(V)

FURTHER CONSIDERATIONS ON URBAN RATES

[IN V ("Recent Schemes for Rating Urban Land Values," ECONOMIC JOURNAL, 1906), there is considered a milder scheme for tapping site-values, based on the Minority Report of the Local Taxation Commission and embodied in Parliamentary Bills which were introduced in 1902 and subsequent years. While the superiority of this scheme to those condemned in the former paper is duly admitted, preference is still expressed for Mill's recommendations.]

Schemes for imposing a special rate on urban site-values were discussed by the present writer in an article which was published in the December number of the ECONOMIC JOURNAL for the year 1900, before the appearance of the final report made by the Royal Commission on Local Taxation. With the aid of criteria established in that article it is proposed now to advert to the Majority Report of the Commission so far as it relates to the "rating of land values,"[1] to the "Separate Report on urban rating and site-values" by a Minority, published in the same Blue-book,[2] and to the Bills deriving from that separate report which have been laid before Parliament.[3]

As shown in the article mentioned, the incidence of a rate on urban site values involves the composition of two laws relating respectively to the taxation of rent proper and that of "quasi-rent." The first law alone is operative in those cases to which J. S. Mill's doctrine of the unearned increment is applicable. It may be well to reproduce the doctrine in his own words:—"Suppose that there is a kind of income which constantly tends to increase without any exertion or sacrifice on the part of the owners; those owners constituting a class in the community whom the natural course of things progressively enriches consistently

[1] The subject of the ninth chapter in the Majority Report.

[2] Cd. 638, 1901.

[3] In 1902 and the three following years; debated respectively on February 19, 1902, March 27, 1903, March 11, 1904, April 14, 1905. There is a good summary of the Bills in an Appendix to Mr. Wilson Fox's *Rating of Land Values*.

with complete passiveness on their own part . . ." such increase of wealth would be a " fit subject of peculiar taxation." [1]

The opponents of a special impost on site values seldom do justice to Mill's doctrine. The Majority of the Local Taxation Commission argue: " Inasmuch as the value of the land is included in the valuation of the rateable hereditament as a whole, ground rents . . . are already taxed." [2] But the contention is that a special, a " peculiar," impost should be laid on certain ground rents. The Majority pronounce against that contention when they say " nor does land differ so essentially from other property as regards the alteration of its value from time to time as to justify its being rated exceptionally." [3] It is here submitted that a different estimate as to the growth of urban site-value is countenanced by such statistics as are available; in particular, the figures for the growth in recent years of ground-values in Vienna and Berlin, given in the writings of the *Verein für Socialpolitik*, Vol. XCIV. 1901, and other French, Italian, English, and American statistics, well marshalled by Professor Einaudi in his masterly article in the *Riforma Sociale* for August, 1900.[4] To these may be added some striking instances adduced [5] by advocates of Land Values Rating Bills in Parliament. The case seems to be similar to the case for the differential taxation of funded as distinguished from temporary and precarious incomes; a discrimination which was advocated by Mill, and which has been accepted into the financial systems of many countries, including our own,* so far as the Death Duties are defended on this principle.[6] It is not a decisive objectionag ainst such discrimination, that in the words of the Minority Report,[8] with reference to the taxation of the unearned increment of rent from urban land, " a consistent application of the principle would be impracticable," that urban land is " not unique in this respect." As Mill says, with reference to the differential taxation of incomes, " It is no objection to this principle that we cannot apply it consistently in all cases. . . . The difficulty of doing perfect justice is no reason against doing as much as we can."

[1] *Political Economy*, Book V. ch. iv. § 5, and Contents.
[2] *Loc. cit.*, pp. 39–40.
[3] *Ibid.*, p. 45.
[4] Referred to in the ECONOMIC JOURNAL, 1900, p. 609.
[5] *E.g.*, by Dr. Macnamara. Hansard, Vol. 120, p. 473. March 27, 1903.
* Written before the change introduced by the Budget of 1907.
[6] *Cp.* Bastable, *Public Finance*, Book IV. ch. ix. § 3. " We are thus led to regard the Death Duties as a capitalised income-tax levied only on accumulated wealth, and sparing those comparatively temporary parts of income that result from personal exertion "
[8] *Loc. cit.*, p. 166.

Justice cannot be defined with objective precision. The equitable distribution of fiscal burdens is based by many on the principle of Retribution rather than of Equal (or Least) Sacrifice. They will have it that a special impost on unearned increment from urban land is just, because the possessor has obtained this advantage through the outlay of his fellow-citizens. It may, indeed, be pertinently asked whether landlords are the only class who have indirectly benefited by the improvements which others have made in their own interest; whether the outlay of civic authorities and fellow-citizens is the only cause which has contributed to the growth of rent.[1] But it is not to be expected that any definition of justice will be free from dialectical objections. We must count as gathering with us those who do not scatter against us. They are to be regarded as following Mill, who in their proposals to tax increment of rent, at least emphasise the circumstance that it is " unearned." Of this type is the remarkable doctrine which Professor Adolph Wagner expressed in a recent address. Supposing a piece of land to have changed hands for 100,000 marks, and in a year or two to be again sold for 150,000 marks, a capital expenditure of 10,000 marks in the way of improvement having been in the meantime made, Professor Wagner thus goes on :—" There remains of the 150,000 marks 40,000 : that is the unearned increment [*konjuncturgewinn*]. This 40,000 marks has the owner produced by his own efficiency and labour? No! Has he paid for them? No! . . . This 40,000 marks then is to be drawn on for purposes of taxation [*gilt es zur Besteuerung heranzuziehen*]. You cannot put the rate high enough in my opinion. I would leave something to the owner who has gained under such circumstances, say, 10 per cent., or as such a measure could not yet be carried through, say 50 per cent., or so far as I am concerned, 30 per cent." [2]

It will be observed that Professor Wagner does not propose to deal in this drastic manner with the original 100,000 marks. It is only a disciple of Henry George that would treat a landowner like a slaveowner,[3] whose unhallowed property may be confiscated without compensation. It is not proposed to argue here against this principle; argument about first principles is unavailing. There is postulated a general agreement with the

[1] Compare Prof. Einaudi's dialectic in the *Riforma Sociale* for September, 1900.

[2] *Kommunale Steuerfragen* (1904), referred to by R. C. Brooks in the *Political Science Quarterly* for December, 1905.

[3] The parallel is expressly drawn in the Eighth Report of the Illinois Labour Bureau.

doctrine of unearned increment—as taught by Mill, not as caricatured by George.

The application of Mill's doctrine would be simple but that the law on which it is based is cut into by another law of incidence. It is not only true that, in the words of Ricardo, a " tax on rent [proper] would fall wholly on landlords," but also that " a partial tax on profits will raise the price of the commodity on which it falls." Now a site-value tax under the prevalent system of urban tenures is apt to fall to some extent on the profits of the business-men who supply house-accommodation. The prospect of a rise in the value of house property encourages the supply of house-accommodation; the prospect of an additional impost, however named, to be levied in the future on those who in the present are making efforts and sacrifices in the way of production tends to discourage that supply.

It may be objected that the prospect is too remote to affect present action; and it has been admitted that the producer of a house will not be so much affected by the prospect of taxation extending over a series of future years as the producer of a hat—Ricardo's favourite instance—is affected by an ordinary tax.[1] Full allowance being made for this difference, a considerable effect in the way of increased burden to the consumer must still be attributed to the prospect of diminished profits for the producer. The distance in time to which the outlook of the building entrepreneur extends is well illustrated by a form of lease which seems to be not unknown in Chicago, in which the future increase in the value of the property is the subject of stipulation. Here is a specimen :[2] the lease of a certain plot of ground for ninety-eight years and eleven months from June, 1894. The lessee is to construct a first-class building thereon by May 1st, 1895. He is to pay up to April 30th 1895, $5,000, and afterwards annual rents as follows :—

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For nine years	12,000
For next ten years	15,000
For next ten years	17,000
For next ten years	20,000
For remaining fifty-nine years	25,000

The prospect of future increment is evidently not indifferent to the lessee. *Primâ facie*, if the Government exacted from that

[1] *Cp.* above, p. 207.

[2] Taken from the aforesaid report of the Illinois Labour Bureau.

entrepreneur, under the title of site-value, a sum in excess of that surplus which he can afford to hand to the ground landlord, the supply of house-accommodation would be restricted.

No ! it may be objected, all that will happen is that the rent of the ground landlord will be *pro tanto* diminished. Fine issues are here raised. Let us approach the question by first considering a rate of the ordinary kind *ad valorem* on the rent payable by the occupier. This impost, if levied on the building owner, would not be thrown by him altogether on the ground landlord, as some high authorities have conceived, but in part at least, and very possibly altogether, on the occupier.[1] Now when we substitute for this kind of impost that reduction of profits which may be apprehended from a site-value tax levied on the building owners, is the case materially different? The answer of pure theory is, yes. There is in the abstract all the difference between a tax on a margin and a tax on a surplus.[2] But the theory is seldom applicable in all its purity to concrete circumstances. There is not usually a practical difference of first importance between a specific tax and a tax by way of licence. To be sure, there is usually absent a condition which is apt to be present in the case now under consideration—namely, the existence of land for which there is no other use at all comparable in profitableness with the production of that commodity on the producer of which it is proposed to levy an impost. But this condition is not always present in the case under consideration. Suppose the Chicago builder above instanced to foresee that in the first three periods in which he had been ready to give the ground landlord 12,000, 15,000 and 17,000 dollars per annum respectively, he would in consequence of the new impost be exposed to an exaction of 50 per cent. more in each of those periods; will not his enterprise be damped? He cannot withhold from the ground landlord more than he was prepared to offer him; the prospect of a charge on profits which cannot thus be recouped tends to check building enterprise. Moreover, it is doubtful how far a rate on site value of the kind proposed is to be regarded as a tax on surplus. Suppose that transactions by which the building owner raises money on the security of the premises are hampered by the prospect that the interest payable in return for those advances will be in the future pursued with a so-called site-value tax, even into the hands of the creditor. Lenders would insist on more onerous terms, and the extension of the entrepreneur's operations would

[1] Above, **S**, p. 80 *et seq*; Index, s.v. *House Tax*.
[2] See above, **S**, p. 75.

be checked; the effect of the impost would then be of that *marginal* kind which, as we have seen, restricts the application of building capital, and imposes a burden on the consumer of house-accommodation.

Altogether, the case may be compared, in respect of the uncertainty of its incidence, to a customs duty. The incidence of such a duty is not the same as that of a duty on home-made articles. Theory admits that a part of the tax may fall on the foreigner. But only reckless and ignorant politicians act upon the supposition that all the tax is always borne by the foreigner.

The neglect of the burden repercussively imposed on the occupier is the capital error of the schemes criticised in the former paper; schemes justly described in the Separate Report [1] as "crude and violent," neither "equitable nor workable." The writers of the report honourably abstain from the violent interference with contracts, discerning its tendency to check enterprise. "The proposed violation of contracts would greatly aggravate existing evils by destroying confidence and discouraging building enterprise." [2]

With regard to the incidence of the proposed imposts, unaccompanied by violence, the writers of the Minority Report perceive clearly enough that foreseen rates of the ordinary kind are apt to be in part thrown on the occupier, even though levied from the building owner.[3] But they and the promoters of Bills founded on their report have not equally realised that a foreseen impost levied from the owner does not lose the property of transference to the occupier, because it is called a rate on site-value.

The neglect of this incident exposes to some doubt the Minority's fine reasoning as to the local distribution of the new impost; the consequence thus described by the promoter of a Bill on the lines of the Separate Report:—"The inner ring of the town will move out the outer rings, and the outer rings will push out the population still further outwards." [4]

So far as the proposed rate on site-value acts like a tax on rent proper, doubtless, *ceteris paribus*, the taxation by which the enterprise of the builder is checked will be reduced; and since there is most building at the periphery, building there will be most encouraged.

But whereas the new rate is, after a short interval, to fall upon the building owner [5]—that is, the entrepreneur, or a party from

[1] *Loc. cit.*, pp. 162, 166.
[2] *Loc. cit.*, p. 164.
[3] *Loc. cit.*, p. 156.
[4] Hansard, Vol. 103, p. 483.
[5] Separate Report, p. 171; and the Bills founded on the Report.

whom he obtains payment—it is to be expected that the proposed rate will act partly as a tax on profits. To that extent building enterprise will be checked. The check may be expected to be greater at the periphery than the centre; not only absolutely or *in toto*, because there is more building at the periphery, but also per cent. of the outlay, for a reason above indicated, that the foreseen decrement of profits are less capable of being deducted from ground-rents where ground-rents are low, as at the periphery, than where they are large enough to recoup anticipated loss of profits, as at the centre.

Without insisting on this paradoxical consequence, may we not invoke the general presumption against seeking to compass by taxation ulterior objects other than revenue? Disturbance to industry is in general a much more certain consequence than any beneficial result that is proposed. Thus the promoter of a Land Value Rating Bill, after admitting that in his scheme within "the inner ring of the city" "the tax would increase on each property," goes on:—"But even there there would be no hardship on property owners. For they would only have to build better premises and use their land better, and they would not as now be subjected to a higher tax on their enterprise."[1] If it is meant to suggest here, as in other passages, that the new impost would supply a new motive to the owner to use his land better, the deduction appears to be very questionable. If it did not before pay him to replace an old building, it will not pay him any better to do so, because, under the new system, whether he does so or not, he will be placed under the necessity of paying a site-value rate. This and other points of theory here touched upon are elaborately demonstrated by Professor Luigi Einaudi in his *Studi sugli effetti dell' Imposte*,[2] the most exhaustive and sagacious treatise on the whole subject known to the present writer.

Similar criticisms may be directed against the proposed land value rates in their relation to vacant land. The promoter of such a measure argues,[3] "the landlords will come tumbling over one another in their eagerness to sell, and down will come the value of the land to the price at which it ought to be sold—that is, a little above its agricultural value." In this and like passages there seems to be involved a disputable opinion as to the functions of the speculator in land: too low an estimate of his usefulness, too high an estimate of his power to prejudice the

[1] Preface to Zimmermann's *Taxation of Land Values* (1905).
[2] Reviewed in the ECONOMIC JOURNAL, Vol. XIII. p. 237; below, Vol. III.
[3] Preface to Zimmermann's *Taxation of Land Values*.

consumer. As in other industries—if not quite so much as in other industries [1]—the speculator is useful in finding a market for the article. As Mr. Edward Bond, in a debate on one of the Bills now under consideration, urged, " they had to rely principally, if not entirely, on the efforts of speculative builders and commercial men, who went into the business with a view to getting a fair return for their money." [2] The discouragement of this necessary middleman would, he thought, not conduce to the result aimed at, " namely, to bring more land into the market," but to the opposite result. As in other industries, the speculator is not so responsible as he appears to be for high prices. Their fundamental cause—the urgent demand for an article of which the quantity in existence is limited—is not created by speculators. We may therefore apply to the above-cited proposals what is said in the Report (Lord Hobhouse's) of the Local Government and Taxation Committee of the County Council,[3] with respect to certain earlier proposals of similar design. " We doubt first whether it is possible to force the market, as they suggest, by the indirect agency of rates upon landowners. It is the interest of landowners to bring their land into profitable occupation as quickly as they can. We doubt secondly whether, if the land market could be artificially forced by a system of rating, it would be found of advantage to landowners."

In what precedes it has been taken for granted that urban land is not monopolised in the sense of being under the control of a single person (individual or corporate). How far this assumption is illegitimate the writer has no means of forming a judgment based on accurate information. He is not much affected by declamations so loose as not to distinguish between monopoly in the sense pertinent to the reasoning, and monopoly in the sense of limited total supply. There is some trustworthy evidence—that of the careful Professor Voigt in a masterly study on the Housing Question in Berlin [4]—that there at least the complaint against monopoly is not justified. It is to be remembered, too, that the power of large landlords in small towns is checked by the competition which exists with other towns.[5]

[1] Can it be maintained that pure speculation in land unaccompanied with any other productive activity—to " buy to hold and sell at a profit," as the advertisements put it—is attended with all the advantages ascribed by economists (J. S. Mill, for instance, *Political Economy*, Book IV. ch. ii. § 4) to speculation (without monopoly) in a commodity like wheat?

[2] Hansard, Vol. 103, p. 522.

[3] *Minute of the Proceedings of the London County Council for* 1891.

[4] *Schriften des Verein für Socialpolitik.* Band XCIV. (1901), p. 233.

[5] *Cp.* above, p. 175.

In fine, the interest of monopolists is not always contrary to that of their customers. It is supposed to be, much more often than it is proved to be, in the case of Railways.[1] In the case of land the frequent allegations that a large rise of price has been obtained by holding up land does not prove that the best use of the land has not been made. If it was the pecuniary interest of the owner to prefer the large deferred rent to the small one, which might have been obtained sooner, it was presumably the pecuniary interest of the municipality also to wait. There is no reason to think that they ought to "discount the future" at a less provident rate than the capitalist. The delay which is for the fiscal interest of the municipality may be, indeed, but there appears no presumption that it will be, opposed to the interests of the inhabitants. Forcing the market, "forestalling the blighted harvest" of urban land might have led to undesirable jerry-building and other admitted evils.[2]

The antithesis between the interests of the inhabitants and the monopolist owner is most likely to exist when his interest is other than pecuniary, such as affection for amenities. The interposition of the civic authority is doubtless justified in such cases. But surely a tax is a very clumsy method of applying the required control.

To this reasoning may be opposed the experience of foreign and colonial land taxes. And doubtless if the contention were that the adoption of the proposed site rates would be followed by immediate dissolution, that experience would be decisive. But, whereas, it is contended only that these rates will act like a protectionist duty, indirectly burdening the citizens whom it purports to benefit, against this contention the short experience of very recent legislation in other countries is not available. Perhaps no experience, however prolonged, would be adequate; as in the argument for Free Trade, we must depend largely upon general reasoning.[3]

The suggested analogy with Protection will perhaps be accepted by the advocates of site taxation. Admitting that part of the new burden will fall on the occupiers, they may still take

[1] See some instances in Mr. Dudley Evans' articles on "British Railways and Goods Traffic" in the ECONOMIC JOURNAL for 1905.

[2] The authors of the Separate Report, p. 175, and some of their followers (*cp.* the able article in the *Independent Review* for 1906) are on their guard against these evils. But still the question recurs whether a tax is the best method of securing just the requisite amount and kind of building.

[3] As J. S. Mill (*Logic*, Book VI.) and Sir Robert Giffen (Essay on *Import and Export Statistics*, Sect. VI.) have *inter alios* pointed out.

up the position that this is a very good way of raising additional rates. The more knowing among the town councillors who advocate the current schemes may employ the common doctrine of unearned increment, or the more refined reasoning of the Separate Report, *ad captandam plebem*, as crafty statesmen have been suspected of recommending a modicum of Protection, not being the dupes of their own argument, but because the people could thus be more easily induced to submit to additional taxation. It is as if in a wine-growing country a new tax, really incident on the wine-bibing public, was recommended, partly as extracted from the ill-gotten gains accruing to the lords of the vineyards, partly as inducing the wine-dealers to place their goods on the market sooner instead of waiting for an enhanced price.

If nothing more is meant than a change in the point of percussion of a tax on the householder, like the change in the taxation of the beer-drinking public when a beer-tax or a licence has been added to or substituted for a malt-tax, then *cadit quæstio*. It may be admitted that a site-value tax unaccompanied by interference with contracts, if not more costly to collect and not more harassing to industry than an ordinary rate, would be no worse than an ordinary rate.[1] Indeed, it would be better for a reason like that which is *pro tanto* available in favour of a customs duty in preference to a duty on a home-made article—namely, that a part of the former *may* fall upon the foreigner. So a part of the site tax may fall where it can be borne with least sacrifice.

But it is evidently not on such grounds, not as an ordinary tax, that the authors of the Separate Report and their followers in Parliament defend their schemes, but *bonâ fide* upon the grounds that have been above examined. Some more or less conscious corroboration is also derived by the Parliamentary advocates from the considerations on which Mill's doctrine of unearned increment rest. It is thus that we interpret the emphasis on striking instances of increased value accruing by mere lapse of time. It may therefore be proper to inquire whether the new schemes are defensible as being in accordance with Mill's recommendations.

So far, indeed, as the current schemes involve Mill's principle of taxing unearned increments they are defended by the present

[1] The conditions presupposed are not very likely to be fulfilled if the plan is adopted under the misconceptions which make it appear, not an ordinarily oppressive, but an extraordinarily equitable tax. (See above, **U**, p. 151 *et seq.*)

writer. But the defence on this ground is not so strong as might *primâ facie* appear. The schemes do indeed include taxation of unearned increment as well as other kinds of taxation. But in fiscal science the greater does not always comprehend the less. Compare the working of Mill's principle with the modern form of site-value tax. In the case of premises in the centre of a town when a new lease is created—or the land is otherwise disposed of by the ground-landlord Mill's plan is—with due regard to the interest initially existing—to dock the future receipts of landlords by a substantial percentage, such a percentage as Professor Wagner, in the passage above-quoted, has proposed to take from unearned increment.[1] If this plan had been adopted in Mill's time some two millions sterling might now be flowing into the municipal treasury.[2] But nothing like this could be obtained from the same ground-rents according to the methods now in vogue. Dealing with wheat and tares—earned and unearned increments—promiscuously, as above argued, they could not, under the name of site-tax, impose so drastic an impost, or rather an appropriation. It would be particularly impossible to do so in the case where the value of the cleared site is much greater than that of the site *plus* an existing tenement. Some advocates of new schemes may claim indeed that their schemes will put a stop to that anomaly. But it has been argued above,[3] that this claim is not admissible. If, as appears to be the general design of these schemes, a site-value rate is to be imposed on the land before it changes hands, to follow it into new hands without breach of continuity, and to be fixed at a constant percentage for a whole country, or at least district, then an operation on anything like the scale contemplated by Mill with respect to newly created ground-rent would be impracticable.

Like remarks apply to the proposed taxation of vacant land. Mill's plan would be to wait till the egg is laid, and then if you like, scoop out all the yolk. The plan of taxing the value of the goose derived from the prospect of future eggs cannot well be so drastic. It will be observed that this objection is distinct from and additional to the more familiar objection already in effect urged, that tampering with the process of capitalistic incubation will diminish the number of eggs available for consumption.

If there is no other general principle but Mill's conducting

[1] Above, p. 217.
[2] As argued in the former paper, above, p. 195.
[3] Above, pp. 220–1.

to a " peculiar " taxation of site-value, the only question is how far is it in practice safe to follow that principle. May we apply to English tenures the regulations which are now proposed in Berlin. " An increment tax shall be levied whenever the present purchase price or the market value [*gemeine wert*] of the real estate exceeds by more than 10 per cent. the price paid at the former change of hands," to which price are to be added expenses for improvements and repairs.[1]

Or are such inquisitory methods to be deprecated because, in the words of the Majority Report on Local Taxation, they " would bring into existence new inequalities of liability," and, we may add, check supply by harassing enterprise " unless measures were taken to differentiate not only between district and district, but between property and property—an obligation which in our opinion could not be satisfied by any possible modification of the existing rating machinery." [2]

On this important question the present writer has nothing to add to the considerations summarised in a former article.[3] Possibly, as in the case of agricultural land in Great Britain, the application of Mill's principle may seem, under existing conditions, impracticable. Possibly, as in the case of agricultural land in Ireland, after much boggled legislation, long banishment of political economy to Saturn, the treatment ultimately adopted will embody the ideas of Mill.[4]

[1] " Berlin's Tax Problom," by Robt. C. Brooks, *Political Science Quarterly*, Dec. 1905.
[2] *Loc. cit.*, p. 44.
[3] Above, **U**, p. 213.
[4] See *England and Ireland*, by J. S. Mill, 1868.

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[THE substance of an Address given to the Students' Union at the London School of Economics, January, 1906, is here reproduced. It is admitted that in the more moderate form which the project had by that time assumed it might pass as not an inordinately bad tax.]

The rating of Urban Land Values is a suitable subject to bring before students of Economics because it exercises that faculty of abstract reasoning which is characteristic of Political Economy as distinguished from Political Science in general. The reasoning which the subject requires is particularly difficult, because there is involved the composition of two general laws.

There is, first, the law that, in Ricardo's words, " a tax on rent would affect rent only; it would fall wholly on landlords." If this law only were in operation, there might be a simple case for the application of Mill's principle that the unearned increment of land value should be subject to a special impost; a principle to which a general adherence on the part of students may be presumed.

But, cutting into this simple law, there is another law that, in the words of the same Ricardo, " 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." Suppose that hats were usually trimmed with a particular kind of old lace, of which the quantity in existence was strictly limited. Suppose that hat dealers were usually paid on the " hire system," by way of instalments of which the payment extended over considerable intervals of time. And let there be imposed a tax on lace-value to be deducted from the payments to the hatter; the amount deducted being proportioned to the value, at the time of each payment, of the lace on the hat in respect of which the instalment is paid. Would not this be in effect a tax on the profits of the hatter, tending to " raise the price of the commodity " hats? Would not a rate on site-value, to be similarly from time to time deducted from the remuneration of parties who had been concerned in the production of a house, tend to raise the

price of house-accommodation paid by the occupier? It may be objected that the hat dealer, in view of the impost, would recoup himself, not by requiring more from the consumer of hats, but by offering less to the possessors of lace. It might be so under some circumstances; it would not be so in other cases. One case in which the consumer is particularly likely to suffer is where the foreseen amount of the impost exceeds the whole rent. In general perhaps we can know about the incidence of such a tax only as much as we know in general about the incidence of a customs-duty. There is a presumption that some part of the burden will fall on the consumer; there is a possibility that the greater part may fall on a party about whom the consumer is not concerned. Many a politician who advocates the imposition of a special tax on site values, well discerns the absurdity of acting on the supposition that a duty on imports falls altogether on the foreigner. He beholds the beam in his Protectionist brother's eye, but considers not that there may be at least a mote in his own eye.

The neglect of the ulterior consequences which have been indicated form a weighty objection to several of the earlier schemes for rating urban site values—schemes which have been well characterised, in the Separate Report made by a minority of the Local Taxation Commission, as "crude and violent," neither "equitable nor workable." These schemes are crude and unworkable, because they lead to the abandonment of an industrial system which has grown up presumably in the interest of the consumer as well as producer. Capital will not in future be so readily forthcoming for the construction of houses when it is foreseen that the remuneration thereof will be reduced by the "deductions" which form an essential part of these schemes.

The authors of the Separate Report are honourably free from the violence and inequity—if the word may be allowed—which they justly attribute to some of their predecessors. They do not propose, by rescinding extant contracts, to inflict an unexpected and peculiar burden on a class of persons not demarcated by excess of wealth, or any other mark of ability to bear taxation. A particularly respectful consideration is due to proposals which are unbiased by the vulgar predatory impulse.

It is not easy to present a general idea of these proposals, as they vary considerably in details. The following description purports to be only typical; not true, perhaps, as to every particular of any one of the measures which have been fathered upon the Separate Report.

The type is characterised by two features, of which the more conspicuous consists of a plan to encourage building by a well-adjusted rate on site-value. The improvement is partly to be effected in the centre of towns by encouraging building on vacant spots, and by inducing owners of houses unsuited to their sites to substitute more suitable buildings. But it is especially at the outskirts of towns that beneficial effects are expected. As explained by the proposer of the Bill for Land Values Assessment, which was brought into Parliament in 1903, " the chief object of this law was to relieve buildings in the outskirts of a town." Beside this refined plan, forming the main purpose of the new measure, there seems to be a more ordinary motive, disavowed, indeed, by the minority (as well as the majority) of the Commission on Local Taxation; yet perhaps half consciously held by the promoters of measures based on the Separate Report, and actuating many of the supporters of those measures. There is the desire to tap the reservoirs of unearned value, not exactly on the principle of Mill, but rather on the ground that the owners of such value have obtained a pecuniary gain through the efforts and sacrifices of their fellow-citizens. These desirable objects are ensured by means of a tax of so much in the pound on the " site-value " of each plot, supposed to be measurable with sufficient accuracy for the purpose of taxation. This special rate on site-value is to be borne by the occupier so long as his lease runs, and thereafter by the landlord who leased the premises to the occupier. If that lessor is himself a lessee, the rate will be borne by him only so long as his lease runs; and thereafter by another lessor; and so on, until all the leases relating to the plot of land have run out, when the site-value rate will fall upon the ground-landlord. If the ground-landlord create a new lease, presumably he will continue to bear—thrown back upon him by way of " deduction "—the rate upon site-value such as it was at the time of creating the lease; but subsequent additions to the amount payable will be borne by the lessee, up to the time when he, too, may become a lessor; after which he will continue to bear as much of the rate on site-values as he bore before giving a lease, while his lessee will bear the subsequent additions, and so on.

Details may differ, but it results in general that the parties who undertake outlay and risk in the production of houses will have their remuneration diminished by the new impost. They will tend to recoup themselves by throwing the burden partly on their landlords, and partly on their lessees.

So far as the rate acts like a tax on pure, or proper, rent, the main reasoning of the Minority Report and its followers may be accepted. Other things being the same, a less portion of the rates would be raised at the outskirts of a town, where site-values are low, and building there would be encouraged.

So far as the rate acts like a tax on " rent, as it is constituted," in Ricardo's phrase—on the element of profit in concrete rent—building would be discouraged, particularly at the outskirts, for a reason above submitted, because ground rents are there particularly small.

This reasoning is no doubt somewhat abstract, but so is the reasoning to which it is opposed. The counter-argument may serve at least to recall the canon that taxation should be only for the sake of revenue. So little can be known in general about the consequences of a tax, except that it will probably hamper the producer and burden the consumer. Whether we consider the action of the proposed rate at the centre of towns, or at the circumference, hesitation seems justified.

As to the centre, is it so certain that the owner of a site which has not been put to the best use will have a new motive to set his house in order? Let A be the net advantages, in the owner's view, obtained in the present state of the premises; let B be the prospective advantages derivable from rebuilding his house, account being had of risk, trouble, loss in the way of interest, and other items on the debtor side of the balance. If before the imposition of the special rate the present exceeded the prospective advantages, if A is greater than B, this relation will not be destroyed by the imposition of the rate of so many shillings, say r, on the site value, say S. We have now $A - \frac{r}{20} S$ greater than $B - \frac{r}{20} S$. To be sure, if r is so large that $A - \frac{r}{20} S$ becomes less than nothing, the owner would have a motive to get rid of the premises by sale—presumably to someone who saw his way to making a better use of the site. But such dispossession of unenterprising owners is surely rather too drastic an operation to be contemplated by those who disclaim violence.

Again, as to the circumference, it has already been argued that the expectant stimulus to building might not be effective. There remain to be considered the good effects attributed to the repression of speculation in land. These good effects are to be measured by the bad effects of speculation. Now speculation in land is not so efficacious, nor are its effects so deleterious, as may be

supposed. It is not so efficacious because it is not the only, nor the principal, cause of high prices paid for urban land. The demand on the part of consumers, not the operations of speculating middlemen, is the bottom-cause of high prices. Nor are the effects which may truly be ascribed to speculation in land so bad as they are described. That speculators subserve a useful purpose in putting a commodity on the market is an economic truism. The outcry against speculation in land recalls the prejudices of our ancestors against "forestallers" and "regraters" and the monsters described as "badgers."

It is true, indeed, that if a single owner control the whole supply of a commodity for which the community is hungering, such a monopolist may raise the price to the great detriment of the consumer. But first it must be proved that monopoly in the sense of control by a single will prevails respecting urban or suburban land. Next it has to be observed how far the monopolist is exercising his power to the detriment of his customers. In fine it should be considered whether the probable evils of untempered monopoly—and it may be added the possible evils of unrestricted competition—are to be corrected by so clumsy an instrument as a tax, rather than by intelligent governmental control.

There remains the more generally attractive object which "unearned increment" constitutes. So far as recent proposals embody the principle of Mill they must be approved by one who approves of that principle. Yet he may consistently disapprove of the way in which the principle is carried out. Roast pork is a good dish, but burning the kitchen is a bad way of cooking that dish. Besides the obvious inconveniences of that culinary method, it is open to two minor objections. The viand is apt to be done either too little, or too much; to be only singed, or to be burnt to cinders.

The first of the objections metaphorically indicated may be illustrated by comparing Mill's plan with more recent proposals, in the case of central premises. According to Mill's plan, when—all old leases having fallen in—the ground landlord creates a new lease, a very substantial percentage, in the case of distant reversions at least, would accrue to the community. But so drastic an appropriation of unearned increment may seem to be inadmissible according to the schemes which are now in vogue. If the rate on site-value were so very heavy, it would be impossible to preserve that beautiful continuity with which the new rate on site-value is to be passed back from lessee to lessor on the

termination of each lease. It would not be seriously proposed that the holder of an expiring lease, with perhaps an old house unsuited to the site, should be subjected to such a rate as the incoming reversioner might bear with cheerfulness, or at least without detriment to future occupiers.

In the case instanced the unearned increment was not fully taxed; the pork was not completely roasted. It is done to cinders in the following instance. Suppose that the measures directed against speculation in land produced the expected slump in land values. There would be lost large accretions of value, much of which, according to Mill's plan, might be appropriated by the community.

Against the reasoning here employed experience may be arrayed; the experience of Queensland and some other of our colonies, and some towns in Germany. But experience must be transplanted with caution from its original surroundings. It seems that a "sparrow-rate" is leviable in South Australia; directed against a pest which is not very formidable here. It is probable that the rate "on the unimproved value of land" in certain colonies complies with Mill's principle of taxing unearned increments more nearly than would be possible with our complicated system of tenures. The party who suffers by the imposition of the rate on site-values may be less frequently in a simple system a mere capitalist, who counts upon the ordinary profits on his outlay, as distinguished from a landlord who is in the receipt of rent proper.

It is true that the adoption of the new rate would probably lead to the abandonment of the complicated system which has grown up in this old country. And why not? say some. But surely the fact that the system has grown up should give us pause. The calmness with which the ruin of an established industrial system is contemplated is comparable only to the confidence with which the Protectionist would divert and reshape the course of his country's trade to suit his own ideas.

It is possible, of course, to admit what has been above contended—that the proposed rate on site-values would largely fall upon occupiers—and yet to approve of the new rate. But it must be approved on the same kind of grounds as other taxes which fall upon the consuming public. The site-value rate, as compared with other forms of additional impost on the urban public, may have the kind of advantage which one form of tax on the beer-drinking public may have over another form. The site-value rate has the kind of advantage which may be claimed

for a tax on wine in preference to one on beer on the ground (already indicated) that part of the burden *may* fall elsewhere than upon the consumer. If additional municipal taxation is required for the sake of salubrity or other paramount object, and if the site-value rate is the best form of additional levy on the urban public, let that rate by all means be adopted. But do not pretend that it will fall mainly upon affluent monopolists and idle landlords. Do not claim for it the authority of Mill.