent, by changing his abode. He cannot move to another district where the duty is lower, for it is an imperial tax, levied on uniform principles throughout the country." <sup>4</sup>

It should seem that the writer has here in view the operation of the house duty on occupiers already accommodated with houses; a case which, in our division of the subject, does not yet come up for consideration, upon which, under another head, a complete agreement with Mr. Price will be expressed. It is true that Mr. Price adds:

<sup>1</sup> Compare the examples of different degrees of elasticity in the demand of the same article by different classes of society, given by Professor Marshall, *Principles of Economics*, Book III., ch. iv. §§ 2, 3, 4, ed. 4, p. 178 *et seq.*

<sup>2</sup> *Principles of Economics*, Book III, ch. iv. p. 182.

<sup>3</sup> *Mem.*, p. 180.

<sup>4</sup> *Ibid.*

"His [the occupier's] house accommodation is, within narrow limits of increase or decrease of requirements, a fixed item in his standard of comfort."<sup>1</sup>

"Expenditure on house accommodation is within limits elastic."<sup>2</sup>

Here there seems to be made a particular assumption as to the form of the "demand-curve" for house accommodation: whereas, in the view of the present writer, there is legitimately only a general presumption that the demand is of an ordinary character, neither very elastic nor yet perfectly inelastic.

One more reason for not more largely producing the evidence of the experts is their occasional use of a certain terminology respecting the division of burden between occupier and landlord, which, however justified by authority, the present writer ventures to regard as infelicitous. The following is, perhaps, the most explicit, but by no means the only instance of the usage referred to:

"So much of the house duty as was proportionate to this [the ground] rent and, so to speak, attached to it, would be ultimately borne by the person entitled to receive this rent." (Courtney, p. 86.)

In this and similar passages there seems to be implied the doctrine which McCulloch has expressed with particular clearness:

"Were the supply of houses easily diminished and increased, a tax on their rent would fall wholly on occupiers and ground landlords, and be divided between them in the proportion which the profit of the capital required to build them bears to the ground on which they stand."<sup>3</sup>

It being universally admitted that, in McCulloch's words, "there are few chapters in Dr. Smith's great work more unsatisfactory than his chapter on rent," it will not appear particularly impious to dispute a formula which involves Adam Smith's obsolete conception of rent forming part of price. The formula

<sup>1</sup> *Mem.*, p. 180.

<sup>2</sup> *Ibid.*, p. 181, par. 5.

<sup>3</sup> *Taxation and Funding*, Part I. ch. i. § 2; criticised, along with J. S. Mill's parallel statement, by the present writer, above, §, p. 83 *et seq.* It is not quite clear whether McCulloch and the other eminent writers who have adopted this proposition mean the proportion between the profit and the ground-rent as they would have been if the impost had not existed, or as they are after the impost. The question is of the less importance, since for an indefinitely small tax which the appropriate mathematical analysis takes as the typical case the two statements *might have been* equally true, and since in fact they are equally false.

seems to have been repeated by the successors of Adam Smith,<sup>1</sup> much as Adam Smith employed a few expressions savouring of the physiocratic errors which he had himself refuted. To remove the misconception it is sufficient to consider cases in the neighbourhood of the limit at which the demand of the occupier is perfectly rigid. In such cases, whatever the proportion of the ground rent to the gross rent paid by the occupier, the detriment to the ground landlord is nothing or next to nothing, as may be verified by substituting *barley* for *house accommodation*,<sup>2</sup> and employing the received theory of agricultural rent. Whoever heard, outside the pages of Adam Smith, of that part of a tax on barley which falls on rent? In general, the detriment to the ground landlord depends on the *marginal* conditions of production and consumption, and is independent of the *total* magnitudes of the ground rent and the gross rent (and the proportions between them), just as, to adopt an illustration of economic equilibrium which Professor Marshall has made familiar, the position at which two balls moving in a (vertical section of a) circular basin come to rest, is independent of the *distance* through which either body may have slid on its way to equilibrium.<sup>3</sup>

Probably many who have repeated the dictum of McCulloch have meant no more than the truism that, when the ground rent—or rather the excess thereof above the minimum fixed by agricultural rent—is (absolutely) small, then an impost on gross rent cannot reduce the ground rent by (an absolutely) great amount. The experts have acquiesced in the dictum of the

<sup>1</sup> Dudley Baxter accepts as the received doctrine a very explicit statement of the theorem in his examination before the Select Committee on Local Taxation, 1870 (Qs. 5811-5816). "That is theoretically the rationale of it," he holds, while pointing out that there are "very great variations in practice," pertaining to what we should now call short periods. Those varieties will find a fitting place in the sequel; here we are only concerned to deny that "theoretically the rationale of it" is as Baxter and his authorities suppose, *e.g.*, in the test case which was put to him (*ibid.*):—"If the ground rent were very high, with a very small cottage built upon it, the cottage would bear very little of the rates, and the ground rent would bear a greater proportion?" Those who have the courage of abstract theory must reply that the size of the building—provided it is not an irreducible minimum, provided that the margin of building is left free—the amount of the surplusage forming ground rent, and the proportion between those two quantities, are not material circumstances with respect to the incidence of taxation. The elasticity of the demand for housing being kept constant—for instance, at or near zero—the amounts of the ground rent and the building rent (gross rent *minus* ground rent) might be interchanged without any variation of the loss resulting from the tax, both to the occupier and the ground landlord.

<sup>2</sup> *Mem.*, p. 129, par. 3, p. 131, last par., and references given on both pages.

<sup>3</sup> *Cp.* above, §, pp. 74 and 75.

classical economists, very much as they have acquiesced in the Classification emanating from high quarters which was submitted to their judgment. It is a good classification, the majority answer, with almost uniform civility, but not good for the purpose of determining the incidence of taxation. So the classical division of a tax on gross house rent into two portions, "as much of it as is a tax on building rent," and "the portion which is a tax on ground rent,"<sup>1</sup> is logically correct, and, like the kindred statement that "rent *does* enter into the cost of production,"<sup>2</sup> may be appropriate for certain purposes, in particular to indicate the parties who are sufferers by the tax;<sup>3</sup> but it is not adapted to the present purpose to ascertain the extent to which ground rent tends in the long run to be reduced by a tax upon the gross rent of new houses. There is no objection to speaking of the "portion which is a tax on ground rent," if we are careful to remember that this portion and its proportion to the tax on gross rent has no relation whatever to the amount by which the ground rent tends to be reduced in consequence of the impost.

But the vulgar are apt to take words literally, and the expressions of economists have encouraged the popular exaggerations in the opposite directions of plutocratic and of socialistic error, on the side now of the land-agent now of the agitator. On the one hand the apportionment of the gross rent between occupier and ground landlord, predeterminately and irrespectively of the elasticity of demand and the amount of the tax, is of a piece with and suggests what may be called the fallacy of concrete instances, which is committed when some representative of the landed interest adduces a particular actual house, and argues

<sup>1</sup> Mill, *Political Economy*, Book V, ch. iii. § 6.

<sup>2</sup> Cp. Marshall, *Principles of Economics*, Book V, ch. viii. 31.

<sup>3</sup> One who disputes a received proposition may be reasonably required to point out how it came to be accepted. This condition is complied with by observing that the theorem in question would be exactly true upon two very natural suppositions: (a) That the demand for housing is perfectly inelastic, and (b) that a tax proportioned to the ground rent should be levied, directly or by way of deduction, on the ground landlord (or the building owner, who deals with the ground landlord), while a tax proportioned to the difference between gross rent and ground rent was levied on the occupier. Upon these suppositions the ground landlord would bear the whole tax on the ground rent, and he would not suffer any further loss resulting from a diminished demand for sites. Now the assumption (a), as we have seen (above, p. 168), is not without evidence; and the confusion (b) is plausible and agreeable to popular parlance, more than other propositions which, from the point of view of economic theory, are on the same level of inaccuracy: for example, that it is all the same whether a bicycle tax is levied on the bicyclist who buys and uses the article, or on the landlord of a site which is required for the production of the article.

that, if the rates had been greater by so much, the ground rent must have been less by just that much; since the occupier would not have given more, nor the building owner have taken less than each has done.<sup>1</sup> Whence it is inferred that the ground landlord has already borne his fair share of burden.<sup>2</sup> Now, when it is urged with respect to an actual house that a specified tax levied on the occupier would reduce the ground rent at its creation by so much, it is forgotten that the house would not be what it is if the specified tax had existed at the time of the building. For the amount of building on a site is not a fixed quantity, but is determined by the "margin of building," which varies with an *ad valorem* tax on the price or gross rent of the premises.<sup>3</sup> There has been committed the fallacy which the mathematical economist discerns to be the treatment of a dependent like an independent variable; and even the man in the street recognises when it assumes the gross form of attempting to eat your cake and have it. You cannot eat into the profits of the capitalist by an impost

<sup>1</sup> See the instance referred to above, p. 85, note 6. To the same class may be referred the argument of Mr. Hunt in his evidence before the Local Taxation Commission of 1870, when he adduced the concrete instance of the "plot of land in Parliament Street now vacant, near the Whitehall Club," and proceeded in thought to build and let a house upon estimates based on the existing state of demand.

A similar case is discussed at Q. 13,550 *et seq.* of the evidence given before the present Royal Commission on Local Taxation (C. 9150). The builder having spent £1000 on each of a set of houses, "will want £60 per annum himself from each house." The gross rent paid by the occupier is £100, the rates are £20, and the ground rent is £20. It is argued that "if no rates had existed in the district the landlord would have got £40 a year for his land instead of £20"; . . . "the tenant having calculated that he would pay £20 a year in the rates and only giving £80 to his landlord, it does not make any difference to the tenant whether he pays £80 to the landlord or £20 to the local authority, or whether he pays £100 to the landlord and none to the local authority." According to our view, "if no [onerous] rates had existed in the district," the scale on which the capitalist would have found it profitable to build would not have been what it now is; the builder would have spent £1000 + 16·6x on each house, and would have wanted (on the same hypothesis as to the net return of the speculative builder, Q. 13,554) £60 + x per annum for himself; the occupier would have given £80 + y for the increased amount of accommodation; the ground landlord would have received £20 + y - x; where nothing is known of x and y except that they are positive, and that y is *probably* greater than x (above, p. 163, note 3). There is not the slightest presumption that the loss to the ground landlord in consequence of the imposition of the rates is £20. The loss is y - x, unknown quantity *minus* unknown quantity. The same symbols may be usefully employed to expose the dogma of McCulloch, which is classed with that of these witnesses by a parity of misconception, not an identity of misstatement.

<sup>2</sup> It is true that the advocates have often in view the competition between different localities; but, as will be seen when we come to *rates*, the demand for house accommodation in that case is not so different from the simpler case here under consideration, but that the argument in the text is applicable.

<sup>3</sup> Above, p. 185.



which reduces the marginal demand of the occupier, and at the same time have everything as it was before the impost, to be used as an argument against the taxation of ground rents. On the other hand, the advocates of taxing ground rents have also been wildered by the inappropriate conception of demarcating a part of the tax levied on the occupier as "the portion which is a tax on ground-rent."<sup>1</sup> The usual vices of socialist speculation, the confounding of short periods with long periods, of quasi-rents with true rents, are aggravated by this misconception. Under its influence the proposition that a tax on ground value does not hurt the occupier is applied beyond its legitimate limits—not true in the long run, as will be argued in the sequel, of a rate to be levied from year to year, during the currency of the ground lease, in proportion to an ever-growing ground value, upon owners who will have contributed efforts and sacrifices to the production of a house.

The reasons which have been given in the last few paragraphs for not producing a larger array of confirmatory citations from the answers of the experts are applicable with slight change to the discussion of *rates*, which follows next.

The circumstances which for our purpose differentiate a local rate from an imperial tax are mainly two: (1) that a rate is beneficial in such wise as not to reduce the demand for the rated houses at all, or to the same extent as a purely onerous tax of the same magnitude; (2) that rates differ in different districts between which occupiers have a choice. Suppose for a moment that the first attribute is absent, and that all rates are purely onerous, and as a further simplification, suppose at first that there are only two districts, A and B, between which occupiers have a choice. And, the onerous imposts in both equalling, or rather equilibrating each other initially, let a new rate be imposed on houses in A. At first sight it might appear that ground rents in A would be diminished exactly to the extent of the new burden. But this would occur only in the case of a *fixed* burden on the production or enjoyment of premises in A: *e.g.*, a "Church rate," not of the ordinary kind, but of the nature of a fixed charge levied on the owner, or a payment by each occupier for an indispensable right (or rather "servitude") of way. But the rate which we are considering varies *ad valorem* with the value of the house. Accordingly, as above shown,<sup>2</sup> building will be discouraged in A, and if A were an isolated region, there would be

<sup>1</sup> J. S. Mill, *loc. cit.*

<sup>2</sup> Above, p. 173.

simply a reduction of demand in A attended with a diminution of ground rent. But A being in rivalry with B, there will also be a *fall*<sup>1</sup> of demand in A owing to the diversion of occupiers to B, while from the same cause there will be a *rise*<sup>2</sup> of demand in B, with a corresponding readjustment of invested capital. In the result ground rents will have decreased in A, and will have increased in B. It is conceivable that the increase in B should be greater than the decrease in A. But it is not probable.<sup>3</sup> The presumption is that on balance ground rent will be reduced by an onerous impost which checks production.

The conditions on which the extent of this effect depends may be investigated by introducing several circumstances each by itself *ceteris paribus*. Thus (1) let the absolute magnitude of the rate in A be increased, then each of the terms which make up the total diminution of ground rent, viz. (decrease in A *minus* increase in B) being correspondingly increased, it may be presumed<sup>4</sup> that in general the total diminution will be greater. Again, (2) let the elasticity of demand for housing in general in either district be increased, then by parity of reasoning with that employed in the simple case, the decrease in A of ground rent becomes greater, and for a like reason the increase in B becomes greater. Therefore by a parity of presumption the total diminution becomes, in general, greater. Next, (3) instead of two unequal rates in A and B let an average equal rate be imposed on both. Ground rent as a whole might be affected, but there seems no general reason why it should be increased rather than diminished.

Generalising, we may say that, if a system of onerous rates be imposed on a set of districts more or less in competition with each other, the consequent reduction of ground rent will be greater the heavier the average imposts are, and the more elastic the general demand for housing. The imposition of a uniform rate forming a mean of the percentages or shillings in the pound

<sup>1</sup> "Reduction" is here distinguished from "fall" in accordance with Professor Sidgwick's proposal (*Political Economy*, Book II. ch. ii. § 2) that the former term should mean the change in the amount demanded—say  $x$ —of a certain commodity consequent on the change in the price of that commodity, the latter term the change in the amount demanded consequent on a change in the law or curve of demand— $dx$  as distinguished from  $\delta x$  in the symbols proper to the Calculus of Variations. In the case of correlated demand with which we are now dealing, the contrast is between  $dp_1\left(\frac{dx}{dp_1}\right)$  and  $dp_2\left(\frac{dx}{dp_2}\right)$  where  $p_1$  and  $p_2$  are the prices of  $x$  and the correlated article respectively.

<sup>2</sup> See preceding note.

<sup>3</sup> See Index, s.v. *A priori Probabilities*.

<sup>4</sup> *Ibid.*

that originally prevailed, would in all probability not materially affect the sum total of ground rent, supposing that there was originally no correlation between high rents and high rates.<sup>1</sup>

This is a conception very different from the representation made on behalf of the landed interest, that the imposition of a rate in a district causes a reduction of ground rent which may be measured by the amount of the rate, or at least its excess above a certain level common to all districts. It seems to be imagined that the natural advantages of a district and their economic equivalent (rent + rates) form a constant quantity, like the height of the district above the sea. But we ought not to conceive the relative values of different sites as thus "in fluctuation fixed"; the demand-surface with which we have to deal may rather be likened to a sort of an air cushion of which some parts are originally more elevated than others; but when you press down some others go up, and accordingly the total depression caused by certain pressures at different points is not to be expressed by any simple formula.

Thus the reduction of ground rents is much less than appears at first sight even if we could suppose that all the rates were onerous. But it is time to restore the fact that all rates are not onerous; the better opinion is that "those rates which are truly onerous are less in amount and vary less from place to place than is commonly supposed."<sup>2</sup> But in so far as imposts are beneficial the demand of the occupier is increased to the full extent of the impost,<sup>3</sup> and accordingly there is no relaxation in the demand for sites. The supposition that all rates fall ultimately on ground rents becomes twice removed from the truth.

These propositions are in general accordance with the testimony of the "experts." The essential differences between a local rate and an imperial tax are noticed by almost all. The tendency of onerous rates to be shifted on to owners is attested by a great number—with less qualification perhaps than might be recommended.

Sidgwick, p. 104:—"In this case [that of *old rates*, nearly but not quite corresponding to our category of *new houses*] it

<sup>1</sup> Cp. Marshall, *Mem.* (Memoranda published by Royal Commission on Local Taxation, C. 9528), p. 119.

<sup>2</sup> Marshall, *Mem.*, p. 118.

<sup>3</sup> It may be worth observing that, though the demand is said to be unaltered by a beneficial impost, this can rarely be true of the demand-curve; and, accordingly, although the effect on the superior interests of a beneficial impost is, *ceteris paribus*, nil, it does not follow that the effect of a beneficial impost, *plus* an onerous one, is the same as that of an onerous one alone—except in the sense that it may be either greater or less for all we know.

seems clear that the whole burden of the differential rate, so far as it is onerous, must fall on the owner of the ground value, provided that in spite of this burden the land remains still more valuable for the purpose of house building than for any other purpose. . . ."

Marshall, p. 120 :—" He [the occupier] transfers most of them [rates other than 'rates, the current expenditure of which gives full value to the occupier'] rather quickly to his immediate landlord."

Bastable, p. 141 :—" Where different amounts of rates are levied in different parts of the same district, the [onerous]<sup>1</sup> extra rates are shifted back to the house owner, and in the case of new building tend to lower ground rent." . . . " In specially favoured situations, where building sites command a high, or what is usually called a monopoly, value, the ultimate incidence of rates is clearly on the ground owner."

Cannan, p. 170 :—" The consequence, then, so far as distribution is concerned, of rates being for unproductive purposes higher in one place than another, is to cause less creatable immovable property to exist in the high rated and more in the low rated places than would be the case if the rates were equal in all places."

" Everything which tends to discourage the investment of capital in immovable property in a district tends to diminish the demand for 'unimproved land' or space in that district, and this diminution in the value of space of course mitigates the effect of the discouragement to investment."

Price, p. 181 :—" Some amount of movement, at least, is possible from more to less highly rated districts, and thus the burden of the rates may be partly shifted from the shoulders of the occupiers."

Sargant, p. 213 :—" 'Differential rates,' so far as onerous, and so far as existing or anticipated at the date of the development of land for houses or trade premises, are, in respect of both site and structure, thrown by anticipation on the owner or successive owners of the land at the time when it comes to be developed, and operate by way of diminution of the price or rent obtained by him or them."<sup>2</sup>

The answer to Question II.<sup>3</sup> contained in the preceding paragraphs relates primarily to the case of leasehold tenure,

<sup>1</sup> This attribute is implied by the exclusion of "rates, so far as their outlay is reproductive, in addition to the value of houses in the district."—(*Ibid.*)

<sup>2</sup> As to the extent of the reduction Mr. Sargant's authority cannot be claimed.

<sup>3</sup> *Ante*, p. 152.

which may be taken as typical of Great Britain. But the statements may be transferred with little alteration to the case of freehold tenure which prevails in many, perhaps most, parts of England.<sup>1</sup> The *price* which building capitalists are willing to give for freehold will be affected by a tax on occupation rent in the same sense as the ground rent on the former supposition. The demand of the occupier will be affected as before. The consequence to the ground landlord and the occupier would not be materially different in a regime where the occupiers are freeholders who buy land on which to build their own houses.

When we pass from dwelling-houses to houses used for purposes of production, including sale, the scene of consumption is transferred from the house itself to the commodities which are produced in or by the house. The relations between the consumer at one end, the ground landlord at the other end, and the intermediate producers are not materially different. As before, beneficial rates are "paid by no one" in the phrase of Mill adapted by Professor Bastable.<sup>2</sup> "The advantages resulting from a proper expenditure of rates may either recompense the traders, or so attract consumers as to allow of higher prices being maintained."<sup>3</sup>

A uniform *ad valorem* onerous impost on the rent of all premises employed for production would result in a change of the final utilities of buildings, not only as between different places, as in the case of dwelling-houses,<sup>4</sup> but also as between different industries. Those commodities for which the demand is particularly inelastic would tend to be raised in value. Thus, if the demand for bread varies with the price less than the demand for bonnets, the bakers may employ nearly as extensive premises before as after the imposition of the tax which will be almost entirely shifted to the consumer; while the milliners meet the burden by some diminution in the size of their establishments as well as some rise in price. The value of food as compared with finery would be raised *pro tanto*, if abstraction might be made of the law of increasing returns. There is also now a disturbance of the margins of production which in the case of dwelling-houses seemed not sufficiently important to deserve notice. There will be a pressure on "those trades which happen to require large buildings in proportion to their net returns."<sup>5</sup>

<sup>1</sup> This estimate appears to be justified by the particulars concerning the distribution of building tenures given in the Report of the Select Committee on Town Holdings, 1889, No. 251, pp. 6-9.

<sup>2</sup> *Ibid.*

<sup>4</sup> Above, p. 163.

<sup>5</sup> Marshall, *Mem.*, p. 113.

Another effect of more importance in the case of business premises than dwelling-houses is that on the renewal of the occupier's lease the owner is more able to take advantage of the special utility above the market-value which the premises may have for that particular occupier,<sup>1</sup> not a mere *pretium affectionis* in the case of the shopkeeper, but a consequence of the "good-will" created by his own exertions.<sup>2</sup>

An onerous rate on both dwelling-houses and business premises would disturb the marginal utility, and accordingly the quantity produced and the value of the two kinds of building, theoretically, even if the impost on both kinds were of the same magnitude, and *a fortiori* when, as in the case of the Inhabited House Duty, it is different.

As between different places the displacement caused by difference in onerous rates will vary *ceteris paribus* with the capacity of one place to act as a substitute for another in the supply of the consumers' wants. As in the case of dwelling-houses the incidence of an onerous extra rate in a particular locality depends on the elasticity of demand for accommodation in that particular locality. As Sir Edward Hamilton says,<sup>3</sup> "A large part of the rates payable in respect of Bond Street and Oxford Street may be contributed by all of us, in the shape of an enhancement of the price which we pay for our commodities" [so far as the rates are onerous and differential], if "all of us"—or the better halves of us—insist on shopping in those fashionable resorts, notwithstanding the imposition of an extra charge. But if the attempt of shopkeepers in Bond Street and Oxford Street to stick on additional prices would divert a great part of their custom to humbler localities, then, as Professor Bastable says, "the [extra] rates would fall [ultimately] on the ground landlord."<sup>4</sup>

Compare as to these propositions, the following testimony of the experts; the reasons why more of it is not forthcoming being recollected."<sup>5</sup>

Courtney, p. 86 :—"As regards rates on trade premises, these must ordinarily form part of trade expenditure, and be ultimately borne by the customers availing themselves of the services, or consuming the commodities of the trade supplies."

<sup>1</sup> Let us hope that, as witnessed before the Select Committee on Town Holdings, 1889 (Report, p. 11), such cases of exaction are rare.

<sup>2</sup> *Cp.* Marshall, *Mem.*, p. 120, par. 3-4.

<sup>3</sup> *Mem.*, p. 39.

<sup>4</sup> *Ibid.*, p. 142.

<sup>5</sup> *Ante*, p. 168.

Sidgwick, p. 105 :—" The burden of any special taxation of traders not balanced by a corresponding taxation of other classes tends, when the taxation is old, to be partially diffused through the community, through the effect of this industrial disadvantage in diminishing the abundance and cheapness of traders' services."

Bastable, p. 141 :—" Rates on business premises are further complicated by the possible effect they may have on prices to consumers. An equal tax on all business premises in a country would be a tax on profits, since it could not be evaded by change; but a rate on such premises in a particular locality would appear to be shifted either forward to the consumers in higher prices, or backward to the ground owners in lower ground rents."

Cannan, p. 168 [with reference to a tax on bicycles taken as representative of the imposts inquired about] :—" its effect reaches not only to those who use bicycles and benefit [*e.g.*, by having their errands done cheaper] because other people use them, but also to those who would have used bicycles or would have benefited by other people using them if the obstruction of the tax had not intervened."

Blunden, p. 191 :—" The real incidence of the rates on shops and other business premises would appear to be mainly upon the customers of the goods made or sold therein."

Mackay, p. 228 :—" The question then is, Can an occupier for trading purposes throw forward a part of the burden on his customers? As in the cases already considered [residences], this appears to me to depend on whether the demand is sufficiently elastic not to be deterred by the increased price which the highly-rated tradesmen will undoubtedly be inclined to ask. To take an instance, the reason that a Bond Street shopkeeper probably charges more than a tradesman in an unfashionable neighbourhood is not because his rent and taxes are high, but because a demand of a very special character, the demand of the fashionable world, concentrates itself on the articles to be sold in Bond Street shops. There is a point, however, at which customers will be deterred and driven to meaner streets; they are free, so to speak, to buy abroad."

The parallels which have now been exhibited between the typical cases of dwelling houses under leasehold and the other varieties of urban premises and tenure are similarly close, and will not need to be drawn again at length, in the case of *old*<sup>1</sup> houses which is next to be discussed.

Houses built and occupied before the imposition of the tax or

<sup>1</sup> See the division at p. 162, *ante*.

rate fall into two categories according as there is or is not competition between old and new houses. The experts seem properly to take the former as the general case. Perhaps they hardly allow enough weight to the circumstance that so far as new houses are often not identical commodities, but substitutes for the old ones, the extent to which an impost will be shifted from the former on to the latter class cannot be predicted accurately. This agency, it should be observed, is distinct from *friction*. It is not the trouble and expense of a move that prevents an intending occupier of a new house on whom the capitalist builder threatens to shift an onerous impost from dealing with the more yielding owners of old houses who must take what they can get; it is that old houses have not exactly the same attractions as new ones.

Friction properly so called no doubt plays a dominant part in the case now under consideration. The occupier, as Mr. Price says with special reference to the existing Inhabited House Duty,

"will probably need a more powerful motive than the payment of a slightly diminished Inhabited House Duty before he takes the unpleasant, and, it may be, difficult, step of changing his abode or manner of life; and regarding the mass of occupiers as a whole, it is improbable that the payment of duty at an increased rate on houses of higher value induces an appreciably large number to move into tenements exempt from duty altogether, or into those taxed at a lower rate."<sup>1</sup>

The comparative strength of friction in case of business premises and residences is ably discussed by Mr. Price. The difficulties of prediction on a matter of this sort are illustrated by the incident that on the question whether friction is more operative in the case of a reduction or of an increase of (onerous) rates, opposite reasons apparently both valid are adduced by Mr. Price and by the present writer. On the one hand—

"it seems more probable that the *reduction* or *abolition* of a rate would be likely to produce less effect on the rent than the *increase* of an old or the *imposition* of a new rate. The removal of a burden would not, in all probability, so powerfully stimulate the efforts of the other party to obtain a share of the relief, as its imposition would urge the party on whom it primarily fell, to shift a portion to other shoulders."—*Mem.*, p. 186.

On the other hand—

"there is some reason for believing that friction resists an increase less than a reduction of rates. For one of the chief

<sup>1</sup> *Mem.*, p. 180.



processes by which a change of rate is propagated is the competition between new and old houses, described in sections (2) and (3) of heading (a) in Answer (6) [*Mem.*, p. 130]. In the case of a new rate being imposed, intending occupiers of new houses bid against actual occupiers of old houses whose leases are expiring.<sup>1</sup> In case of a rate being reduced, actual occupiers of old houses whose leases are expiring bid against intending occupiers of new. The competition is naturally keener in the former case. A slight difference of rate may decide an intending owner to apply for an old rather than a new house. But a considerable difference of rate may be required to determine an actual occupier to incur the trouble and expense of a move."—*Mem.*, p. 135.

Mr. Price's judicious remarks on friction cover also the case in which there is no building of new houses in the neighbourhood in competition with the old houses. In this case theoretically the whole of a tax and of a rate so far as it is onerous is (on the expiry of the occupier's lease) borne by the rack-rent owner,<sup>2</sup> so long as his lease runs, and is ultimately shifted on to the ground landlord. Compare the evidence of the experts :

Sidgwick, p. 103 :—" A new tax on inhabited houses proportioned to their annual value tends to cause men to be content with less house accommodation ; and so far as this cause operates, a part of the burden of the tax must fall on the owners of houses. . . . "

" In localities where the demand for houses is so slack that it is not worth while to build, the burden of the tax will remain partly on the owners of houses so far as the demand for them is strictly local."

Marshall, p. 121 :—" Where the population is receding, and building has ceased, onerous rates tend to press on owners."

Bastable, p. 141 :—" Where a locality is stationary, the increase of rates falls on the house-owners, who would otherwise get more rent."

Practically, as several of the experts have pointed out, the transference of the onus from the occupiers is impeded by friction. What is the amount of this force of friction as compared with the simpler motives which the more abstract theory assumes is a question of considerable practical interest which will recur in the

<sup>1</sup> It being borne in mind that all the detriment attending the aggravation, and all the advantage attending the reduction, of the rate would redound to the owner of old houses in the absence of competition with new houses.

<sup>2</sup> See *Mem.*, p. 129, last par.

sequel. A right conception of the relations between owners and occupiers of old houses is essential to the consideration of proposals for the relief of the occupier which forms the subject of the next answer.

III. *Rates on Owners*.<sup>1</sup>—The schemes which have been proposed for rating owners of urban lands and buildings in this country fall under two heads, (I) the division of rates between occupier and owner, and (II) the imposition of a special rate on site values.

I. The proposed division of the occupier's burden may be either (A) only with his immediate landlord, the rack-rent holder, or (B) with a series of "superiors."<sup>2</sup>

A. The short and simple division is governed by the principle that theoretically in general, apart from "friction," and except for the short period during which the occupiers' leases run, it makes no difference whether the tax-collector takes his share of the price paid for the commodity house-accommodation from the hands of the buyer or those of the seller.<sup>3</sup> Not many occupiers are so incautious as Sir John Thwaite, who stated in evidence that "he had taken a house worth £280 without knowing that there was a land-tax of 2s. 10½d. in the £."<sup>4</sup> Compare the experts :

Courtney, p. 89 :—"At the commencement or revision of a tenancy, rents would be settled in view of the power of deduction supposed to be granted, so that the real burden of rates and the real benefit of rents would remain as before."

Giffen, p. 97 :—"The real incidence is not affected by the question as to who pays in the first instance."

Sidgwick, p. 108 :—"If the land or house is let from year to year, I do not see how the occupier can gain by the power of deduction, except on the assumption that by a strange want of foresight he does not adequately take the rate into account in bargaining about the rent, unless the rate varies materially from year to year."

Bastable, p. 143 :—"With short tenancies and where competition is effective, the question of division is a minor one."

Gonner, p. 158 :—"In abstract theory, and granted the assumptions enumerated in the previous answer, no difference

<sup>1</sup> In answer to the question : "Distinguish and discuss schemes which have been proposed for rating owners of urban lands and buildings."

<sup>2</sup> It is convenient to use this term in a sense wider than the legal definition.

<sup>3</sup> See the present writer's answer to Question 12 in *Mem.*

<sup>4</sup> Select Committee on Local Taxation, 1870, Q. 4038.

would occur through the change of method suggested in the present question." (Q. 12.)

Cannan, p. 171 :—" If occupiers were allowed to deduct either rates, or the cost of getting their hair cut, or any other expense from their rents, then their rents would be that much higher."

Sargant, p. 215 :—" The ultimate incidence of rates is the same whether the occupier pays or the owner."

Gomme, p. 242 :—" Assuming that no other element of value affected the matter, it may be shortly stated that if taxation were deducted from rent, rent would increase by the amount of taxation deducted."

These propositions remain true in the limiting case where the share of the rate levied from the occupier is zero—the case of the "compound householder."<sup>1</sup>

If the experts regard division of rates as a matter of little importance, why do so many of them recommend it? "To some extent for the sake of justice, but more to prevent discontent," in the words of Professor Sidgwick.<sup>2</sup> To some extent the proposed "deduction" by the occupier would be operative in virtue of a certain friction which is described by several of the experts, especially by Mr. Price.<sup>3</sup> What little advantage may accrue to the occupier from this effect of friction it may seem just to allow him for a reason of which a particularly definite statement is that given by Mr. Cannan :

"So much of the rates as is raised to pay off capital expenditure ought, strictly speaking, to be paid by the owners, since it is payment for a remote benefit (that of being free from the payment of interest on the loan raised for the capital expenditure). In the case of new occupiers, the payment will be allowed for, just like any other disadvantage, but some injustice is done to old occupiers unable to revise their bargains with their landlords if new and unforeseen payments for capital expenditure are saddled upon them. . . . The occupier receives the benefit of the things provided by the capital expenditure till the conclusion of his term of tenancy, and should therefore pay the interest on the capital. But it is no advantage to him that the capital should be sunk or written off." (*Mem.*, p. 171.)

<sup>1</sup> Even if the landlord is to be regarded as a monopolist, as alleged by some (e.g., Select Committee on Town Holdings, 1890, Q. 4520), it still remains true in abstract theory that it is indifferent on which party the rate is levied.

<sup>2</sup> *Mem.*, p. 107.

<sup>3</sup> *Mem.*, pp. 180, 181, 185. See also Farrer, p. 79 *et seq.*; Courtney, p. 89; Sidgwick, pp. 107, 108; Bastable, p. 143; Gonner, p. 157. *Cp.* Report of Select Committee on Town Holdings, 1892, § xiii.

As the only direct method of correcting this hardship it might be suggested that the owner should recoup the tenant at the end of his term of tenancy for that portion of a new rate imposed during the tenancy which goes to paying off a loan for the capital expenditure.<sup>1</sup> But if this remedy is impracticable, then on grounds which the strictest disciple of the Manchester School can accept, it may be wished that the occupier should obtain what little advantage may accrue to him from division of rates. On less definite grounds, those who do not accept the result of Demand and Supply as the criterion of ideal justice may acquiesce in the occupier's obtaining a better bargain than the play of the market assigns to him, by way of a share in the advantage accruing to his landlord from that increase of value which appears to be the general rule (though not without some exceptions) in our growing towns.

There is room for greater difference of opinion about the other motive for introducing a division: in order that the owner should "appear to pay" <sup>2</sup> what he does not. It does not redound to the discredit of our science that there should be discrepancy between experts on a question which belongs not to the theory of economics but to the art of politics—what are the legitimate uses of humbug? It is quite consistent with the uniformity of science that one writer should "never have been able to see the merit of" an arrangement which "keeps up the illusion that the incidence of the tax is upon those who pay the money to the Government;" <sup>3</sup> to another it should seem advantageous "to some extent for the sake of justice but more to prevent discontent," to divide certain rates "between owner and occupier in the manner suggested by Mr. Goschen in 1870" (that is half and half); <sup>4</sup> while a third, not only on grounds of justice, "so far as owners are or are about to be in the enjoyment of unearned increment," but also "for the political purpose of appeasing

<sup>1</sup> Mr. Sargant has estimated that a rate of 2*d.* in the pound would be sufficient to form a sinking fund for paying off a capital loan (Select Committee on Town Holdings, 1892, Q. 4436). Quoted with approbation by the Committee in their final report (1892). *Cp.* Royal Commission on Local Taxation, 1900 [Cd. 201], Appendix xi, § 11.

<sup>2</sup> Lord Farrer, *Mem.*, pp. 80, 81; and to the same effect in his evidence before the Select Committee on Town Holdings (1890, No. 341). Apropos of this plea of expediency it may be well to recall that even the virtue of the younger Mill relaxed so far as to countenance some illusion as to the incidence of direct compared with indirect taxes, considering that "while any such infirmity of the popular mind subsists . . . while men's minds are so little guided by reason," an addition to "the public dislike of taxation" might present useful reforms, and lead to a repudiation of the national obligations. (*Pol. Econ.*, Bk. V. ch. vi. § 7.)

<sup>3</sup> Sir Robert Giffen, *Mem.*, p. 97.

<sup>4</sup> Sidgwick, *Mem.*, p. 107.

discontent," should be "disposed to recommend" the deduction by the occupier of some proportion of his rent; a particular proportion, "say a third of the occupier's rent," being suggested on the ground that "friction is most likely to be effective when the effect required of it is not very great."<sup>1</sup>

So far it has been supposed that occupiers' leases, as usual in this country, are short. Otherwise it would not be true that division between occupier and owner is a small matter. It is not true of a twenty-one years' lease, such as not uncommonly occurs in the case of high-class residences, open to the tenant only but not to the landlord, to terminate at the end of seven or fourteen years. *A fortiori* it is not true of division between an occupier who is a "feuar" and his "superior." Of all such cases it is particularly true that, as Mr. Sargant says, "if any division of rates between owner and occupier is to be applied to existing contracts . . . there will necessarily be much hardship and loss inflicted on a prudent class of investors."<sup>2</sup> The owner's interest in improvements remaining unexhausted at the end of the period would not compensate his having to pay for so long a period a considerable fraction of rates whereof the benefit accrues to the occupier alone during that period. Accordingly in such cases the objections on the ground of distribution, and even of production, which are directed in a later section against certain schemes for rating site values are to some extent applicable to the method of division considered in this paragraph. Under the existing conditions of tenure, are these objections obviated by the proposal<sup>3</sup> that, beginning three years after enactment, there should be division between owner and occupier of rates in excess of the average for those three years?

B. The long division between the occupier and a series of superiors is described by Mr. Costelloe in his evidence before the present Royal Commission on Local Taxation under the designation of "rent duty." "This rent duty calls for an even poundage contribution from every receiver of rent right back to the owner of the freehold."<sup>4</sup> In the words of a witness before the Local Taxation Commission of 1870,<sup>5</sup> "You should travel down, catching every interest, until you come to the ground landlord, each

<sup>1</sup> *Mem.*, p. 137. Mr. Price has recommended the same proportion on grounds of justice, arguing that "it may theoretically be more equitable than an equal distribution" (*Mem.*, p. 185).

<sup>2</sup> *Ibid.*, p. 215.

<sup>3</sup> Made (in effect) by the Local Taxation Committee of 1870 (*Report*, Resn. 9).

<sup>4</sup> *Minutes of Evidence*, Vol. II. C. 9150. Q. 19,904 and context. Was the scheme first propounded by Lord Hobhouse [*Contemp. Review*, 1888]?

<sup>5</sup> Sir John Thwaites, Q. 4038.

party paying in proportion to the [his] property or interest in the building." So the very clever writer of the articles on "Financial Reform" in the *Speaker*: "Division of rates would be a complete reform if you define owner properly" [so as to include superior interests].<sup>1</sup> It will be convenient to defer the discussion of this scheme in order to consider it along with others which differ from it in definition more than in effect.<sup>2</sup>

II. Among schemes for rating site value a wide distinction is to be drawn between (1) those which do, and (2) those which do not respect vested interests.<sup>3</sup> J. S. Mill's scheme is the typical example of the former class. It would be superfluous to recapitulate his provisions for intercepting the "future unearned increment" of land value; but it may be well to recall his scrupulous concern for present possessions.

"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 landlord would be obviated, since that includes the present value of all future expectations." (*Political Economy*, Book V. ch. ii. § 5.)

"The Society [The Land Tenure Reform Association] do not propose to disturb the landowners in their past acquisitions . . . whatever value the land may have acquired at the time when the principle they [the Society] contend for shall obtain the consent of Parliament, they do not propose to interfere with."

<sup>1</sup> *Speaker*, Nov. 11, Dec. 16, 1899.

<sup>2</sup> See below, p. 210.

<sup>3</sup> A cross division is formed by an impost on (a) ground-rent only, (b) all superior interests (the symbols corresponding to a certain parallelism with the division into A and B). But the subdivisions 1 b and 2 a can hardly be described as "schemes which have been proposed." The nearest approach to the realisation of the former, known to the writer, is the scheme proposed by the Select Committee of 1892 (No. 214, p. xix), which (properly belonging to the head 1 B) is discussed below at p. 210. The nearest approach to 2 a appears to be a scheme, suggested by Mr. Harrison, and discussed by the Select Committee on Town Holdings (Report, 1892, p. xvi), for taxing reversions by means of an impost levied on ground rents payable at present under a lease. This scheme is open not only to the objections stated below under the head II 2 a, p. 198, but also, in so far as ground rents consist partly of quasi-rents, to the objections stated under the head II 2 b, p. 203. Conceivably indeed the scheme might be defined so as to come under head II 1, the type characterised by the absence of competition. The condition that existing acquisitions should not be disturbed would seem to require that the prospective reduction of the landlord's income during the remainder of the term and after the reversion should not diminish the capital value of his interest to such an extent as to render it no longer possible for him to purchase with that capital the perpetuity of an income at least as great as that which but for the impost he would have enjoyed during the remainder of the term and (with some addition) after the reversion. Such an object would be difficult to hit, even if it were aimed at; which there is no reason to suppose.

(*Papers on Land Tenure ; Dissertations and Discussions*, Vol. IV. p. 244.)

"These owners should be allowed at any future period to alter their minds, and give up their lands for the price first offered." (*Ibid.*, p. 245, *cp.* p. 264.)

"Those whose land might afterwards fall in value would be able to claim the former price from the State, although they could no longer obtain so much from individuals." (*Ibid.*, p. 295, *cp.* p. 286 *et passim.*)

This scrupulosity contrasts strongly with the plans which are now in vogue. The leading idea appears to be to impose on every one deriving an income from land built upon or vacant, a special rate proportionate to that amount of his net income which may be attributed to the value of the site. The method of determining this net income may be thus typified. Let  $Z$  be the rack-rent-owner receiving net rent (clear of expenses for repairs)  $z$  from the occupier.  $Z$  pays to his immediate superior  $Y$  the annual income  $y$ ;  $Y$  receives  $y$ , and pays  $x$  to his superior  $X$ , and so on up to the freeholder, who receives without paying. Accordingly the net income obtained from the premises by  $Z$  is  $z - y$ , that of  $Y$  is  $y - x$ , and so on. Now, if the object were to exact from each party a certain quota, say 25 per cent., of his net income, that object would be realised by exacting  $\cdot 25 z$  from  $Z$ , and empowering him to deduct  $\cdot 25 y$  from the rent which he pays to  $Y$ ;  $Y$  being empowered to deduct  $\cdot 25 x$  from his payment to  $X$ , and so on. But this would be only "rent duty," a second best plan according to Mr. Costelloe, in comparison with the special rate on site value.<sup>1</sup> To pass to this scheme we have only to substitute for the series of annual payments,  $z$ ,  $y$ ,  $x$ , etc., that portion of each payment which is said to consist of ground-value, say  $\zeta$ ,  $\eta$ ,  $\xi$ , etc., respectively. Then, if as before, 25 per cent. is the quota, the occupier deducts  $\cdot 25 \zeta$  from his payment to  $Z$ ;  $Z$  deducts  $\cdot 25 \eta$  from  $Y$ ;  $Y$  deducts  $\cdot 25 \xi$  from  $X$ , and so on.

It only remains to determine the amounts  $\zeta$ ,  $\eta$ ,  $\xi$ . It seems to be generally agreed that  $\zeta$  is obtained by estimating the present value of the land as a cleared site. From this datum  $\eta$ ,  $\xi$ , etc., are computed, but there are diversities in the method of computation. A great variety of practice is covered by the happy ambiguity of the leading principle as announced in authoritative documents, such as the Report of the Local Government and Taxation Committee of the London County Council: "That all persons deriving a revenue, or use equivalent to revenue from the value

<sup>1</sup> Above, p. 186.

of a site, be liable to such charge," the "direct charge upon owners of site values" to be termed "owners' tax."<sup>1</sup> The *Bill for the taxation for local purposes of ground values in Burghs in Scotland*<sup>2</sup> which embodies the aspirations of the Glasgow Councillors, is not more explicit. Two methods of computing  $\eta$ ,  $\xi$ , etc., stand out prominently, the first associated with the name of Mr. Fletcher Moulton, Q.C., the second emanating from the London County Council. A general idea of these methods may be obtained from the following metaphorical instance. Suppose that a gold watch has passed from one party to another by repeated sales; and that it is desired to lay a "gold-value" impost not only on the last holder, but also on the whole series of parties who once held the article whether completed or in any stage of its production (these parties being supposed to receive the equivalent of what they parted with in the form of periodical payments). The data for determining the respective contributions of the parties are: (1) the present market value of the watch, say  $z$ ; (2) the values for which each of the preceding owners parted with their interest in the watch, say  $y$ ,  $x$ , etc.; (3) the estimated present value of the gold case clear of the steel works, say  $\zeta$ . Then the amount of gold value in the hands of the present owner is  $\zeta$ , and the amount of gold value held by the first owner, the party who sold the raw material to the goldsmith for the manufacture of the watch, is the whole amount of the value which he received. To determine the amounts of gold value attributable to the intermediate parties *two* methods are suggested. *First*, suppose that the present gold value of the watch  $\zeta$  subsisted in the past as far back as it can be supposed, that is as long as  $\zeta$  is not greater than the known total value of the watch. Thus, if the penultimate holder on parting with the watch obtained a value  $y$  greater than, or equal to,  $\zeta$ , there shall be attributed to him gold value of the amount  $\zeta$ ; but if  $y$  is less than  $\zeta$ , then the whole of  $y$  is regarded as gold value. The contribution of the antepenultimate holder is determined from that of the penultimate one by the same rule. *Secondly*, suppose that the present value of the steel works subsisted in the past so far back as it is possible to suppose. Then for the gold value at a past epoch we are to put the given value of the watch at that epoch *minus* the present value of the works. Now the present

<sup>1</sup> Recommendations of the London County Council submitted to the Royal Commission on Local Taxation, 1898; forming an addendum to Mr. Costelloe's Memorandum in the second volume of *Minutes of Evidence* issued by the Commission. [C. 9150.]

<sup>2</sup> Discussed by Professor Smart in his *Taxation of Land Values*.



value of the works is given as the difference—called “balance”—between the given market value of the watch and the given valuation of the gold case. Accordingly we have for the “gold value” of the watch at the past epoch the then value of the watch *minus* the said “Balance”; always provided that the gold value thus determined is not less than the value of the watch at a stage before the works were put in; for that value, at least, must be considered to subsist in the hands of all the subsequent owners. For example, in the case above typified the “balance” is  $z - \zeta$ , and accordingly the amount of “gold value” in the hands of the penultimate owner  $Y$ , is  $y - (z - \zeta)$ ; provided that this difference is not less than a certain minimum, viz. the value which was received by a former holder for the watch case before the works were put in, say  $g$ . This amount of value, at least, must be charged to  $Y$ ; and accordingly his share of gold-value is *either* the above written *or*  $g$ ,—whichever is larger. Special arrangements are made for the awkward possibility that, the works being unsuited to the case, the value of the cleared case would be greater than the value of the watch as it is.

But let the advocates of these schemes speak for themselves without parables. Mr. Moulton, in his able pamphlet, *The Taxation of Ground Values* (1889), thus exemplifies a method recommended by him which may be identified with our first:—

“Suppose in the case given in the last paragraph [‘if the rate on ground-values be five shillings in the pound, and an occupier pays a rent of £1000 per annum for a building standing upon land whose ground-value is £500 per annum’] the landlord is not himself the freeholder, but holds the land from him at a ground rent of £100 a year. It will be evident that the intermediate landlord is himself the owner for the time being of four-fifths of the annual ground value, and the freeholder is only the owner of the remaining one-fifth. Now the principle of these proposals is, that the rate should follow the ground-value or any part of it, each person paying the rate upon the part of the ground-value which passes into his pocket. In the instance given, the occupier will deduct from the rent which he pays to the intermediate landlord £125, *i.e.*, five shillings in the pound upon the whole ground-value of £500. The intermediate landlord will in a similar way deduct five shillings in the pound upon the rent that he pays to the freeholder, *i.e.*, five shillings in the pound upon £400. This is just, and in accordance with the principles we have enumerated, because he receives and returns that portion of the annual value. In this way, each person

who is in receipt of any portion of the annual ground-value will contribute a fair share of it towards the burdens of the community.”<sup>1</sup>

The second method of determining the site value attributed to the different parties is illustrated in the “Forms of Demand Note”<sup>2</sup> published by the County Council [9550—9738] referred to in the Report of the Local Government and Taxation Committee on the rating of land values, 1893, No. 127 [9641—9737], in which the method is set forth. The “forms of demand” are accompanied with an explanation by Mr. Harper. Here is one of the examples :

Rateable value A	.	.	.	.	.	£360
Site value B	.	.	.	.	.	200
Balance C	.	.	.	.	.	£160

Interest.	Rent.		Site value rate.		
	Received.	Paid.	Gross amount paid or allowed.	Amount deducted from rent.	Net payment.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
A, lessee for 21 years from 1864 .....	543 0 0	255 0 0	10 0 0	4 15 0	5 5 0
B, building lessee for 99 years from 1920 .....	255 0 0	45 0 0	4 15 0	2 5 0	2 10 0
C, freeholder .....	45 0 0	nil	2 5 0	nil	2 5 0

Mr. Harper thus interprets :—

“B first proceeds to ascertain how much his sub-lessee A is justified in deducting. As the site value is only £200, the rent of £255 clearly falls under rule 2.<sup>3</sup> He must therefore deduct Balance C (£160) from the rent, leaving £95 as the sum upon which A is entitled to deduct, and at one shilling in the pound this gives £4 15s. as the amount to be deducted. B then turns to his own deduction. His rent, £45, is obviously a ground rent,

<sup>1</sup> *Loc. cit.*, p. 12. Compare the very clear account of his scheme given by Mr. Moulton in his evidence before the Select Committee on Town Holdings, 1891 (No. 325). Q. 47—9 *et passim*, e.g., Q. 866 *et seq.*; also, Royal Commission on Local Taxation, 1900 [Cd. 201]. Q. 22870. See also below, p. 200, note 2.

<sup>2</sup> Reprinted by the Royal Commission on Local Taxation, 1900 [Cd. 201], Appendix VII.

<sup>3</sup> Rule 1 is : “If the rent you pay is a ground rent, or in respect of land only, deduct *sd.* in the £ upon the amount of such rent.” Rule 2 : “If the rent you pay includes buildings or other property besides land, subtract the balance C from the amount of such rent, and deduct *sd.* in the £ upon the remainder.”

and he can therefore, under Rule I., deduct one shilling in the pound upon it, viz. £2 5s., leaving as the net charge upon himself £2 10s., which is exactly one shilling in the pound on the net annual site value which he personally enjoys.”<sup>1</sup>

There are other formulæ for apportioning “site-value,” in particular one which was embodied in Mr. Dalziel’s Bill,<sup>2</sup> referred to in the Report of the Local Government and Taxation Committee above cited. But the matter is perplexed by an alleged misprint in the Bill, and the comparatively simple types which have been adduced are sufficient for our purpose.

Having then distinguished the principal schemes<sup>3</sup> which have been proposed for rating ground value, let us go on to discuss their advisability, employing the criteria which have been obtained in an earlier section;<sup>4</sup> that an impost should as little as possible conduce to either restraint of production or inequality in distribution.

(a) The *productional* test is remarkably well satisfied by Mill’s scheme; of such an impost it is particularly true that, in Professor Marshall’s words,<sup>5</sup>

“a tax upon this rent [rent in the ‘strict sense,’ as distinguished from that part of the value of land ‘which can be traced to the work and outlay of its individual holders’] does not alter the action of the owner; for he takes none in order to earn this rent: it does not ‘enter into the cost of production’ of the commodities raised on the land. A tax on it does not alter that cost; does not restrict the supply of commodities; does not raise their value; is not shifted forwards; and, of course, cannot be shifted backward.”

As Ricardo says, “a tax on rent” [in the strict sense] . . . “would fall wholly on landlords.”<sup>6</sup> But as he goes on to say, “a tax on rent, as rent is constituted . . . would be a tax on the profits of the landlord.” Ricardo is speaking with special reference to agricultural rent. But even the landlord of urban sites is in the concrete not perfectly inert. The “master’s eye” produces some of its proverbial effect. If he has not supplied sewers and roads, at least he has supervised the arrangement of streets and type of houses so as to render the neighbour-

<sup>1</sup> Roy. Comm., 1900 [Cd. 201], p. 160.

<sup>2</sup> *Land Values (Taxation by Local Authorities)*, 56 Vict., Bill 11.

<sup>3</sup> The scheme mentioned in note 3 to p. 187 seems hardly to deserve this designation.

<sup>4</sup> Above, pp. 152-162.

<sup>5</sup> *Mem.*, p. 116.

<sup>6</sup> *Principles*, ch. x. par. 1.

hood attractive.<sup>1</sup> That the labour of supervision may fall upon an agent does not affect the *productional* aspect of this consideration. On some large urban estates the landlord is content to take a smaller rent if he may impose present conditions as to buildings which are to fall in to the family some eighty years hence. What is this but the sacrifice of a present advantage for a greater future one? A substantial tax altering the margin of this kind of saving would virtually check accumulation. Moreover the Ricardian statement postulates that the landlord has no other use for his land but to let it. But, in fact, he has the alternative of selling or mortgaging it. As several witnesses explained to the Select Committee on Town Holdings, if feu duties were taxed, proprietors would no longer feu. "It would not work," said one, "it would end in our putting it as a first mortgage."<sup>2</sup> It is not very easy to block these alternative courses by a tax exactly equivalent to a tax on ground rents. In so far as the tax on ground rents might be evaded by legal devices, an added burden would have to be borne nominally by the lessee, the building owner, and ultimately by the occupier.<sup>3</sup> However, with all these reservations it is not to be denied that a considerable part of the productional advantages claimed for the rent in the "strict sense" does appertain to an impost on the ground rent of our large towns, especially on future augmentations of ground rents, as contemplated by Mill.

The *distributional* test, too, is evidently satisfied by an impost on future unearned increase. If we admit the premiss we can hardly reject the inference in what Mill says about the landlords:—

"They grow richer, as it were, in their sleep, without working, risking, or economising. What claim have they on the general principles of social justice to this accession of riches?"<sup>4</sup> As Professor Marshall says:—

"The expenditure of such private societies as the Metropolitan Public Gardens Association, and much of the rates raised on building values for public improvements, is really a free gift of wealth to owners who are already fortunate."<sup>5</sup>

<sup>1</sup> Cp. Select Committee on Town Holdings, 1891. Qs. 6531, 2138, 5484, etc., and Royal Commission on Local Taxation, 1900 [Cd. 201], Appendices *passim*, in particular Matthews, p. 146.

<sup>2</sup> *Loc. cit.*, 1891, Qs. 6889, 5252; and cp. Qs. 5403, 6300 *et seq.*

<sup>3</sup> That a tax on *one kind of rent* may affect price is an admitted proposition (cp. Mill, *Pol. Econ.*, Bk. V. ch. iii. § 6, par. 4). It follows from that relation of rent to "one kind of produce" which Prof. Marshall has explained (*Principles of Economics*, Bk. V. ch. viii. § 3).

<sup>4</sup> *Political Economy*, Vol. II. p. 5.

<sup>5</sup> *Mem.*, p. 125.

It is true that all owners of ground rents in this country are not already fortunate; however, the future unearned increments even of small fortunes seem a very proper object of taxation. The question now arises, Will they not be sufficiently taxed by our income tax and death duties? It may be replied that the future increase of true rent is in so much higher a degree "unearned" than ordinary acquisitions as to be placed in a distinctly different category for the purpose of taxation. The somewhat fine distinction is thus drawn by Mill:—

"The rights of private individuals to something which they did not make, or help to make, but which came to them by bequest or inheritance from people who also did not make it or help to make it, are a totally different thing from the right of every one to the product of his own labours and sacrifices, or to the product of the labours and sacrifices of those who freely gave it to him."<sup>1</sup>

There are good judges who do not admit that the distinction is workable.<sup>2</sup> However, suppose it granted that the future increased increment when distinctly recognisable should be subject to an extra impost, why is that impost to be a *rate* rather than a tax? Mill does not seem to have ruled on this point. That the proceeds of an impost on ground-rent should be applied to municipal purposes, inasmuch as that rent has been created and maintained by the rates—or, to speak more generally, by the action of the citizens—sounds reasonable, yet is not so cogent as it sounds. The principle that labour has a right to what it produces is hardly relevant here, since the increase of ground rent was not the *motive* for the sake of which cities were formed and improved. It is a by-product, like acorns on oaks which were planted solely for the sake of timber. Does justice demand that we should plant the acorn in the place where it has grown, if the parent forest is already too dense? If crowding into cities is an evil, might it not be argued that, just as temperance reformers propose to apply the proceeds of some public-houses to the extinction of others, so the unearned increment of urban rent might be applied to check the tendency to aggregation, or at least not to aggravate it by rendering cities more attractive. While some attention may be claimed for this dialectic, still it cannot fairly be denied that such an impost as a "fresh-air rate"<sup>3</sup> based on future unearned increase of ground-rent would be just and reasonable.

<sup>1</sup> *Dissertations and Discussions*, p. 279.

<sup>2</sup> *E.g.*, Mr. Price, *Economic Science and Practice*, pp. 4—8.

<sup>3</sup> *Op. Marshall, Mem.*, p. 125.

But after Mill's scheme has passed successfully the scientific tests, it still is open to a practical objection, that it is nobody's interest to start it. It might be compared in this respect to the honest species of bimetallism which that just man, Mr. Leonard Courtney, has propounded; to avoid all suspicion of seeking a temporary advantage by the inflation of prices, the value of silver in relation to gold is to be fixed at a ratio *less* than the market value.<sup>1</sup> Such a scheme may embody an eternal verity, but it offers no immediate advantage to the political agitator. There is no money in it! To show this in the case of a scheme like Mill's, it suffices *a priori* to observe that if the present market value of land is to be guaranteed, or at least not to be attacked, advantage can result from the tax only in so far as Government is more far-seeing, is gifted with greater "longanimity" or "effective desire of accumulation" than the individual capitalist.

To take a concrete instance: say, using the best statistics that are available, that the yearly unearned increment of site-value in London is £300,000.<sup>2</sup> Now all this yearly increase of value is not received in the way of increased ground rent. For ground rents are not created freshly every year, but in London say only once in eighty or more years.<sup>3</sup> Thus the amount of ground rent to be touched in the first year in which the enactment comes into force<sup>4</sup> would be at most only some  $£300,000 \div 80$ ; supposing that the houses of London remained constant in number like a stationary population. But as, in fact, London has been growing rapidly, the average number of premises leased by ground landlords eighty years ago must be much less than an eightieth part of the present city. Perhaps not more than  $300,000 \div 150$ , some £2,000, can be intercepted on

<sup>1</sup> *Nineteenth Century*, April, 1893.

<sup>2</sup> This figure is given by Mr. Sidney Webb in his examination before the Select Committee on Town Holdings, 1891. Compare Tract 30 of the Fabian Society. Mr. Gomme (in the Memorandum contributed to the Royal Commission on Local Taxation, Vol. I., Part II. [C. 8765]), has given some figures which lead to a similar result. House-property in London rose in rateable value, presumably owing to increase of site value, in round numbers by £3,200,000 in the decade 1871—2 to 1881—2, but in the period of fifteen years from 1881—2 to 1896—7 only £2,900,000. It is possible that these increases are in part only apparently due to the increased stringency of the valuation. However, the figures are borne out—at least their magnitude is shown to be not improbable—by the estimates which have been made by foreign statisticians with respect to other capitals. A good *résumé* of these statistics is given in Dr. Einaudi's excellent article in *La Riforma Sociale*, 1900, N.S., Nos. 8, 9.

<sup>3</sup> For various estimates of the average length of the term in London, see index to Reports of Select Committee on Town Holdings for 1886—9 (1889, 251). Mr. Ryde considered the usual term ninety-nine years.

<sup>4</sup> See below, p. 196, note 3.

the occasion of newly created ground rents in the first year; the rest of the annually accruing increment of £300,000 being caught by middlemen whom Mill, if consistent, would presumably not touch.<sup>1</sup> Nor would he touch in the second year, nor for many years, those ground rents which had been docked of unearned increment in the first year.<sup>2</sup> Thus the amount of annual income flowing from the new source into the municipal treasury would be considerably less than £4000 in the first year. In the second that income would continue to be enjoyed, and there would fall to be added the increase since the initial epoch less than another eightieth part of the metropolis, less than  $2 \times 4,000$ . Similarly in the third year less than  $3 \times 4,000$ ; and so on. In ten years the additional annual income might perhaps amount to some £200,000,<sup>3</sup> not 2 per cent. of the municipality's present annual expenditure. It is to be noted also that this ten years dates not from the present time, the year of enactment, but a year so distant in the future that the prospect of an increment to value in that future year does not seriously affect the present market-price of land<sup>4</sup>—perhaps ten years, and surely not less than five years from the time of enactment.

But because this prospect is not very attractive to the socialist agitator that is no reason why an ideally wise government should not consult for a future generation. Let county councils only persevere in the regulation of newly created ground rents, and ultimately a considerable part of the municipal expenditure will be defrayed out of site values; there will be realised the aspiration of those who "wish the burden of the rates to be transferred from man's action in improving and developing the land to his privileges in holding for private use a part of Nature's free gifts."<sup>5</sup>

<sup>1</sup> "I grant that in many cases the increased value [of works of art] does not reach the artist himself, but is an addition, and sometimes an unlooked for addition, to the gains of a middleman. . . ." *Loc. cit.*, p. 297. Yet Mill does not propose to tax away this unlooked for addition.

<sup>2</sup> Mill would have allowed "a long lease" of "situations advantageous for building or for industrial purposes." *Ibid.*, Vol. IV. p. 249.

<sup>3</sup> In general, we ought to take account of the increment which the yearly addendum, supposed initially about £300,000, is likely to receive if it continues an approximately constant percentage of a continually increased volume of site-value. Initially this volume might be about £15,000,000, Mr. Gomme's estimate for 1897 (*loc. cit.*, Table XII.). So that the yearly increase of the volume would be less than 2 per cent. It will be seen that these estimates are very liberal. Accordingly we have for a superior limit to the total income accruing in  $n$  years  $(1 + 2 + \dots + n)(1 + 0.02)^n \times £4000$ , in ten years, for instance, about £260,000.

<sup>4</sup> "Taxation would not commence until there had been time for an increase of value to accrue." Mill, *loc. cit.*, p. 245. *Cp.* passages quoted above, p. 187.

<sup>5</sup> Marshall, *Mem.*, p. 124.

Yet laudable and secure as such an object so pursued may seem, its very distance in futurity may give pause. "Spem longam reseca" is the lesson read by Mill's example. Here was the first economist and one of the first intellects of his age, prepared to base a complicated construction, weighted with heavy liabilities, upon the foundation that "the land of the world—the raw material of the globe—in all prosperous countries constantly increases in value."<sup>1</sup> Doubtless there is a certain universality in this proposition. But the course of land value seems to

"crook and turn upon itself in many a backward streaming curve."

At any rate here and now the proposition has proved not true of agricultural rents; and the adoption of Mill's scheme would have resulted in a failure disastrous to this country, as Rogers has impressively pointed out.<sup>2</sup> Is it so certain that the value of central urban sites will go on increasing at the present rate? Professor Flux's investigation of "internal migration," published in the *Economic Journal*, 1900,<sup>3</sup> showing unsuspected movements of population inspires diffidence in prediction. Would it be wise to incur any great liabilities or even working expenses, on the strength of the probable progress of value in a distant future? However, when the example of Mill is used to point a moral it must be remembered that his disastrous failure would largely have been due to his scrupulous provisions in defence of property already acquired—a weakness which cannot be attributed to the more recent schemes which are next to be discussed.<sup>4</sup>

<sup>1</sup> *Dissertations and Discussions*, Vol. IV. p. 284. Cf. *Pol. Econ.*, Book V. ch. ii. § 3.

<sup>2</sup> *Interpretation of Economic History*.

<sup>3</sup> Vol. X. p. 142.

<sup>4</sup> Here should be placed, if it could be placed, among "schemes which have been proposed" the variety which is formed by applying to the British institution of "rates" the German principle of taxing "Conjuncturgewinn" (as to which see Wagner, *Finanzwissenschaft*, Vol. II. § 232 *et seq.*, and references there given). Some idea of such application may be obtained from Herr Pabst's proposals, referred to in the *Economic Journal*, Vol. X. p. 133, with respect to German house-property. The complexity of English tenures would render it particularly difficult to apply the principle to interests other than ground rents. The practical difficulty of touching "Conjuncturgewinn" in general is pointed out with authority by two eminent German economists who admit the abstract justice of Wagner's principle, Prof. Cohn, *System der Finanzwissenschaft* (translated by Veblen), § 342, and Prof. Robert Meyer, *Principien der gerechten Besteuerung*, p. 366. The latter well observes, "There is no universal publicly ascertainable [ausserlich erkennbares] test of unearned increment [conjuncturgewinn], only on the basis of the most intimate knowledge of the particular circumstances and capacities of each business could the influence of conjuncture with certainty be determined." It is an important suggestion that the evil is less than appears; conjunctures lose their specific character, "durch die Capitalisirung im Kaufpreis



(2) Contemporary schemes<sup>1</sup> present two aspects which it is important to distinguish: the rating (a)<sup>2</sup> only of "rent proper," rent in the "strict sense," "that part of the (annual) value of land which arises from its position, its extension and so forth," and (b) of rent including quasi-rent, "that part of the (annual) value of land which can be traced to the work and outlay of its industrial holders," of which it is true that "if it had been expected to be less than it actually is, the motive to work and to save the product of work would have been less."<sup>3</sup>

(a) What has been said above about the "productional" aspect of Mill's scheme is true of imposts not only on future increments but also on rent proper generally, with a certain reservation to be mentioned later.<sup>4</sup> We may pass on, therefore, to the "distributional" aspect of the proposed schemes so far

. . . bei der fortschreitender mobilisierung der Grundbesitz." In other words, if we might suppose that house property changed hands frequently, say on an average every ten years, for money earned by effort and sacrifice, the prospect of an increase in value in the near future entering into each price, there would not be much play for the taxation of unearned increment as conceived by Mill.

<sup>1</sup> It is not proposed to discuss here the incidental advantage claimed for a special rate on sites in that it lends itself to the rating of vacant spaces. The expediency of this measure depends on questions which the writer has not set himself to answer: (1) What proportion of the vacant land is held by monopolists (account being taken of the competition between different localities)? (2) To what extent is vacant land in cities to be regarded as a product of effort and outlay (e.g. of companies or private landowners who prepare land by sewerage). (Select Committee on Town Holdings, 1891, Q. 239-240)—seeing that in general articles which are not thus produced are not withheld from the market in a regime of competition (the "supply-curve" being a vertical line, above, p. 68), and articles which are thus produced have their supply price raised, not only in a regime of competition, but also in one of monopoly (*ibid.*, p. 227)? (3) Whether the impost would induce competitive owners of vacant land to sell it to monopolists? (4) Whether consistency would require that vacant houses should be rated? (5) Whether the impost would lead to the diminution of gardens and other healthy open spaces? (6) Whether evasion would be largely practised by the erection of make-believe buildings, cheap and cheaply rated? (7) What is the amount of vacant land in our towns, and whether the evil of a certain proportion thereof being withheld from the market, and the gain of the additional rate, are so great as to be worth much effort, and the sacrifice of simplicity in our tax system by introducing an impost on capital? in fine, (8) Whether, if the evil calls for a remedy, the proper remedy is not that the municipalities should buy the vacant land at a fairly valued price? Most of these points are raised in the Report of the Select Committee on Town Holdings, 1892 (No. 214), p. xxxiv, with evidence there referred to, and (by Lord Salisbury and Mr. Goschen) in the Report of the Royal Commission on the Housing of the Working Classes [C. 4402], p. 61, and p. 66, and in the evidence taken by Royal Commission on Local Taxation.

<sup>2</sup> It should be observed that there is a certain correlation between this division and that suggested above (p. 187, note 3), but not an identity.

<sup>3</sup> Marshall, *Mem.*, p. 115; *Principles of Economics*, Book V. ch. ix. § 42 *et passim*.

<sup>4</sup> Below, p. 207.

as they fall on true rents. So far as they will fall on future augmentations of rents proper, the distributional aspect of Mill's schemes and the contemporary ones are much the same; the favourable judgment which has been passed on that may be transferred to these. There are certain differences, however. Mill would have guarded against mulcting those who should have suffered a decrement of ground value. Again, Mill's system would presumably have secured that no part of what was taken from the landlord by taxation should be restored to him in the form of an increased rent. But it is not so easy to prevent this consequence in the case of a rate of which the proceeds are laid out in the locality. It has been argued indeed that a ground rent *cannot* be made to contribute to the local expenditure, since what the landlord loses by the impost he gains through the greater demand for sites. This is true in the long run, and with respect to future contracts, provided that the expenditure of the rate is such as to increase the demand in the requisite degree. This would be the case if the proceeds of the rate were simply deducted from the occupier's rent, other things being unchanged; or were laid out on improvements which add to the premises an attractiveness equivalent to the expenditure. There is some guarantee that this equivalent will exist when the occupiers, through their representatives, are spending their own money. But<sup>1</sup> money extracted from the ground landlords might be expended on objects which, though useful, have not for the many a high degree of *final* utility, such as the higher education or sanitation. Even the lower gratifications may be afforded out of the landlords' pocket beyond the limit for which consumers would be willing to pay at the cost price. It is perfectly conceivable, therefore, that a considerable slice of the ground rent in a locality should be applied to the edification and amusement of the inhabitants, without resulting in such a rush of applicants for residence in that locality as would fully recoup the ground landlord.

The schemes proposed, then, would act as a means towards an end which has been admitted to be desirable, the taxation of future unearned increments. But would the means be the best available; or rather like the method of roasting pork by burning the kitchen? This question arises as we go on to consider that

<sup>1</sup> The distinction here taken is the *rationale* of the difference between the answers which the present writer has given to the *ninth* and the *twelfth* of the questions set by the Royal Commission on Local Taxation (*Mem.*, p. 136, referring to *Mem.*, p. 134).

part of the plan<sup>1</sup> which relates to interests already created, to all manner of fixed incomes secured on rent, ground rents, feus,<sup>2</sup> or the interest of the lady mentioned by Lord Farrer who derived a terminable annuity from "leasehold ground rents near King's Cross bought for her by a thrifty, thoughtful husband."<sup>3</sup> On what principle is it equitable or agreeable to utilitarian distribution<sup>4</sup> to dock by a special rate these fixed charges? One answer is that ground rents<sup>5</sup> being created or maintained by the outlay of the rates ought to contribute to the rates. But this argument seems to prove too much. There are so many things which go to create and maintain the funds out of which people pay their debts, that it may seem arbitrary to fix on a particular kind of debt and a particular condition for the existence of the means to pay it. The argument, as Mr. Sargant has objected, is equally applicable to prove that the owners of railway debentures should be compelled to contribute to the working expenses of railway. And, as Mr. Gerald Balfour has objected,<sup>6</sup> "We might as well argue that it was to the water companies alone that the increase in value in towns was to be attributed." It is proposed on high legal authority to exempt mortgagees from the action of the principle in question; but to the lay mind it is difficult to explain why it should be less equitable—though it may be less feasible—to make mortgagees contribute to the rates, forasmuch as the rates maintain the value of the premises on which the mortgages are charged.<sup>7</sup>

<sup>1</sup> Mr. Fletcher Moulton is honourably distinguished by his wish to deal with existing contracts "fairly and equitably" (Sel. Comm. "Town Holdings," 1891, (No. 325), Q. 593. Cp. Qs. 98, 1786), and evidence before the Royal Commission, 1900. But the working of his scheme as typified in the example given below (p. 200) may justify its being placed in the present category (2, defined above, p. 187).

<sup>2</sup> Many of these payments, many more than appears at first sight, as pointed out above, are of the nature of *quasi-rent*. It would be often hopeless to attempt to ascertain how much of a so-called ground rent is "the result of natural value, and how much is due to the expenditure which he [the land owner] has incurred" (Sargant, *Urban Rating*, ch. i.). In this sub-section (II., 2 a, 1) these payments are considered so far forth as they are of the nature of "rent proper"—the case which may seem most favourable to the proposed impost; but all that is said here against the equity of the impost is to be understood as *fortiori* applicable to these payments, so far forth as they contain a considerable element of *quasi-rent*.

<sup>3</sup> Sel. Comm. "Town Holdings," 1890 (No. 341). Q. 3990.

<sup>4</sup> Above, p. 157.

<sup>5</sup> This allegation has been considered above (p. 194) as an argument for the application to municipal purposes of an impost supposed to be already accepted as reasonable, here as proving the reasonableness of a new rate.

<sup>6</sup> In the debate in the House of Commons, March 8, 1895.

<sup>7</sup> "Town Holdings," 1891, Qs. 1474, 1795, 892, etc. Harrison, *ibid.*, 1890, 3715. Cp. Evidence before the Royal Commission on Local Taxation [Cd. 201], Q. 22,874 *et seq.*

It is urged more definitely that the owner of a fixed income charged on land and buildings may fairly be called on to pay for that addition to the capitalised value of his income which results from the security added by the increase in the value of the premises. But there is a good deal of evidence that the capital value of such an interest is not usually much increased by an addition to the value of the premises on which it is charged.

"In any *bona fide* ground rent, the margin was sufficient before, and enough is as good as a feast." (Evidence before Select Committee on Town Holdings, 1891 (325), Q. 1082.)

"No ordinary fluctuation of value would affect the security of the superior." (*Ibid.*, Q. 2240.)

"The feu duty is already so well secured that 'not much difference results from increased value of property.'" (*Ibid.*, Q. 5887.)

The Select Committee on Town Holdings reasonably regards "the benefit to improved ground lease-holding as too remote and indirect."<sup>1</sup> At any rate the projected impost sins against Adam Smith's fourth canon, since the proposal to reduce annuities which are sought out on account of their fixity and security is calculated to diminish considerably their selling value:—

"The capital value of the ground rents would be diminished by much more than the capitalised amounts of the rates charged on it." (Evidence before the Select Committee on Town Holdings, 1891, No. 325, Q. 155.)

"The element of uncertainty introduced by taxation of 2s. in the pound would cause loss of *another* tenth." (*Ibid.*, Q. 5881.)

The reason most operative with the general public is doubtless the belief that the owners of ground are affluent landowners, very fit subjects for extra taxation. As Mr. Gillies, a member of the Edinburgh Town Council, said frankly before the Select Committee on Town Holdings,

"I think there is no use in making any great cry about the hardship to others who are in better circumstances." (*Loc. cit.*, Q. 5140.)

But there is evidence that a good number of "small people" in this country are interested in this species of property:—

"The more thrifty people are, the more they prefer ground-rents as an investment." (Evidence before Select Committee on Town Holdings, 1887, Q. 1917, *cp.* Q. 1254.)

Ground rents to the amount of nearly £1,000,000 were, in 1884–85, sold in "small parcels." (*Ibid.*, 1922.)

<sup>1</sup> Report, 1892 [No. 214]. For further proof of this proposition see Mr. Sargant's *Urban Rating* appendix, from which an illustration is cited below.

The Prudential Assurance, essentially an office "for the lower middle class," holds ground rents to the extent of £1,300,000. They form an investment for "a very large number of the industrial classes," for "people of all classes," who invest in "ground rents as provision for their families." (*Ibid.*, Q. 3491.)

The King Edward School derives an income from ground rents of £27,000 a year. (*Ibid.*, 1888, Q. 1399.)

The Harper Charity School has an income of about £20,000 a year from London property. (*Ibid.*, 1887, Q. 11447.)

The Church of Scotland has £40,000 a year from feu duties. (*Ibid.*, 1891, Q. 2378.)

If the amount of taxation now levied on owners of houses in Scotland were transferred to feu duties, there would be a reduction of £7 10s. on an average income of £120 enjoyed by the ministers of 365 churches accommodating half a million people, "chiefly among the poorer part of the population." (*Ibid.*, Q. 6364.)

A certain charitable institution would be deprived of the means of relieving "fifty-four poor girls." (*Ibid.*, Q. 6198.)

There are "hundreds of thousands of the industrial and middle classes who have small savings invested in ground rents through benefit and insurance societies," *e.g.*, a messenger to a firm in the City, a barmaid, a spinster with a legacy of £300, a solicitor's clerk. (*Ibid.*, Q. 987.)

Of course there are rich landlords, but why should they be singled out to bear a greater burden than other equally rich persons? If a "professional man with several unmarried daughters"<sup>1</sup> has invested his savings in ground-rents, why are they to be deprived of a quarter of their income, while the fortune of another family, invested in mortgages or in railways, is intact? Is it reasonable that as in a case put by Mr. W. H. Warner in the important memorandum which he has contributed to the Royal Commission on Local Taxation,<sup>2</sup> the same fortune of £20,000 should, owing to the unexpected impost of 6s. in the pound on ground rents, yield £210 per annum less, being invested in ground rents, than if it had been invested in railway debenture stock with an originally equal prospect of 3½ per cent. Is it not a first principle of fiscal equity, and indeed of all morality,<sup>3</sup> that no distinction should be made where there is no significant difference?

"No inequality of treatment shall be meted out as between individuals possessing similar amounts of wealth."

<sup>1</sup> Sargant, *Urban Rating*, p. 96.

<sup>2</sup> *Minutes of Evidence*, Vol. II. [C. 8765], Appendix 4.

<sup>3</sup> *Ante*, p. 157.

"The proposal [of land nationalisers] is, by the ordinary person, very rightly considered unjust, because it deducts unequal amounts from A who has £10,000 worth of land, and from B who has, say, £10,000 worth of ships." (Cannan, *Mem.*, p. 165.)

Why should that "pain of loss" and "fear of loss" which Bentham has so forcibly described in his "Analysis of the Evils Resulting from Attacks upon Property" be distributed unequally among owners of equal properties? <sup>1</sup>

(b) These considerations become *a fortiori* when we regard the proposed rate as an impost on *quasi-rent*. To the "pain of loss" and "fear of loss," which were considered under the head of rent proper, there is now added in the terms of Bentham "the destruction of property." <sup>2</sup> "The most prudent will begin to contract their enterprises, and by degrees to abandon an uncertain career." <sup>3</sup> As Professor Nicholson has said with reference to still more violent tamperings with property in land than those now under consideration: "The argument against confiscation does not rest merely on instinctive morality." <sup>4</sup> We can see the utilitarian reason for not disappointing the legitimate expectations of Peter in order to confer an unexpected gain on Paul. That method of redistribution is calculated to diminish the total to be distributed. Accordingly, all that has been said in the preceding paragraphs concerning the "distributional" character of the special rate in relation to rent proper is to be read with added emphasis into the following paragraphs in which the "productional" character of the rate in relation to quasi-rent is discussed.

On the borderland between the categories (a) and (b) there is a certain effect which, essential to quasi-rent, incidentally attends rent proper. It has been well said that "when land or other free gifts of nature have once become private property, their rent proper does not act as a direct motive to make and save the means of production; though, of course, a violent appropriation of it might destroy the security on which all such motives depend." <sup>5</sup> It may be difficult to arrange that the appropriation of rent proper should not be so far violent as to cause some shock to security. Anatomists tell us that portions of the white matter in the brain may be removed without any sensible effect on the animal that is being operated on. But the operation is admitted to be a delicate one, and there is always danger of disturbing some nerve-centre

<sup>1</sup> *Principles of the Civil Code*, Part I. ch. x. Works, ed. Bowring, Vol. I. p. 310.

<sup>2</sup> Bentham, *loc. cit.*

<sup>3</sup> *Ibid.*

<sup>4</sup> *Conference on Industrial Remuneration* (1895), p. 462.

<sup>5</sup> Marshall, *Principles of Economics*, Book V. ch. ix. § 4, p. 472, 2nd edition.

of exquisite sensibility. So though rent proper be a sort of "intra-marginal" surplus which may be scooped out without sensible effect upon the economic organism, there is still a danger of disturbing the "grey matter" of the industrial brain. And even where no lesion is inflicted, the mere apprehension thereof may cause the victim of the operation to start back. And such apprehension is to be expected where the victim is the enterprising capitalist and the operator is the socialist politician. Economic anatomy is not minutely studied by those who are absorbed in the practical pursuits of making or of taking money; and the nice distinction between "proper" and "quasi-" rent is not so familiar to either of the parties as to form a limit to the fears of the one and the rapacity of the other.

Thus even that part of the impost which falls only on rent proper exercises some effect in deterring capital from investment in house-building and the subsidiary industry of sewerage, road-making, etc. Much more is this effect produced by the impost so far as it falls on quasi-rent: for instance on that part of an improved ground rent which forms the remuneration of outlay and effort.<sup>1</sup> The essence of the transaction is not affected by the use of deduction from superiors as practised in the collection of the income tax.

"In the case of a new house, the owner does not pay the rate, since he expects the ordinary profits—a circumstance which removes the case from the analogy of the income tax . . . since the income tax, not being special to investment in building, cannot be shifted by the building owner."<sup>2</sup>

In the words of Professor Sidgwick:—

"Income tax laid equally on incomes from different sources . . . has no tendency to be transferred . . . a tax on farmers' [or any other 'particular class' of] profits would tend to be transferred through industrial competition to other classes of the community."<sup>3</sup>

The example of the income tax, to which the innovators are always pointing triumphantly, proves nothing.

"I have never seen," said Mr. Costelloe, "an answer to the proposition that if this could be done with the income tax, something analogous could be done where Parliament chooses to levy

<sup>1</sup> In this connection, as well as with reference to head *a*, may be mentioned the allegation that "the trouble in calculating and apportioning the rates . . . would depreciate the value of property" ("Town Holdings," 1891, Q. 1122). "The fractions are something frightful" (*ibid.*, 6069).

<sup>2</sup> *Mem.*, p. 130.

<sup>3</sup> *Ibid.*, p. 103.

a rate which is intended to be a direct charge coming out of rent receivable by owners.”<sup>1</sup>

He might have seen an answer in every treatise on political economy. Thus J. S. Mill<sup>2</sup> :—

“If a tax were laid on the profits of any one branch of productive employment, the tax would be virtually an increase of the cost of production, and the price would rise accordingly; by which the tax would be thrown on the consumer of the commodity.”

Ricardo, as usual, puts the case of *hats* :—

“A partial tax on profits will raise the price of the commodity on which it falls; a tax, for example, on the profits of the hatter would raise the price of hats; for if his profits were taxed, and not those of any other trade, his profit, unless he raised the price of his hats, would be below the general rate of profits, and he would quit his employment for another.” (*Political Economy*, ch. xv. § 2.)

A “partial” impost on the profits of those engaged in the production of houses will raise the price of house accommodation. This principle is equally applicable to those who prepare the land and those who build the house. It may be thought that building will not be discouraged as the impost is placed on the site. And doubtless this circumstance would make some difference if the impost had been levied on the discounted value which the intending builder was willing to give for the site; it would make all the difference, if that payment were of the nature of rent proper. Suppose a builder is willing to pay a rent of £45 per annum for a site as in the example above cited,<sup>3</sup> if the impost were simply proportional to that rent, the builder would be only so far embarrassed, as land property, sewered and ready for building, would no longer be supplied on the same terms as before; and if we could suppose that no preliminary outlay on the land was requisite, then the case would come under Ricardo’s principle. “A tax on rent” would “fall wholly on landlords.”

But the proposed impost is not simply proportioned to, nor depending in any direct relation on, the payment which the intending builder offers for a site. It is not, in the example referred to,  $\frac{1}{20}$  45, but  $\frac{1}{20}$  (45 +  $\eta$  -  $\xi$ ) where ( $\eta$  -  $\xi$ ), say  $\sigma$ , is often an unpredictable quantity. If speculative builders were making ordinary profits before the impost could they continue

<sup>1</sup> § 5, Appendix XI., to Vol. II. of *Minutes of Evidence, Royal Commission on Local Taxation*.

<sup>2</sup> *Pol. Econ.*, Vol. III. § 3.

<sup>3</sup> p. 191.



to do so after it without the price of houses being raised? If a watchmaker<sup>1</sup> were liable to an impost of so much in the pound on a certain—or, rather, an uncertain—amount of “gold value,”  $\sigma$ , depending on the valuation of the gold cases at periods subsequent to the manufacture, would not a rise in the price of gold watches be the consequence?

On general principles then we should expect that

“builders will in future throw on occupiers, in the shape of rent, the estimated amount of this prospective rating just as surely as would be the case with present rates.” (Sargant, *Urban Rating*, p. 162.)

And there are special reasons for expecting that the partial tax on profits which we are considering will operate with particular effectiveness to “raise the price of the commodity,” houses. (a) The amount of prospective rating against which the builder has to secure is likely to be estimated at a higher figure if he regards the impost as the outcome of a prejudice against property in land—as if landowners were entitled to no more consideration than slave owners!—a prejudice which, if yielded to, is likely to result in an additional impost on the remuneration for his house.<sup>2</sup> He may suspect, too, that the datum on which the impost is from time to time to be computed, the value of the cleared site, will be over-valued to his detriment. (b) That datum is at best somewhat vague, with a wide margin of uncertainty.<sup>3</sup> And as the methods of computing from that datum the net rateable quantity of site value, here called  $\sigma$ , agree neither with each other nor with any principle intelligible to the business man, he may regard the result as impossible to reckon on and quite aleatory. Now, as Professor Marshall has pointed out: although

“a risky trade in which there is an element of romance often becomes so overcrowded that the average earnings in it are lower than if there were no risks to be run . . . in the large majority of cases, the influence of risk is in the opposite direction; a railway stock that is certain to pay 4 per cent. will sell for a higher price than one which is equally likely to pay 1 or 7 per cent. or any intermediate amount.”

And ( $\gamma$ ) there is no reason to except the building industry from

<sup>1</sup> *Cp.* above, p. 189.

<sup>2</sup> *Cp.* Smart, *Taxation of Land Values*, p. 89.

<sup>3</sup> The liability of such a valuation to a considerable “probable error” is suggested by much of the evidence on the subject before the Select Committee on Town Holdings and the Royal Commission on Local Taxation (*cp.* Lord Farrer, *Mem.*, p. 82), and does not seem to be disproved by the evidence to the effect that the valuation is possible.

the large majority of cases. Not "an element of romance," but a special degree of caution is to be attributed to investors of capital in this industry. The supply of capital would be greatly reduced by the proposed imposts.

"They would prevent secured interests in houses from being arranged so as to yield a fixed income, and so would drive cheap or trust capital out of house property and raise rents." (Sargant, *Mem.*, p. 216.)

For these reasons<sup>1</sup> it may be expected that to levy a required amount on the holders of "site-value" as proposed, rather than on the occupiers as at present, would not only not benefit, but would even injure, the occupiers.

But a reason pointing in the opposite direction may be alleged. While it is admitted that, as Ricardo says, "a tax on the profits of the farmer would raise the price of corn," it may be urged that the proper analogue is not corn, but the fruit of the aloe, or whatever produce is not fully reaped till two or three generations after it is sown, at a distance in time beyond the limits of effective prevision. In the case of a harvest so remote, the rapacity of a Government which should seize upon the standing crop might produce less than the usual discouragement to industry. The building owners may continue to perform their usual functions, while that portion of their surplus gains which does not act as a motive to effort and sacrifice is abstracted by a judiciously imposed site-rate; as the bees who used to sulk when robbed in the old-fashioned way now cheerfully go on filling that upper-storey of the hive which modern contrivances continually deplete without impairing the instincts of labour and accumulation.

There appears to be a portion of truth in this representation. There is a limit of time beyond which, if provisions are extended, the contract becomes "blind" as the phrase is. As Dudley Baxter replied in a somewhat different connection when asked,

"You do not think that all these risks were in the owner's mind when he made this contract?" "I do not think they were," he said.<sup>2</sup>

There may be a prospect, in Professor Sidgwick's words, "at once sufficiently definite to be made a ground of legislative

<sup>1</sup> So far as prediction is possible in a matter so contingent, it may be expected that the *first* of the schemes above described, p. 189, would be more effective in raising the price of house accommodation, the amount of the impost (for an assigned number of shillings in the £) being probably both greater in amount, and subject to a greater probable error.

<sup>2</sup> Select Committee on Local Taxation, 1870. Q. 5870, *et ante*.

action, and yet not definite enough to be taken into account in private bargaining.”<sup>1</sup>

What Mr. Courtney says with respect to the occupier and the consumer, may be true also to some extent of the producers :

“Existing rates may be and are taken into account when tenancies are created, but no one can speculate with practical effect on the possibility of a subsequent increase or diminution of them.” (*Mem.*, p. 90.)

So far as this non-Ricardian result takes place, the effect of the proposed site-taxes will no longer be either null, or the reverse of that which is intended. Another effect will be produced, yet one that is not desired or desirable. The occupier will not be relieved; but the rack-rent owner will be enriched. The first incident attends the occupier's power to deduct from his immediate landlord; the second incident attends the power of that landlord to deduct from his “superior.” The first power of deduction, as shown above, profits little in general. In the long run the pecuniary position of the occupier with respect to his immediate landlord is determined by the conditions of supply and demand, and not the mode in which a rate may be collected. Is the impost beneficial, as generally in the case of rates? Then the occupier pays for benefits.<sup>2</sup> Is the impost more or less onerous? Then in the case of new houses, or old houses which are in competitive touch with new houses,<sup>3</sup> the burden is shifted on from the producer to the consumer, that is, the occupier. In the case of stagnant neighbourhoods, and more generally old houses which are not in perfect competitive touch with new ones, the owner already bears all or part of the onerous rates,<sup>4</sup> and—friction being abstracted—will bear the same proportion after the power of deduction has been conferred. The occupier then, having a short lease from his immediate landlord, is not much benefited by deduction. But the landlord having a long lease from his superior is materially benefited.

Mr. Sargant has forcibly illustrated this incident with reference to the first of the schemes now under consideration.<sup>5</sup> He puts the following case, admitted to be fair and typical by the author of that scheme :—

<sup>1</sup> *Mem.*, p. 107.

<sup>2</sup> Some modification of this statement is required in exceptional cases as above (p. 186) mentioned.

<sup>3</sup> *Mem.*, p. 130.

<sup>4</sup> Above, p. 182.

<sup>5</sup> Sargant, *Urban Rating*, Appendix; referring to the first of the schemes described above, p. 189.

"A, a landowner, has leased a site for its full value, £100 per annum, to B, a builder, who has erected thereon a house worth £600 a year (*i.e.*, £500 in addition to the original ground value of £100), and has secured his profit by letting the house to C, in consideration of a premium for the whole term at £500 per annum. The land is then supposed to increase in value to £500 per annum, and therefore the house and land to £1,000 per annum, the whole increase of £400 per annum thus going into the pocket of C."

Thus the site-value is £500,<sup>1</sup> and accordingly C is entitled to deduct from B the whole of the site-rate, say, at 5*s.* in the pound, £125; while B is entitled to deduct £25 from A. Then the consequence of raising a given amount of onerous taxation, say £125, by the proposed method, rather than as at present from the occupier, will be as follows. Whereas at present the £125 will be paid either by the occupier or the rack-rent owner C, or partly by one and partly by the other, the proportions of these payments, apart from friction, will be exactly the same in the proposed as in the present arrangement.<sup>2</sup> The main effect of the proposed change will be to transfer to the pocket of A, who is enjoying an unearned increment of £400, £100 from B,<sup>3</sup> who built the house, and £25 from A, the landowner, who may have made an outlay in roads and sewers<sup>4</sup> and cannot possibly have obtained so large an unearned increment as C.

The proposition that the occupiers are not benefited by the proposed series of deduction is of course only true in the long run, apart from "friction," and except for the short periods required for occupiers' leases to run out. Or not even with that exception in the case of householders who do not pay rates directly, perhaps some *three-fourths* of the total number.<sup>5</sup> Among these the numerous class of lodgers may for the present reasoning be reckoned. But it is objected: Would not the fall of rents

<sup>1</sup> Here £500 is the amount denominated  $\zeta$  in the explanation given above (p. 189), and the case is that in which the penultimate holder obtained a value equal to  $\zeta$ .

<sup>2</sup> Above, p. 487.

<sup>3</sup> The contention that the impost on B is justified by the increase in the capital value of his interest cannot be sustained if Mr. Edward Tawson, the well-known estate agent, to whom the case was submitted by Mr. Sargant, is right in estimating this hypothetical ground-rent as "*before* the rise in ground-value at from 18 to 20 years' purchase, and *after* the rise at from 18 to 21 years' purchase." *Cp.* above, p. 504.

<sup>4</sup> *Cp.* above, p. 183.

<sup>5</sup> Select Committee on Town Holdings, 1891, Q. 953. The argument is not affected by the *monopoly* which the landlord in such cases may enjoy; above, p. 184, note 1.

payable by the landlord benefit persons in the position of his lodgers? <sup>1</sup> The answer is that, if that fall was due to a fall in the cost of producing a house, or any cause that could be reckoned on by speculative purchasers of house property, then the play of competition would transfer some of that advantage to the consumer. But we have seen that *this* kind of causation does not tend to lower, but rather to enhance, the price of houses under the proposed system. The fall supposed is a mere windfall for the landlords: and that kind of gain is not transferred to the tenants for the reason explained in the text-books, when it is taught that rent of agricultural land does not affect the price of wheat.<sup>2</sup> Thus, even supposing that houses are not to be classed with "hats," even granting that there is some exception to the Ricardian rule that a tax on producers is shifted to consumers, at best the result would be to have transferred windfalls from one to another class of producers.

This then is the outcome of the schemes now popular, to injure one investor for the benefit of another investor. For this is every interest vexed and harassed. Peter is robbed to pay, not Paul, but Paul's landlord. We are told nothing about the owner of the "hired house" in which "Paul dwelt two whole years."<sup>3</sup> He may have been a heathen capitalist. At any rate the modern representative of that party does not appear entitled to especial consideration. Of all the links in the chain of production this last may seem the least deserving to be gilded with unexpected gain stripped from the others. The rack-rent owner is at least as likely as any of his superiors to be enjoying unearned increment. The gains of the builder are at least largely earned; the gains of a rack-rent owner who has purchased a house built by others may be mostly speculative. Above all the rack-rent owner is the only party who can be the recipient of *future* unearned increment, a circumstance which it may be hoped has not become indifferent to the countrymen of Mill.

The reasoning applied to the schemes for rating sites which have just been discussed is applicable with little change to the scheme for dividing rates, defined but not discussed in an earlier page,<sup>4</sup> of which the essence is to lay an impost on each party proportionate to the net income which he derives from the premises. This scheme presents two aspects according as (1) it does, or

<sup>1</sup> Cp. *Contemporary Review*, March, 1890, p. 418.

<sup>2</sup> *E.g.*, Mill, *Pol. Econ.*, Bk. III. ch. v. § 2.

<sup>3</sup> Acts xxviii.

<sup>4</sup> 1 B, referred to on p. 187.

(2) does not respect vested interests. To the former (1) class belongs the recommendation of the Select Committee on Town Holdings, 1892—<sup>1</sup>

“that under all future contracts half of the rates should be borne by owners in proportion to the several rents they receive . . . and that the liability to deduction should attach not only to the receivers of the rack-rent, but to the owners of all superior interests.”

The objections above stated under the head 2 *a*<sup>2</sup> do not apply to this case, but the objections stated under the head II. 2 *b*<sup>3</sup> apply almost equally to this case. It may be thought that, as no distinction is made between income issuing from buildings and from land, this system will discourage building more than the so-called rate upon site-value. But it is very possible that a fixed impost proportional to net profits will discourage industry less than the abstraction of an unpredictable quantity which is called indeed a rate on site value, but might as well be called a rate on an unknown quantity, *σ*.

“The result would be to make every rent received in respect of every interest in houses a variable one, and so to drive cheap or trust capital out of houses as an investment, and to necessarily raise rents.” (Sargant, *Mem.*, p. 215.)

“If, where there are several interests in houses, a proportion of the rates in the £ is to be deducted on each payment between successive interests, the effect will be to rate mere annuitants or rent charges, and to relieve to this extent the real owners” [that is, the parties in this article denominated the rack-rent owners]. (*Ibid.*)

When (2) present as well as future rents and quasi-rents are struck, the check to production is aggravated by the shock to equity. Almost all that has been said as to the productional and distributional imperfections of the site-rate may be transferred to this case. Here, too, appearances are apt to deceive the very elect. The brilliant writer who has been referred to as advocating this scheme is confident that “if you define the term owner so as to cover those persons whom you want to rate, and then proceed to send to each of these ‘owners’ a demand note, the relief so given to the occupier will be a real relief.” A patient analysis discloses the contrary view. The relief so given to the occupier will not be a real relief, for his rent is likely to be raised at least as much as his rates are lowered, probably more owing to the discouragement of producers. Nor will you render con-

<sup>1</sup> 1892, No. 214.

<sup>2</sup> Above, p. 198.

<sup>3</sup> Above, p. 203.

tributory all "those persons whom you want to rate," for the rack-rent owner will not only not be amerced, but will even gain, by your substituting the proposed system for the present one.<sup>1</sup>

It will be understood that the statements in the preceding paragraphs relate primarily to the typical case of the English leasehold system;<sup>2</sup> with which, for much of the reasoning, the system of Scotch feus, Manchester chief rents, and so forth, may be identified. It has been all along supposed that the owner and the occupier are different persons, as commonly in our towns.<sup>3</sup> When this is not the case the schemes in question can no longer be regarded as inept as well as inequitable. The object being to relieve, as the phrase is, the ratepaying occupier, this object would be realised as far as the present occupier-owners are concerned, even though the whole class of occupiers, including the species that are owners, might, in the future, be damnified by the check now given to production. As to the equity of the scheme, if, as seems to be a frequent case in our large towns, the property increases without much trouble on the part of the owner and beyond what he reckoned on when acquiring the property, what is the claim of the owner-occupier to relief? Unforeseen rates, it is said, are imposed. But they are mostly "beneficial."<sup>4</sup> Where they are really onerous, may not this onus be set against that increase in value? Where not, in neighbourhoods that are declining, no doubt a hardship, or at least a misfortune, is made out. But is the remedy sought equitable? Is it reasonable that the superiors, who would not have shared a gain, should have to share a loss with the owner? And once more it is to be recalled that more often than appears there is a *productional*,<sup>5</sup> as well as a *distributional*, reason against confiscating the interests of superiors.

Upon the whole the schemes which are now in vogue for rating all kinds of "owners" appear to effect nothing which could not better be effected by a scheme like Mill's, perhaps coupled with a division of rates between occupier and "rack-rent owner" as recommended by many of the experts whom the present Royal Commission has consulted. If a scheme embodying Mill's principle had been adopted a generation ago with respect to urban sites, an annual income of some two or three million sterling<sup>6</sup> would probably now have been flowing into the

<sup>1</sup> Above, p. 208.

<sup>2</sup> Above, p. 162.

<sup>3</sup> Reports of the Select Committee on Town Holdings, 1880, No. 251, pp. 9, 10; and Report, 1892, No. 214, p. xvi.

<sup>4</sup> Above, p. 168.

<sup>5</sup> Above, pp. 193, 200, note 3.

<sup>6</sup> On the basis of the figures given above, p. 195.

municipal treasury from ground rents in London; while the division of rates between the occupier and his immediate landlord, not too suddenly introduced,<sup>1</sup> might possibly have conferred some advantages of minor importance on the occupiers. Nothing better would have been accomplished by the more pretentious schemes which are now in vogue. The apparent gain to the occupier from the diminution of rates would have been compensated by a rise of rent. It would probably have been more than compensated: the check to production would have resulted in a higher price, as measured by rent *plus* rates, being paid by the occupier for house-accommodation. Nothing more would have been effected—nothing but confusion and bitterness, the temporary gains of rapacity, and the useless transference of windfalls from one investor to another.<sup>2</sup>

These conclusions have been reached without bias. The writer holds no brief for urban landlords. He has impartially pronounced against them upon several counts. He has disputed the favourite argument that they have been already rated in that their rents are by so much less than they would have been if the rates had not existed.<sup>3</sup> He would go so far as to allow that, even if it were true that the landlords had paid the rates out of unearned increase in the past, it might nevertheless be reasonable to rate unearned increase in the future. He has met the *recherché* objection that a special rate on ground rent would be nugatory, since the landlord would be compensated by the increased demand on the part of occupiers.<sup>4</sup> He has fully accepted Mill's doctrine on the taxation of "future unearned increment" of rent. He has admitted that the industry of which house-accommodation is the product presents something peculiar and exceptional in the long incorporation of land with labour, in virtue of which an impost on the profits of the producers might have less than its usual effect on the interests of the consumers. He regards it as conceivable that a greater than Mill might succeed in demarcating some portion of the gains of middlemen in this industry as *par excellence* "unearned,"<sup>5</sup> so different in kind from the ordinary

<sup>1</sup> *Cp.* above, p. 185.

<sup>2</sup> See p. 208.

<sup>3</sup> *Ante*, p. 173.

<sup>4</sup> Above, p. 199.

<sup>5</sup> See note to p. 198, above. A tentative in this direction—the only direction, as it appears to the present writer, in which there is any hope of advancing beyond Mill's position—is made by Mr. Henry, the City Assessor of Glasgow, when he proposes (Minutes of Evidence, Royal Commission on Local Taxation, Vol. III. [C. 9319] Appendix XXV., p. 25, etc. *Cp.* Mr. R. McKenna, M.P., *ibid.*, Vol. IV. Appendix XIX.) that owners of land and buildings should be specially taxed "on all increase of rent of annual value beyond that at the passing of the Act, but providing always that where an increase of rental is obtained from money



blends of work and luck as to become the object of a specially heavy impost without detriment to the quantity of production or the equality of distribution.<sup>1</sup> But this problem which Mill did not attempt has not been solved by his successors. In a matter so complex and momentous it may reasonably be demanded that action should not be taken until a scheme is forthcoming which shall stand the test of abstract general reasoning as well as Mill's scheme. And even then there still should give us pause the possibility that, though the principles are sound, some error in a datum, such as Mill committed,<sup>2</sup> might result in a disastrous failure.

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spent on improvements, etc., on the property an annual deduction of  $7\frac{1}{2}$  per cent. [on the "money spent," presumably; but for how many years? for ever, into whatever hands the premises may pass?] from such increase of rental be allowed before imposing such tax." This impost on future unearned increment would not much offend against the distributional canon of taxation if not too suddenly introduced. It would offend against the productional canon, so far as the regulations necessary to the working of the scheme might dotor the investment of capital, and the restriction of profit might discourage the application of effort and sacrifice, which in many inobtrusive ways are apt to act productively (above, p. 193); so far also as the working of the system proved costly in comparison with the yield (as to the amount of which in the case of London, see above, p. 195), a great part of the "unearned increment" becoming earned by assessors, accountants, inspectors and lawyers, who would be required in order to ascertain the increase of rental "obtained from money spent on improvements."

<sup>1</sup> *Ante*, p. 152 *et seq.*; regard to "quantity of production" including the condition that the tax should be worth the cost of collection (*ibid.*, p. 154).

<sup>2</sup> Above, p. 197.