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## CHAPTER I

### PURPOSE AND NATURE OF PRODUCTION

#### § 1

#### **Production and National Welfare**

THE subject which we are now about to discuss may, in a certain sense, be said to excite more interest than any other subject within the domain of economics. Think of the important part which production plays in the life of a nation, and what sacrifices the community makes for its sake! Almost every Government nowadays regards it as a duty to do away with taxes which weaken the incentive to produce, and to adopt measures by which production is encouraged.

It seems therefore unnecessary to emphasise the great importance of this subject. RICHARD COBDEN has said that the future belongs to the nation that labours and produces—a dictum which sounds very like a commonplace. It is no commonplace, however. The present age, which has effected more than any other in the sphere of production, and still labours for the extension of that sphere, only half believes in the salutary effect of that extension on the general welfare. We have evidence of this in the fact that so many people are seized with apprehension when they see a considerable fall in the prices of food-stuffs owing to the extension of agriculture in distant countries. The raising of import duties in nearly every country in recent years is an expression of doubt as to the beneficial effects of increased production. Is further evidence needed? No economic work has been more widely read in our time, or has obtained a greater measure

of admiration or approval, than HENRY GEORGE'S *Progress and Poverty*, a work which teaches that, under the existing social order, no advantage accrues to the most numerous classes from increased production.

In propounding his doctrine, HENRY GEORGE takes up the socialist standpoint. It has always been boldly declared or tacitly implied by socialists that distribution and not production is the subject which claims our interest. Since the great inventions of WATT and ARKWRIGHT, it is no longer the question—so they think—how wealth shall be acquired, but how it shall be brought within the reach of every one. The very fact that production has made such strides in our time they regard as a reason for paying no attention to production: there are goods enough, they say; the warehouses are full to overflowing; but distribution is defective, and our chief concern is to remedy that defect. These views are shared by all whose economics are more or less tinged with socialism. What, they ask, has been the use of all those discoveries and inventions of the last hundred years, seeing that we are still surrounded with so much poverty? And because they cannot at once find a satisfactory answer to this question they doubt the advantage of increasing production.

Nevertheless a satisfactory answer can be easily found: the statistics of population furnish it. The number of inhabitants in Europe in 1800 was 172,000,000; now there are more than twice as many; and though it has often been contended that this larger population enjoys less wealth, the reverse has frequently been proved to be the case. It is entirely owing to the strides made in production that a population of 350,000,000 can now find food, clothing, and housing on almost the same area as was formerly inhabited by 172,000,000 of people; this would not have been possible a century ago, and it shows us the importance of production. Society may develop in two ways—in extent and in wealth; the number of its members may increase; but also, that number remaining stationary, each individual may acquire an increase of wealth. The results of the one kind of development are very different from those of the other, but the condition for both is the same: the total income must

increase. The increase of production in our time has fulfilled this condition. We may say of this increase that it has enabled society in the nineteenth century to develop in the direction which it has itself chosen.

Where the socialists are wrong is not in attaching great importance to the question of distribution, but in attaching importance to that question alone and overlooking the no less important question of production. Nor do they take sufficient note of the *connexion* between production and distribution. They do not see how a plentiful production helps to bring about greater equality in the terms of distribution. On the basis of the conclusions to which we were led in the first volume of this work, we may say that no class of society benefits more by abundant production than the working-class. For the other classes it does not always prove an unmixed blessing. Rents may decline in consequence of a redundant supply of agricultural produce. House owners are not gainers, but losers, when a decline in the prices of building materials causes cheap dwellings to be built. No advantage accrues to the capitalist when increase of savings depresses the rate of interest. But for the labouring class all these things mean increase of welfare. A general increase of production improves the condition of the working-man in a twofold manner. It enables him to share in a larger quantity of commodities, and to share on more favourable terms than before.

Not only would it be a benefit for mankind, but it would help greatly towards enlightening the understanding of many, if this cause could operate for a while unimpeded: if it could operate in such a way that its effects were not obscured by other causes. We should like, for instance, to experience a succession of years during which no increase took place in the population, no current public expenditure was met by a loan, no capital was destroyed by reckless speculation; while at the same time production went on increasing largely owing to the provision of increased transport facilities and the adoption of improvements in agriculture and industry. The period would have to be long enough to allow of certain changes in the distribution of capital and labour, and certain unavoidable transfers taking place. We are firmly convinced that, at the

end of that period, the welfare of the working-class would have increased to such an extent that nobody could any longer be doubtful of the great importance of abundant production. The contrast between wealth and poverty would have become much less marked. Were a ROBERT OWEN or a HENRY GEORGE then to set about proving that the only subject worthy of our attention in this age was that of distribution, nobody would listen to him, because it would have become clearly evident that nothing helps so much as abundant production towards bringing about a more uniform distribution of wealth.

It is not only socialists and those influenced by socialists who labour under the fatal mistake which we are now combating. There are others who, though absolutely opposed to socialism, fall into the same error. In order to render the importance of the subject more clearly understood, it will not suffice to refer to the proofs which we have already adduced; we shall have to adduce fresh proofs. There are some who are frequently disposed to question the advantage of increased production, because they fear it will entail great misery on mankind; they expect it will end in general over-production. We propose first of all to show the groundlessness of this fear.

## § 2

### Over-production

What is meant by over-production? Over-production is frequently spoken of as production in excess of demand. If this is what the word means, then a general glut cannot be said to exist until all things can be had for nothing. Such a state of things ought rather to be desired than feared, since nobody would any longer be short of anything. If the stock of all articles were so large that nothing possessed any value, a veritable millennium would have dawned, for all could then feed, clothe, and house themselves according to their fancy. We know that such an ideal can never be realised; and were it realised only for a short time—and even that is inconceivable—the incentive to labour would disappear, and great scarcity would ensue before long.

Here we must again remind the reader<sup>1</sup> that the word "demand" is generally used very loosely. When a manufacturer is unable to dispose of his goods at normal prices he says there is no "demand" for them. Were he to offer his goods at half the price which he usually charges for them, he would see what an amount of demand remains unsatisfied under ordinary circumstances. Once a price, no matter how small, is asked for a thing, it moderates the demand for that thing to some extent: it deters a number of consumers, disposes people to use the article more sparingly than they would if it were to be had for nothing. The demand of which the manufacturer or the merchant speaks is not the whole demand, but only a part of it—that part which is measured by people's willingness to buy. In a place where a price was charged for drinking water, the quantity of such water sold would not be a measure of the real demand, and we may be quite certain that however low the price was, it would induce a certain number of people to consume less water than they would see an advantage in consuming if they could get the water for nothing. Not only waste, but even the supply of what is absolutely needful, of a thing is in some measure—though it may be only a slight measure—checked, the moment we find we have to make some sacrifice in order to obtain it. Economy is for many such an absolute necessity.

If general over-production means production in excess of demand, then it means production on such a scale as would relegate all things to the class of non-economic goods. But this is not the sense in which the word is used either in science or in ordinary language. The meaning which it is intended to convey is, production on so large a scale as to cause prices to descend below what is called the cost of production. Thus there is said to be over-production of sugar when sugar fetches 8 shillings per cwt., while it cannot be supplied with profit at less than 9 or 10 shillings. We say there is over-production of iron when iron fetches only 36 shillings per ton, while iron-masters are unable to supply it at less than 37 or 38 shillings per ton in order to make a fair profit. The word has even a more restricted meaning

<sup>1</sup> See Vol. I. p. 48.

than would appear from these illustrations. If rich iron deposits were to be discovered, say in Asia, with the result that it became possible to supply the *whole* of the demand for iron at a price below that at which iron can now be supplied in the United States and Europe, we should not hear any mention of over-production, but of strong foreign competition. Over-production is regarded as having taken place only in cases where a large number of the existing *entrepreneurs* are obliged to work at a loss and when this condition of things is not the result of inventions or discoveries, but entirely due to production having been carried to excess in a particular direction. When there is over-production, the condition of things is such that, while very many *entrepreneurs* are unable to earn enough to cover their cost of production, excessive dearness would nevertheless result if every one of those *entrepreneurs* were to close his establishment.

But we know what is meant by the expression "cost of production." In the strictly scientific sense<sup>1</sup> it represents what is used up in the process of production, such as fuel and similar things; in ordinary language it represents the sum of the various kinds of expenses which the *entrepreneur* has to incur in order to obtain a given quantity of goods. Wages and interest make up a very important part of those expenses; in fact, if we analyse closely and leave taxes out of consideration, we may say that the expenses referred to are made up entirely of wages and interest for the price of the raw material. The freight charges and the rent of premises (the latter in so far as it comprises no rent of site) are also made up of wages and interest.

After these elucidatory observations we are in a position to define the phenomenon of over-production with even greater precision. Over-production is a disproportion between the prices of goods on the one hand and wages and interest on the other. That is what it all comes to. We have evidence of this in the fact that complaints of over-production cease when a decline in wages and interest takes place. The *entrepreneur* is then satisfied. It is true, he says, every cwt. of sugar brings me only 8 shillings, or every ton of iron only 36 shillings, but my cost of pro-

<sup>1</sup> See Vol. I. pp. 61-63.

duction has been so far reduced that I can afford to be satisfied with these prices, for they leave me a fair margin of profit.

If the price falls considerably, but the cost of production per cwt. or per ton is at the same time reduced in equal, or even greater proportion, we hear no mention of over-production. *Entrepreneurs* will lose on their outstanding stocks, it is true, but once these are exhausted they will have no cause of complaint. Let us carry this hypothesis a little further. Suppose the workpeople are paid by the job, or the piece, and that although they receive for the future a smaller remuneration for any given quantity of their output, nevertheless, owing to improved processes or better methods of treating the raw material—in agriculture by improved cultivation—they produce so much more that their earnings amount to as much as they did before. In that case nobody is any worse off; neither the *entrepreneurs*, for they are recouping themselves for their “cost of production,” nor the workpeople, for they are earning as much as they did before, and as consumers they are able to acquire for less money such goods as they are in the habit of purchasing.

Now, whatever obscurity hangs around the subject of over-production is dispelled when we realise clearly that increased production operates precisely in the manner assumed in our illustration, apart from the more favourable terms of distribution, already referred to, which it brings about between the workers and the other classes of society. What people take for increase of production is usually nothing but displacement and change. It often happens that a particular branch of industry is carried on to an excessive extent, because it is employing capital and labour that had previously been used for other purposes. In such a case the price of the product declines very much, and the *entrepreneurs* suffer loss because there is nothing to compensate them for the injury. But that is not *increase of production*; by producing one thing instead of another we do not increase the aggregate volume of production, we simply bring about a change in the relative quantities of the different things produced, and in the case which we are assuming the change is not for the better. Then arises the evil called over-production: the

prices no longer cover the cost of production. In the case of a real increase of production a much more favourable state of things is engendered. Increased production of textile goods, or iron, may be brought about through the fact that many people, who were formerly engaged in producing other articles, have taken to producing textiles or iron. But increased production of textiles, of iron, and of all other things at the same time can only be brought about by improved methods of applying the existing instruments of production—by increasing the productivity of capital and labour. By means of this increased productivity the *entrepreneur* gains on the quantity what he loses on the price. Formerly he produced 10,000 tons and sold his product for £10 per ton. Now he may have to be content with a price of £8 per ton; but this causes him no concern if he can now turn out 12,500 tons for what it previously cost him to turn out 10,000 tons. If his expenses in both cases amounted to £90,000, then his profit in both cases amounts to £10,000.

This important point is always overlooked by those who fear a general glut. They notice the evil consequences that ensue whenever the prices of certain goods fall below what would suffice to cover the expenses of production: factories being closed and workpeople being discharged. Then they exclaim, "What a calamity it would be if this were to happen in all branches of industry!" But this never can happen in all branches of industry; for what we observe in cases of over-production is not increased productivity, but simply displacements of capital and labour; not increase of production, but change in the direction of production; not an increase in the aggregate volume of production, but a change in the distribution of that aggregate among the different kinds of industry. In fact, there is just that thing lacking which renders increase of production harmless for the *entrepreneur*, so that we are justified in arriving at the conclusion that there are absolutely no grounds for fearing a general glut. We ought to add, moreover, that in the event of the over-production extending to bullion, not even the decline in prices, of which we have spoken, would take place. In that case, however, money wages would rise, which amounts to the same thing so far as *entrepreneurs* are concerned.

It is of the utmost importance that this point should be thoroughly understood; at the risk of being prosy we will therefore endeavour to answer two objections which might be urged against the views here set forth.

In the first place, it might be asked, What grounds are there for the contention that the *entrepreneur* gains in respect of quantity quite the whole of what he loses in respect of price? Might not the amount lost exceed the amount gained? He now produces, say, 12,500 tons without applying any more capital and labour than he did before in producing 10,000 tons. If the price were to drop, not to £8, but to £7 per ton, while the expenses remained as before at £90,000, the *entrepreneur*, instead of gaining £10,000, would lose £2,500. Who can prove that this could not possibly happen?

In the case of particular articles it might very well happen. There are some kinds of goods of which very much more could be sold if the price were reduced even by a little; but there are other kinds of goods, the price of which would have to be reduced very much in order to effect any great increase in the sales. With a general increase of production great disparity will arise. The one *entrepreneur* will gain more in respect of the quantity than he will lose in respect of the price; the change will therefore be greatly to his advantage. Formerly he manufactured 10,000 tons, for which he was able to get £10 per ton; now he manufactures 12,500 tons, which he sells for £8:10s. or £9 per ton, so that he gains either £6,250 or £12,500 more than he did before, notwithstanding the fall in the price. Another *entrepreneur* will be less fortunate; he will lose more than he gains. It may be predicted, however, that neither the gains of the first nor the losses of the second of these *entrepreneurs* will be lasting; for competition will increase in the trade which has become more prosperous, and will decline in the other, and before long it will be possible to earn about as much in the one as in the other. This we are bound to concede, however, that for a certain time, and in respect of certain articles, the increase in quantity will not compensate for the decline in price, and this period will be long in proportion to the difficulty which attends the withdrawal of

capital and labour from the trades in which loss is being incurred.<sup>1</sup>

But suppose this period of transition to have passed, will the compensation still prove inadequate on the average for the whole body of *entrepreneurs*? We fail to see that it will. For the aggregate demand for goods has remained the same, so that quite as much is being spent as before in the purchase of goods. Let the sum originally spent be represented by 100, and the quantity of things purchased therewith by  $x$ : then each thing will have cost on the average  $\frac{100}{x}$ . If  $x$  be increased to  $1\frac{1}{4}x$ , and the total amount spent still remains at 100, then each thing will cost on the average  $\frac{100}{1\frac{1}{4}x}$ , so that the price will have fallen. But this fall will not be greater proportionately than the increase in the quantity, so that the compensation will be adequate.

Or it might be objected that the total demand for goods may decline owing to people spending less and saving more. To this objection we would answer that saving has no effect on the total demand for goods. As has been truly said by LEROY-BEAULIEU: "Saving diverts the industry and labour of a country into new channels; instead of directing them to the production of things which admit of immediate consumption, it turns them to the production of machinery and other kinds of capital."<sup>2</sup> In a country where much is saved the demand for goods is not smaller than in a country where much is spent; the demand for things of permanent utility—for instruments of production—is greater in the country where the people are given to saving, and it is greater by exactly as much as the demand for other kinds of things is less. Nor would the

<sup>1</sup> Professor J. S. NICHOLSON rightly emphasises this in his work entitled *The Effects of Machinery on Wages*, London, 1892 (pp. 66 *et seq.*). He is wrong, however, in using it as argument against JOHN STUART MILL's well-known theory regarding the subject in hand, as set forth in Book III. chap. xiv. of his *Principles of Political Economy*.

An edition of MILL's *Principles of Political Economy*, "abridged, with critical, bibliographical, and explanatory notes," by Professor J. LAURENCE LAUGHLIN, appeared in New York in 1895. This edition is well worthy of note.

<sup>2</sup> *Le Collectivisme*, livre ii. chap. ii. p. 230. The whole of the passage, of which these words are the theme, is worth reading.

See also Vol. I. of the present work, pp. 278-279.

demand for goods in that country be any the less, even if many of the people were to invest their savings in foreign securities; the conclusions at which we arrived in our chapter on Foreign Exchanges enable us to assert with confidence that the foreign securities will be paid for with goods. Consequently there is no reason whatever for believing that, in the case which we have assumed, the aggregate sum spent on purchases of various kinds will diminish; and if that aggregate does not diminish, then, on the average, each *entrepreneur* must recover in respect of quantity what he loses in respect of price.

But even if our argument on this point were unsound, what would be proved? Nobody can deny that increase in the quantity produced does provide at any rate some compensation for a fall in the price. The compensation will simply fall short of being complete. The remedy will then be quite obvious: the expenses of production must be reduced a little; in other words, the workpeople—to confine ourselves to these—must be prepared to accept a somewhat lower money wage. The cause of the evil will be that labour has not shared in the general reduction of prices, and in order to cure the social malady, it will not be necessary or even desirable to restrict production; all that will be needful will be that labour shall forgo a part of its money wages. When it has agreed to this, its condition will be no worse, but in fact better than it was before; for the fall in money wages will not need to be nearly so great as the fall in prices, it will only have to be sufficient to compensate *entrepreneurs* for the injury entailed on them by the fact that prices have fallen by more than production has increased. The evil will not be that production has increased too much; the fact, however, that wages have remained the same during a time of general decline in prices, will have enhanced the proportionate share of labour in the aggregate income beyond the amount that the circumstances permitted. As soon as this was rectified, the evil would disappear. It must not be forgotten that in the case which we are here assuming, the fall in prices would be very considerable. When a greater quantity at a lower price yields a smaller sum than a lesser quantity at a higher price, the fall in the price must be very great. And in the case of a very great fall in the prices of all, or at any rate most articles, it is possible for

money wages to fall a little, while real wages—*i.e.* wages expressed in goods—go up. As it is real wages alone that matter so far as labour is concerned, we arrive at the conclusion that, even if our demonstration were not absolutely correct, increase of production must promote the welfare of the most numerous class of the population, and that general over-production is nothing but a bogey.

But a second objection may be raised. In the course of this discussion we have always maintained that increased production can only originate in increased productivity of capital and labour. Have we forgotten that it may also result from growth of the population accompanied by increase of the instruments of production? And if the increase of production should arise from the latter cause, does not the argument adduced above fall to the ground? The supply of goods would then become greater; but if this causes a fall in the price, no single *entrepreneur* will find compensation for the loss which he suffers in consequence.

It is true that, up to the present, we have assumed population to be stationary. If we assume an increase of population, we introduce a new element into our discussion, which must be considered separately. Now let us be quite clear as to the bearing of the question stated. The question is not whether increase of population is to be regarded as an advantage, or as a disadvantage; but whether, *in the event of* the population increasing, the general welfare would be promoted by production increasing in the same, or in a greater proportion. What we want to find out is whether production in the aggregate can ever become excessive, so as to make it desirable to prevent its further growth. We have, therefore, to examine whether this case can possibly arise from the fact that production increases in consequence of an increase in the number of producers. In the event of this being the cause, can it ever be a better thing that production should not, than that it should increase?

Imagine an isolated country and the answer is not very difficult, for in such a country increase of population always means increased demand. Suppose the country to have had a population of 10,000,000, and that the number has risen to 12,000,000. If these 12,000,000 produce exactly one-fifth more than the original 10,000,000, there is no reason what-

ever for expecting prices to fall, since there will be new purchasers for the new products; demand will keep pace with supply. If the larger population were to produce relatively more than the smaller, owing, say, to a more effective division of labour having become possible, then a decline in prices might indeed be expected; but this would only be a repetition of the case previously spoken of—capital and labour would have become more productive, and *entrepreneurs* would find compensation in the increased quantities for what they were losing on the reduced prices. But if, on the other hand, the increase of production were to be relatively less than the increase of population—and there is nothing unlikely in the supposition—this would be because it had been found necessary to start cultivating less fertile land, or to build factories in places where materials were less easily obtainable. But in that case prices could not possibly fall; on the contrary, most things would become dearer; and in this way the disadvantage of the inadequate increase of production would make itself felt.

In an isolated State, therefore, nothing but detriment can ensue when production fails to increase in proportion to population; and no doubt it is desirable that it should increase more rapidly. Should we have to form a different conclusion in the case of a country which engaged in international trade? In order to prove that we should not, we will suppose that the country has to import all its necessaries, without exception, from abroad, and therefore itself only produces articles of export. It would be impossible to assume more than this; in fact we are assuming a condition of things which exists nowhere. If we can show that even in that case increase of production is a thing never to be feared but always to be desired, then we shall certainly have made good our case.

Suppose, then, that as the population increases, so also does production. But, as foreign demand for the products of the country remains unchanged—there is nothing in our illustration to justify the assumption that it has increased—the exports can no longer fetch the same prices as they did before. Consequently *entrepreneurs* can no longer pay the same wages; the rate of wages declines, so also does the rate

of interest, at least if capital has increased at the same rate as population. This is another way of saying that a decline of national wealth takes place. It is probable, indeed, that this evil will be mitigated to some extent by the reduction of wages itself, which will render it remunerative to produce at home goods which used to be imported from abroad, so that it will be no longer necessary to produce exclusively for export. But this will not prove a complete remedy; the level of money wages will still remain lower than it used to be.

Perhaps some will now be disposed to conclude that, instead of proving our case, we have lost it, for the circumstances assumed have resulted in a decline of national wealth. There will certainly have been a decline of wealth, but why? Is it because production has increased? No, it is in spite of production having increased. The increase in the quantity of goods has not resulted in a proportionate increase of income because, owing to the increase of the supply, the goods could no longer fetch the same prices abroad. Still, this increase in the quantity of goods must have been beneficial to the growth of income to a certain extent; if it had been wanting the effect would have been disastrous. The number of the population had risen; the nation's income ought to have swollen at the same rate; alas! it failed to do so. But would it have been better for the people, under these circumstances, if production had not advanced at all, and the nation's income, therefore, not increased in any degree? Certainly nobody would contend that this was so. Hence we are bound to conclude that in this case, as in the others, the increase of production, though not productive of so much good as it might have been under less unfavourable circumstances, was beneficial after all. It would have been desirable, indeed, that the necessity of exporting larger quantities of goods had not arisen—in other words, that population had remained stationary. But that is a different question.

What has been said may not contain answers to all the objections which it would be possible to raise, but it will be sufficient for the purpose of showing that those who are concerned about general over-production are labouring under

a mistake. In the interests of the general welfare, nothing can be more desirable than that labour should become ever more productive. If this desire were realised, one of three things would happen. Either all prices would keep falling; that is, the necessaries of life and everything else would get cheaper and cheaper, and consequently would fall more and more within the reach of all who had previously to deny themselves many things. Or, prices would remain unchanged, but all money-incomes would keep on increasing, which would have the same result so far as the general welfare was concerned; although persons in receipt of *fixed* incomes would not share in the improved conditions. Or, lastly, both of these things would happen together: prices would fall and money-incomes would rise at the same time. In which of these three forms the effects of the increased productivity of labour would manifest themselves, would depend upon the growth of the production of bullion. What has already been said<sup>1</sup> as to the form which changes in wages will assume is equally applicable here.

### § 3

#### What is meant by Production

Now that the importance of our subject has been made clear, we must examine the subject itself more closely. The question, what should and what should not be regarded as production, requires more elucidation than would appear at first sight.

To the Physiocrats is due the credit of having been the first to attempt a definition of the word production in the economic sense. Even as it may be said of the Physiocrats generally, that their merit has consisted in directing attention to important points of investigation, so in this particular case. But in regard to this as well as to most other subjects, their services have amounted to little more. Their conception of production is too narrow; the development of our science since the Physiocrats have disappeared from the scene has been marked by a broadening of the idea which the word is

<sup>1</sup> Cf. Vol. I. p. 373.

meant to convey. How far we have reason to be satisfied in this respect is a question which we will now proceed to examine.

The proposition from which the Physiocrats set out was in a certain respect true. Production, they held, cannot be said to have taken place unless income has increased; and income is not increased if the cost of producing exceeds the return yielded by what has been produced. If a return of £1,000 be yielded by what it has cost exactly that sum to produce, then it certainly cannot be said that production in the economic sense has taken place. But it is important that we should understand clearly what is meant by cost of production, lest we reckon as forming part of it certain items which really constitute part of the return yielded by production.

And it is in this that the Physiocrats have missed the mark; the error which we refuted at the commencement of this treatise<sup>1</sup> is, in an especial manner, the error of the Physiocrats. They treat wages, interest, and taxes as part of the cost, just as the private *entrepreneur* does, quite forgetting that the economist, who wants to ascertain what is requisite for the welfare of the nation as a whole, must take a wider view. Wages, interest, and taxes are not part of the cost of production; they are some of the fruits of production, portions of the return yielded by the work, the shares allotted to the labourer, the capitalist, and the State respectively out of what has been produced. The cost of production consists of nothing beyond what is destroyed through being worn out or used up in the course of production. We cannot produce corn without using seed; meat, without using fodder; bread, without using fuel. We cannot transport things without entailing a certain amount of wear and tear upon the railway trucks and ships which we employ for the purpose. These are the things which constitute the cost of production; not the wages, which are paid to the labourer, and which, as we said just now, represent his share of what he has helped to produce.

. Thus, when a manufacturer sacrifices goods worth £1,000, and in doing so obtains goods worth £10,000, he produces goods to the value of £9,000, even though his expenses should

<sup>1</sup> Cf. Vol. I. pp. 61-63.

be considerably in excess of that sum. He has performed productive work, although he personally may have suffered a considerable loss. That loss will have arisen from his having paid too much in wages and interest, not having exercised good judgment in applying the means at his disposal, or lastly, from his not having supplied the article for which there was most demand. Instead of spending £10,000 he need only have spent £6,000, perhaps, in wages and interest; or, instead of obtaining goods to the value of £10,000, he might have produced goods worth £12,500. These would be mistakes for which not only he but others as well would have to suffer. It is of importance to the community that no capital should be lost, and loss of capital for the *entrepreneur* is usually accompanied by loss of capital for the community; for the labouring classes as a rule save little of what is paid to them in excess of the actual return realised. There are three questions, however, which we must take great care to distinguish from one another: whether an act has been productive; whether it has been as productive as it might and should have been; and lastly, whether those who have assisted in that productive act have not received excessive remuneration for their assistance. It often happens that the return is less, or the remuneration greater, than it ought to be, and that production has nevertheless taken place. Production has taken place in every case where a return is obtained, which exceeds, not what the *entrepreneur* has paid to those who assisted him and to the State, but what he has sacrificed for the sake of the production.<sup>1</sup>

We said that the development of economic science since the days of the Physiocrats has been marked by a widening of the sense in which the word "production" is used. Has this widening process gone far enough? Is it possible that in some respects it has been carried too far? We will endeavour to elucidate these questions by examining in turn three theories, each of which still has its adherents. According to the first of these, production in the economic sense consists in turning

<sup>1</sup> It is strange that J. B. SAY, who combats the Physiocrats, should have permitted himself to say: "*On ne produit véritablement que lorsque, tous les services productifs étant payés, le produit vaut ses frais de production*" (*Cours complet*, Part I. p. 346). Having regard to the sense in which SAY uses the words *frais de production*, this is Physiocracy pure and simple.

out things which have a value in exchange, or in enhancing the value in exchange of things by means of labour. The second theory differs from this only in so far as it substitutes the word "value" for the expression "value in exchange." The third is distinguished by the fact that it includes what are called "immaterial goods" in the category of products.

I. According to the first theory, production is synonymous with creating value in exchange. Thus JOHN STUART MILL in his *Principles of Political Economy*. He begins by telling us what is meant by wealth. Wealth does not consist of money alone (MILL represents the Mercantilists as maintaining that it does), but comprises everything that may be useful to mankind and is not a free gift of nature. Are we then to understand that all material things which possess value, all things comprised in the class which authors of the present time call Economic Goods, whether they admit of being sold or not, constitute wealth? This is not what MILL would have us understand. "Things for which we cannot obtain other things in exchange, however useful or necessary they may be, are not wealth in the sense in which that word is used in political economy."

Once we know what wealth is, then we also know what production is, for to produce is simply to create wealth directly or indirectly. These views are expressed by MILL in a very positive manner; he seems to consider their truth to be self-evident; it does not appear to occur to him that what he is saying needs any proof. It is only when proceeding to discuss unproductive labour that he attempts to defend them. But in his defence he leaves untouched the very points that need to be defended. MILL gives one the impression of not having given them very much consideration, for he frequently employs terms which are scarcely in keeping with his theory. Thus he assures us (in chap. iii. of Book I.) that we should regard as productive all labour which is employed in creating permanent utilities, whether embodied in human beings or in any other animate or inanimate objects. But things of permanent utility do not always admit of being sold. In a society where there was no such thing as exchange, and where, therefore, each produced what was necessary for his own wants, nothing could be sold.

The ellipsis in MILL'S demonstration has not been adequately supplied by any of the other writers who share his opinion, so that to a certain extent we are left to guess the argument on which that opinion is founded. Probably that argument is as follows:—

Economic science is only concerned with occurrences which affect society as a whole; those which only affect the individual are outside its proper sphere and are, in fact, to be deliberately ignored by it. Applying this rule to production, we must draw a line of demarcation between what concerns society as a whole and what concerns the individual, between the general and the particular. If a person makes a piece of furniture, for which he alone can find a use, he performs an act which is perhaps very advantageous for himself personally, but that act has no interest for society as a whole, its effect will not be felt outside his own family circle. If the same person makes something which possesses value in exchange he performs a social act, an act of production in the economic sense.

But if this argument could be admitted as a plea for limiting the concept of production to the creation of things which possess value in exchange, the plea would be a very weak one indeed. You make an article of furniture for which you alone can find a use, and you are told that your act is not one of production in the economic sense. Another man, knowing that you are in want of such an article of furniture, makes it in order to sell it to you; now this man's act is one of production in the economic sense, you are told. Surely the conclusion is quite arbitrary! And such arbitrary conclusions lead to confusion of meaning. Would MILL have ventured to assert that acts which do not create value in exchange never enrich mankind? That would have been tantamount to an assertion that, in a country where commerce was not carried on, the cultivation of the land or the manufacture of articles of clothing could never yield material advantage. In determining the productivity of an act, MILL takes for his standard the question, not whether the act does or does not yield material advantage, but whether it has or has not brought forth something which some one will be willing to buy. But by using that standard we divert

attention from the main point and fix it on side-issues. What MILL ought to have said is this: "Every act is an act of production in the economic sense which increases the quantity of those material goods whose increase is desired, or which brings material goods into a state in which they afford greater utility. Not every act, however, which has these results is apt to come within the range of observation of the economist; only those acts can do so which create value in exchange." There might then have been found matter for controversy in the last phrase, but MILL would not have incurred the charge of having obscured the essential features of economic production. As it is, the charge is one from which he cannot escape, and the same remark applies to all who have followed in his footsteps. We consult their writings in vain if we wish to ascertain what constitutes the character of a productive act. They confuse the two questions: What is production? and What kind of production is it in which the economist, *qua* economist, takes an interest? The two questions differ widely in kind.<sup>1</sup>

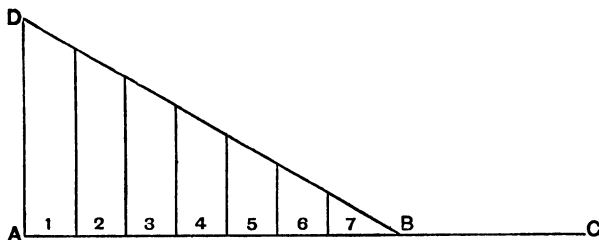
II. The second theory is wider, because the concept of Value is more comprehensive than that of Value in Exchange. German writers have always been keenly alive to the difference between the two concepts; it is to their works, therefore, that we must turn for the definition which we are now going to discuss. We find one, for instance, by KLEINWÄCHTER in SCHÖNBERG'S well-known *Handbuch der politischen Oekonomie*. There we read<sup>2</sup> that production in the usual sense means bringing forth something new; in the economic sense it means creating goods which possess value or

<sup>1</sup> The confusion is most noticeable in SENIOR. TORRENS has made a remark similar to that which occurs above: if there can be no wealth without value in exchange, then there can be no wealth where there is no commerce. On this point SENIOR says: "The answer is that, for the purposes of political economy, there would be no wealth; for, in fact, in such a state of things, supposing it possible, the science of Political Economy would have no application. In such a state of society, agriculture, mechanics or any other of the arts which are subservient to the production of the commodities which are with us, the subject of exchange might be studied, but the science of Political Economy would not exist" (*Political Economy*, London, 1850, p. 25).

<sup>2</sup> "Erzeugung oder Schaffung von Werthen für die Wirthschaften der Menschen. . . . Die Werthbildung besteht im allgemeinen darin, dass entweder neue werthvolle Güter für die Wirthschaft geschaffen werden, oder der Werth der schon vorhandenen Güter erhöht wird" (Part I. p. 161).

enhancing the value of goods. Our author then goes on to prove that these goods may be either material or immaterial. But we will not discuss this part of his theory just now; we will do so later on.

The reader will remember the distinction made in the beginning of this treatise<sup>1</sup> between economic and non-economic goods. Economic goods are those of which the supply is always less than the demand, or only just equal to it, so that on being deprived of any quantity of such goods we always suffer a certain amount of inconvenience; non-economic goods are those of which the supply is always greater than the demand, so that we attach no importance to a given quantity of them. When a pound or a cubic foot of an article possesses value, that article belongs to the economic group of goods; conversely, when every one is free to take as much as he likes from a stock, that stock undoubtedly consists of non-economic goods. The diagram given in Part I.<sup>2</sup> of this treatise shows the difference between the two classes of goods; we reproduce it here for the convenience of the reader.



AB represents the stock of an article. The line is divided into seven parts, and the spaces between the perpendiculars represent the advantages which accrue to a given individual from the possession of the respective parts of that stock. The advantage is very great in the case of space 1, very small in the case of space 7, and at the point B it disappears altogether. Thus AB is an economic good; even the last increment possesses some utility.<sup>3</sup> But if the stock were to extend to the point C, the article would be one of the non-economic group of goods, for nobody would care anything for the last increment, represented by the line BC.

In this explanation we are assuming that the reader still

<sup>1</sup> Vol. I. Chap. I. § 1.

<sup>2</sup> Vol. I. p. 59.

<sup>3</sup> Vol. I. p. 57.

has a clear recollection of the theory of value with which the names of JEVONS and MENGER are identified. The concept of production which we propose to examine may now be expressed as follows. Only economic goods can form the subject matter of production, for it is only by increasing or improving economic goods that we can create value. Moreover, the stock of those goods must not be so large as to satisfy the demand exactly, for any increase of the stock would then have the effect of changing the goods from economic to non-economic. Expressing this with the aid of our diagram, we should say that the stock ought not to extend as far as the point B but should end with space 5, or at the farthest with space 6. The more so because production always causes a certain amount of value to be lost; and before production can be said to have taken place, it is necessary that this loss should be outweighed by the value of the product.

But in merely paraphrasing in this way the theory of KLEINWÄCHTER and his adherents, we show wherein its error lies. Imagine a non-economic good, of which the stock is represented by the line AC in our diagram. Suppose this stock, or a part of it, to have been improved, a supposition which we could illustrate in the diagram by drawing a line parallel to, but somewhat above, the line DB, and meeting the line BC. No value will have been created; even in its improved condition, the article is redundant. Although the last portion of it that possesses utility now extends beyond the point B, it does not extend as far as C. According to KLEINWÄCHTER, production has not taken place in this case, although it is clear that—cost of production apart—mankind has been made richer in the material sense.

By way of examples we may suppose means to have been discovered for clearing the London atmosphere of smoke; or we may imagine a district where, because the population is scarce, land is to be had for nothing, but agriculture is impeded owing to some cause or other, and means are discovered for the removal of that cause; or again, the water of a river is undrinkable, and works are constructed whereby it becomes possible to dispose of the contaminating matter in some way. All these are examples of non-economic goods being improved, and nobody will deny that they are also to be regarded as

being productive in the economic sense. But the formula does not permit of their being called productive. This proves that the formula is defective.

KLEINWÄCHTER'S theory would be true if production always consisted in increasing things, and never in anything else. We cannot be said to perform an act of production if we make air, or if we dig a well in a place where an abundant supply of good water already exists, or if we build houses in a town where there are already more houses than there are families wanting to occupy them, even rent-free. To provide superfluous things is waste of energy. But production does not consist only in increasing, it also consists in improving, and the examples given show clearly that non-economic goods may be improved to the advantage of mankind, without ceasing for that reason to be non-economic goods, thus without acquiring value.

This theory is an advance on the doctrine which refuses to regard an act as productive unless it creates value in exchange. Nevertheless it is too narrow; production in the true sense may take place without anything acquiring value, or increased value. The practical importance of this conclusion will be seen in the next chapter, where we consider the question, whether it is possible to rely entirely on the stimulus of self-interest for ensuring an adequately large production.

III. We now come to the third theory, which relates to immaterial products. Hitherto we have been advocating a widening of the concept of production; now we have to advocate the reverse. We maintain that production in the economic sense only takes place when *material* goods, such as people desire to possess, are increased in quantity, or where *material* goods are brought into a condition in which they afford greater utility.

To begin with, let us see how much we can concede to those who are of a different opinion. Without hesitation we may concede that labour has often very useful results as regards national welfare, even when the immediate object with which it is undertaken consists in something other than increasing, improving, or displacing material things. The pursuit of science, the protection of life and property,

education, the promotion of the æsthetic feeling,—all these make for welfare, in so far as no great advance of welfare can be conceived of without them. Anything like a strong development of industry is impossible without the aid of the natural sciences; a defective legal system is little short of disastrous from an economic standpoint; a badly educated nation performs poor work. And even if it be contended that pleasure, in so far as it refreshes the mental and bodily energies, contributes towards welfare, we have nothing to urge to the contrary. One of our poets says, "Naught that is good or great has ever been accomplished without a sense of inward joy."

But those whose views we are discussing are far from being content with this admission. They are not satisfied with a declaration that, besides actions which are directly productive, there are others which are indirectly so; that without actually taking part in production, we may powerfully assist it. They pronounce the work of the teacher not merely economically productive in the sense that it prepares the way towards the acquisition of material goods; no, they insist that it is direct production, just as much as is the work of a person who tills the soil. "A doctor," says J. B. SAY,<sup>1</sup> "visits a patient, diagnoses his malady, prescribes a remedy, and goes away without leaving behind him any product which the patient or his family could dispose of, or even preserve for future consumption. Has the work performed by the doctor been therefore unproductive? Surely not. He has at any rate saved the patient. Has the production been such as not to admit of exchange? Again, no; for the doctor exchanged his advice for a fee; but once the advice had been given, the demand for it ceased. Production in this case consisted in pronouncing, consuming, and obeying; the advice was consumed the moment it was produced. This is what I call an immaterial product. The work of the musician or the actor yields a similar product; he supplies you with a certain relaxation, or pleasure, which you cannot preserve or lay aside to be used later, or to be exchanged for other enjoyments at some other time. This pleasure possesses value; but when the moment of its production has passed

<sup>1</sup> *Traité*, livre i. ch. xiii.

it ceases to exist except in the memory, and it no longer possesses value in exchange."

We can discern nothing in all this except obscurity and confusion of meaning. The advice of a doctor, the performance of a violinist, the sentence of a judge, the protection of life and property, are not products but actions. The product here consists in the health, the enjoyment of art, the security of person and property, all of which are, speaking accurately, not goods, but *conditions*—of the body, of the mind, of society. If services are to be called products, wherein does the production itself consist? It would be more accurate in each of these cases to represent the immaterial product as consisting, not in the service itself, but in the result of that service.

Even after this improvement, however, little would have been gained, and we should still be at a loss to know what the exponents of this theory really mean. Do they want to prove that all useful labour results in the production of something? No proof of that is needed, however, for "being useful" and "producing something" are synonymous terms. Or do they mean to contend that everybody who does anything useful thereby directly enriches mankind in the material sense? Certainly no one would venture to support that proposition; the person who plays good music to you gratifies your artistic sense, but does not make you any richer; on the contrary, he makes you poorer to the full amount which he charges you for the privilege of hearing him play. Or is the object merely to prove that doctors, musicians, lawyers, and similar persons are in a position to exact a price for their labour? But this needs no proof, as every one knows.

"The final reason why we must admit services to the rank of economic goods," writes AD. WAGNER,<sup>1</sup> "lies in the fact that the means for satisfying our wants cannot consist exclusively of material things, since our wants extend to personal services, including such services of the State as are involved in the protection of the laws and the advancement of various interests." But for the mere purpose of procuring the recognition of the old truth that man "does not live by bread alone," it is not necessary to stretch the economic concept of production so far as to cause it to lose its principal characteristic, and thus

<sup>1</sup> *Grundlegung*, § 20.

entail the loss of a correct view of what really constitutes economic production. Economics is not the science which concerns itself with discovering the requisites for happiness in the widest sense, or for civilisation and culture ; it only has to do with material welfare. Production in the economic sense is something different from doing good in every possible sphere ; it consists in promoting material welfare, and nothing more. "He who fattens pigs performs a productive act, he who rears children does not," has been observed by one who wished to throw ridicule upon the doctrine here propounded. Quite true, for pigs are part of the property of the nation, and children are the future owners or enjoyers of that property. "A violin maker is a direct producer in the economic sense, a violinist is not." Of course, for a violin is a material thing, and the enjoyment of music is not. "To scare crows from a field is productive ; to keep far more dangerous birds out of the country by means of an efficient army is not." In so far as the latter action has economic results, it may certainly be treated as belonging to the same category as the former ; in so far as it has not, it really is an action of a different kind.

Some people seem to overlook the fact that an inquiry into the limits of the economic concept of production is undertaken with the object of showing, not what actions will make mankind happier in a general sense, but what actions will procure mankind material advantage. In limiting the concept to the production or improvement of tangible things, we are not denying the simple truth of which AD. WAGNER reminds us, but simply keeping in mind the border-line which separates economics from other sciences.

There is a close relation between the question which we are discussing and that of distinguishing two classes of incomes : Original and Derived. According to the view which we are advocating the latter class is much larger than it is considered to be by those whose opinions we are combating. AD. WAGNER goes so far as to maintain that, from his point of view, there are no such things as derived incomes. But this is obvious exaggeration. Incomes which consist of gifts, or of interest on capital which the borrower has consumed, must always rank as derived incomes, no matter what meaning we attach to the word "production." The view of which WAGNER is an

adherent does not involve a negation of the distinction between original and derived incomes, but simply represents the former group as being larger and the latter as being smaller than we can concede to be right.

To the category of original incomes we assign, in the first place, those obtained either from production in the economic sense, or through granting the use of land or capital for purposes of production. The income of the factory operative is original; so also are the incomes of the factory owner and the person who supplies the working capital. What each of these persons enjoys out of this source represents his individual share of the fruits of their co-operation. Rent, again, is original income. The landowner might have cultivated his own land; but instead of that he has allowed some one else to make use of it, and stipulated for a share of the produce. That share represents original income; it is due to him so soon as the tenant has obtained it. The special characteristic of original incomes does not consist in their reaching the persons who are entitled to them without having previously passed through other hands, for some original incomes pass through very many hands; their characteristic consists in the fact that they represent compensation for services which have helped directly to increase material welfare—compensation for labour, or for granting the use of land or of capital.

If we were to add together all the original incomes of the people of a given country, we should get the total income of that country. But if we were to make a total of all their incomes without distinction we should get a much larger sum, a sum far in excess of the aggregate income of the country. For in the latter case many incomes would be reckoned twice, thrice, perhaps six times over. Now the incomes which must not be reckoned in making up the total are the derived incomes. The word itself indicates their nature. The recipient of a derived income obtains that revenue, not by engaging in production himself, or by supplying instruments of production; he obtains it out of the income of other people. In the first place, all incomes which consist of gifts are derived incomes, as we have already observed. Next in this category come the incomes of persons who have lent capital to the State, in so far as that capital has not been invested

productively, but consumed in meeting deficits; for it is by imposing taxation that the State, in such cases, procures the funds needed for the payment of interest to its creditors. Finally—and this brings us to the crucial point—we must include in this category all incomes which are obtained by providing others with certain enjoyments, by enlightening their minds, educating their children, protecting their property, promoting their health; in short, by engaging in any of those innumerable activities which are remunerated because they are valued, but which cannot be termed economic production, because they do not make the nation any richer in the material sense. One derived income is often the source of another. A teacher spends a portion of his salary at a theatre; one of the company of actors, after having played to-day his part at that theatre, to-morrow goes and buys a ticket for the circus. But every derived income must have for its ultimate source some original income. If that source were to become blocked, or so reduced as not to permit of any but the most necessary expenditure being incurred, no teacher, singer, doctor or lawyer could get any income from his profession. This would not only be very disadvantageous for the professional persons themselves; it would also prove disadvantageous for the community as a whole; it would, in fact, be directly prejudicial to the national welfare. When the income of a country is large, a considerable number of its inhabitants are freed from the necessity of taking part in actual production, and it is this very fact that constitutes the advantage which the possession of a large income confers on that country. There is no need for everybody to be either farmer, manufacturer, merchant, banker, shipowner, or railway servant; some can be appointed to lecture at the universities; others, to teach at schools; others, to administer municipal and county affairs. But the fact that the work performed by such persons is useful, nay indispensable, must not blind us to the fact that they do not produce their own income. That is produced by those who pay them, in so far as these payers are not themselves living on derived income.

This view is not likely to meet with the approval of those who hold that all work which is useful is productive in the economic sense. The income of a society (so they argue)

consists not only of material, but also, to some extent, of immaterial things. The public singer, when he sings a beautiful song, produces something which he exchanges for some other product; thus what he earns by his art is original income just as truly as is that which the farmer earns when he supplies corn, or the carpenter when he makes a table. To show how distorted and incorrect this view is would involve us in endless repetition, but we consider one of its most harmful effects to consist, if not in actually effacing the line which divides original from derived incomes, at least in not drawing that line where it ought to be drawn. The total income of mankind is usually overestimated; this is one of the reasons why the usefulness of an abundant production is not always discerned with sufficient clearness, and nothing is more calculated to lead to this overestimation than forgetting how large a part of the aggregate income of a nation consists of derived incomes, and what a mistake it is to regard the sum-total of the incomes of the individual members of the community as representing the income of that community.

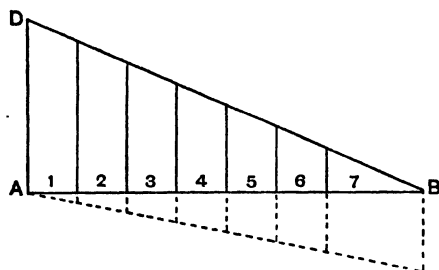
#### § 4

### **The Different Kinds of Production**

We have seen that the term Production is applicable to any action whereby goods, such as people desire to possess in larger quantity, are increased, or whereby material goods are brought into a condition in which they afford greater utility; provided always that the sacrifice in neither case exceeds, or even equals, the gain. We will examine the main heads of this definition, so as to arrive at a knowledge of the different kinds of production.

They are all reducible to two classes, of which the one consists in increasing things, the other in changing their condition. We have already seen that the former class of production is only possible in respect of economic goods. In discussing that point, however, we made no allusion to the cost, an omission which we now propose to repair. We do not mean the cost as understood by the Physiocrats, but the real cost, namely, that which is lost in the course of production.

Here again the familiar diagram will help us in making matters clear. Let AB represent a stock of goods divided into



seven equal quantities diminishing in utility as we proceed from left to right. In how far was the work involved in obtaining this stock productive? The dotted lines below AB supply the answer. They represent the sacrifices involved in obtaining each of the respective quantities. We have thought it right to represent these sacrifices as increasing, and for two reasons.

In the first place, because it frequently happens that in order to acquire a larger stock the work has to be carried on under less favourable conditions; of course this may simply mean that more *labour* has to be employed, but it may also make it necessary to sacrifice more *goods* in proportion to the amount of the product to be obtained. Secondly, because when a stock of goods is diminishing, the value attached to each remaining part of it increases, and consumption or wear and tear operates in this direction. The figure below the line AB might, however, have been given in some other form, in that of a line parallel to AB, for instance; the sacrifices involved in obtaining the quantities 1 to 7 would then be represented as being the same for each quantity. This would not affect our demonstration.

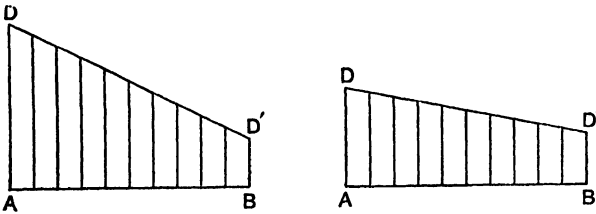
We wish to show where the act of employing capital and labour ceases to be an act of production in the economic sense. In this sense the act was very productive in the case of quantity 1; less so in the case of quantity 2. Quantity 5 still yielded a surplus, but not quantity 6. In supplying that quantity and the next, therefore, an unproductive act was performed; the act was one of production in the technical sense only, not in the economic sense.

All this is too simple to require further elucidation; nevertheless we should like to point out an error which people frequently make when estimating the importance of the different kinds of production. In the illustration which we

have made use of, it has not been assumed that the value of the article obtained by production necessarily expressed itself in value in exchange; what we have said is just as applicable to what any individual may produce for his own use, as it is to what any *entrepreneur* or group of such persons may produce for a market. But there is nothing to prevent our assuming that the article produced does actually possess value in exchange, and that that value quite fairly expresses the relative utility of the last increment. In fact it will do so as a rule in an organised society; if a pound of coffee and a pound of cotton fetch the same price, we may assume that, where this is the case, the same importance will be attached to an increment of the existing stock of coffee as would be attached to an equal increment of the existing stock of cotton. Now the error to be guarded against lies in assuming that we are quite justified in applying this standard when measuring the relative utility of the *aggregate* production of coffee or of cotton. We might say, for instance, that so much coffee has been produced, and so much cotton, that the prices of coffee and cotton are equal, and that consequently the material advantage yielded by the aggregate production of coffee bears to the material advantage yielded by the aggregate production of cotton the same proportion as exists between the quantities of coffee and cotton produced respectively. Indeed calculations are often made on these lines. We frequently come across statistics of production, in which the price per pound of each article is multiplied by the number of pounds of that article produced, and the results are used for forming conclusions as to which production is of the greatest importance. Those who reason in this way overlook two things. In the first place, they overlook the fact that while the total money value of the production of different articles may be the same, the greatest inequality may exist between their costs—by which we mean their real costs. In the second place—and this is especially relevant to the matter under discussion—they forget that the price of an article, though it expresses the utility of the last increment of that article, affords no indication whatever of each of the preceding increments. With respect to these, two things are possible: the value attached to them may be only slightly greater than that attached to the last increment, or the difference in value

may be very great. It is therefore quite possible to conceive, in respect to two given articles, that the quantities of each obtained are the same, and the prices exactly equal, and that, nevertheless, a stoppage of production would entail a far greater disadvantage upon mankind in the case of one than it would in the case of the other article.

The diagrams given below will serve to make this clear. The line AB, which represents the stock, is of the same length in both figures; so also is the line BD', which represents the price, and, according to our hypothesis, the relative utility of the last increment. Thus we have here equal quantities and equal prices, therefore also equality of production as expressed in money. Nevertheless, the utility of the whole



article, as represented in the one figure, is much greater than the utility of the whole article as represented in the other, so that the relative productivity of the acts which consisted in the production of the respective articles cannot be reckoned in money values.

Hence there is always something delusive in the statistics to which we referred. What they actually express is true, viz., that, given a proper time, those specific quantities of iron, coal, cotton, etc., would sell for so much money. But what they imply in addition to this is untrue: they do not show the relative importance of the different branches of production, although they pretend to do so. In order that this relative importance might be revealed it would be necessary for the production of the various articles to be reduced by one-half or one-third. We should then find a complete change taking place in relative prices; each article would become dearer, but the advance in price would be greater in the case of some articles than it would in the case of others. The utility of the quantities, which precede

the last increment, remains unrevealed until such time as they themselves become last increments. Until then it remains a matter of conjecture, and does not admit of being measured.

The second class of production, of which mention has been made, is that which consists in bringing existing goods into a condition wherein they present greater utility. This class comprises *improvement* as well as transport and commerce. The reason for including all three in one denomination will appear presently.

Not every kind of industrial labour can be said to constitute improvement. When we convert wheat into bread, raw cotton into woven goods, or iron ore into iron implements, the work which we perform consists, strictly speaking, not in the improvement, but in the completion of certain things. Wheat, raw cotton, and iron ore are of no use until they have undergone certain operations; these operations must therefore be regarded as representing the completion of the process of production which began with the getting of the raw materials. The term "improvement" can only be correctly applied to industrial labour, whereby things which are already capable of being used for particular purposes are rendered either more capable of being used for those purposes, or capable of being used for other purposes as well. How far such labour is to be regarded as productive will depend upon the value at which people esteem the new properties which the articles have acquired, and upon the cost. If a given quantity of an article in its unimproved state affords a quantity of utility valued at  $x$ , and if the utility of what is lost in the process of improvement be valued at  $y$ , then production, in the economic sense, cannot be said to have taken place unless the utility afforded by an equal quantity of the improved article be valued at a figure which exceeds  $x + y$ .

If for the word "improvement" we substitute the word "*transport*," the same thing will be found to be true. Technically the two actions are different; economically they are closely related. By improvement we alter the material condition of the things; we confer upon them properties which they did not possess before, or possessed in a minor

degree only; by transport we alter the social condition of the things, for we place them among a new circle of consumers. How far our action is productive for mankind in this case depends upon the same causes as those which determined productivity in the case of improvement. The utility of a parcel of coffee equals  $a$  in the United Kingdom and  $x$  in the United States. Now unless the real cost of effecting the transport of this coffee from the United Kingdom to the United States be less than  $a - x$ , mankind will not be made any richer thereby.

There is just this to be observed, however. Transport usually presupposes commerce, and commerce is exchange. If England sends coffee to the United States, the latter country must give something in return for it, either gold, or securities, or goods. Thus, in international trade, a double transport always takes place; except in those cases where goods are sent in payment of interest, dividends, or freights. It is not absolutely necessary that a profit should be realised on each of the two parts of this double transaction; that a profit should accrue from one of them is sufficient. We must regard the exchange as constituting a single transaction, and in order that it may be production in the economic sense, all that is necessary is, that the act, regarded as a whole, should make mankind richer. The return cargoes may result in loss; nevertheless the trade will remain advantageous if the profit realised on what has been exported exceeds this loss.

The business of shopkeeping constitutes production in the economic sense for no other reason, and subject to no other condition, than does the transport of goods. Shopkeeping, also, brings goods into a new condition. We like to be able to buy a single pound of coffee, a single pair of gloves, or a few yards of calico. We like to be able to compare goods of the same kind with each other; we wish to have a choice; we also want to be able to get our daily supply of necessaries somewhere in the neighbourhood of where we live, without having to go to some distant warehouse which we should, perhaps, have some difficulty in reaching. All these various requirements are met by the shopkeeper, whose work, therefore, is no less productive in its *nature* than that

of the farmer, the manufacturer, or the shipowner. In fact there is not much to be said against regarding the shopkeeper as the one who really completes the process of production; the industrial labour whereby the goods are made ready for consumption would then have to be regarded, not as the last of the processes of production, but as the last but one. For the things cannot really be said to have reached the condition of being quite ready for consumption until they are being offered to the consumers in the quantities required and at very accessible places.

There is also a third kind of commerce; it consists in buying up goods when they are redundant and selling them when they are scarce. This kind of commerce is no less productive in its nature than the others. We should suffer want if the things with which our national industry fails to supply us were not imported, and much trouble as well as loss of time and money would result if the things were offered to us in quantities larger than we needed, and at places too distant to be reached with convenience. But it would be equally disadvantageous if the goods, instead of being stored until they were capable of supplying real wants, were disposed of at low prices as soon as they had been produced, thus giving an excessive stimulus to consumption and entailing losses upon *entrepreneurs*. The term "commercial speculation" has an evil sound; we frequently associate it with the idea of gambling, and we rightly regard gambling as the very reverse of real production, for it means waste of energy, and very often of capital. But when we use the term in its broadest sense, so as to include all the cases in which goods are temporarily withdrawn from trade with a view to awaiting a more favourable market, or all transactions whereby advantage is taken of a temporary glut which, we know, will ere long be succeeded by brisk demand, commercial speculation assumes a more favourable aspect. Just consider what would happen if producers were always to dispose of their products immediately for cash, or if, whenever they did so, nobody could be found who was ready to buy the products as a speculation. Great disparity in prices would result; one day the consumers would be able to get for a small sum things which, a few months later, would either cost them very much, or perhaps

not be procurable at all. The productivity of commercial speculation, in the sense in which we are now using the expression, can be proved by the same arguments as are employed in proving that industry and import trade are productive. Commercial speculation, too, is a kind of transport—not from one country to another, it is true, but from one time to another; and so long as it does not degenerate into gambling, that is, in so far as it does not stimulate, but moderates the movement of prices, it must be regarded as useful from an economic point of view.

Enough, we think, has now been said by way of elucidating the importance of production, its purpose and nature, and the principal operations in which it consists. At any rate, what we have said will suffice as a foundation, for it has not been our intention to exhaust the subject. We have noted the errors against which the student must be on his guard in respect to production. In the first place, he has been warned against any disparaging of the utility of production; against the error of the socialists, who would have us believe that all we need aim at nowadays is better distribution, the amount of goods being already sufficient—a doctrine which is doubly erroneous by reason of its failure to recognise the favourable effect of abundant production on distribution itself. In the second place, we have shown general overproduction to be either a very desirable thing, or an impossibility: a very desirable thing if the expression be used in the sense of production in excess of what is needed; an impossibility if the words are taken in the ordinary sense of production which does not cover the *entrepreneur's* expenses. In the third place, we have combated the erroneous opinion that production must necessarily create value in exchange; we have shown that real production may quite well take place without value in exchange, or even direct value, or an increase of either, being acquired by anything as a result. On the other hand, it has been shown that no act can rightly be regarded as an act of production in the strictly economic sense, unless it be one whereby material goods are either turned out, or rendered more fit for use. Finally, attention has been drawn to the great variety of the acts of which it can be proved that they serve to promote material welfare.

Starting from these general principles, our first stage must be in the direction of discovering whether the stimulus provided by self-interest—the great incentive to labour—may be relied upon to ensure adequate production; or whether some necessity exists for supplementing what is achieved under the influence of that incentive.

## CHAPTER II

### PRODUCTION AND SELF-INTEREST

#### § 1

#### **Natural Rewards and Penalties**

ONE of the most remarkable characteristics of society as now constituted is the manner in which its production is carried on. The Government makes scarcely any provision for it. Not that the Government lacks interest in the work of production, but it gives expression to that interest by erecting schools, executing public works, or enacting tariff laws. In many cases the railways are in the hands of the Government; also the postal and telegraph systems. But such things as ordering corn from abroad, or providing against the possibility of a dearth of clothing or furniture, the Government considers to be outside its province. When the Government builds its own ships, manufactures its own arms, or keeps its own horse-breeding establishments, it is doing more than we usually expect of it, and even these things it frequently leaves to private industry. Only in the matter of workmen's dwellings have certain municipalities shown some degree of enterprise in recent times, but the number of such municipalities is not great.

More remarkable even than the attitude of the Government towards interests which, surely, cannot be regarded as of little account, is the attitude of the interested persons themselves. The consumers are in the habit of doing just as little as the Government towards providing for their wants; this is true at least of countries where the population has grown very dense. Everybody, it is true, strives for the means to procure

things for himself, but nobody dreams of measures for providing against the possibility of things not being purchasable when they are wanted. There are some exceptions to this rule, but not many. We do not find consumers meeting at stated times to discuss measures for importing foreign produce in common or pooling their orders for home products. They leave it to merchants to see that there shall be an adequate stock of all these things; in so far as purchases are made in common, they are prompted solely by considerations of quality and price. In every society which has reached a certain degree of development we find division of labour, and every one assumes that just as he himself will perform the task which he has undertaken, so others will fulfil theirs. This division of labour has not been imposed by any ruling power, it has developed spontaneously; the duties on whose fulfilment we reckon are performed voluntarily. The world of production is quite republican in all its aspects; indeed, it has rightly been called a world of anarchy. There every one, within certain broadly defined limits, does, or leaves undone, whatever he pleases. The workpeople are free in the choice of their masters; the masters, in the use of their property. If you want to build a ship, or a house, to send your capital abroad, or invest it at home, there is nobody to say you nay. If the farmers thought fit to leave their land uncultivated, the manufacturers to shut down their mills, the shipowners to stop their sailings, nobody would interfere with their decisions. But which of us fears that any of these things will happen, so long as the prices of agricultural produce, manufactured articles, and shiproom remain high enough to provide *entrepreneurs* with the incentive to work? We rely on each other's industry because we rely on each other's desire for gain.

Nor do we fear lest capital and labour should multiply in some industries while deserting others. Such a thing would, after a short period, bring its own retribution; no sooner does competition grow excessive at one point, than the employment of capital ceases to be remunerative at that point. Then arises that peculiar malady, so trying to those who suffer from it, which we know by the name of overproduction; a malady which, as has been shown, can never become general, but may

very easily declare itself in particular branches of industry. Decrease, perhaps even complete loss, of capital is the penalty which an *entrepreneur* incurs if he uses his instruments of production injudiciously. A princely fortune, on the other hand, may be his reward if he contrives to foresee in time what goods or services will be most in demand.

Rewards and penalties therefore are the means which society employs for keeping production up to the mark, and so effectual, on the whole, are these means, that the economic world, in spite of its anarchy, cannot be said to be a world of disorder. The course of prices supplies a motive, under the influence of which people, in the choice of their activities, elect to perform those which are deemed the most useful, and to distribute capital and labour over the various industries according to the existing wants. The price is not only a thermometer by which we can see what society wants, but also a motive power, a stimulus, to supply what is most productive, in so far as the productivity finds expression in the form of value in exchange. And this impulse is strengthened not a little by what is commonly called the capitalistic method of production, the peculiarity of which is, that whether the enterprise to which it is applied succeeds, or whether it fails, the labourer gets his wages and the money-lender his interest, each according to a scale stipulated in advance. We have already had occasion more than once to show how this imparts to prices a greater tendency than they would otherwise possess to make each article yield a normal rate of recompense for the labour and capital employed in its production; how that which we called the system of penalties and rewards is intensified thereby. Losses as well as gains are now concentrated on the *entrepreneur*. If he has made a mistake, he alone has to bear the loss; if he has had prudence or luck, he alone enjoys the gain. He cannot in the former case make any one help him to bear his losses, nor need he in the latter case invite any one to share his gain. Thus he has the incentive both to guard himself against acts which are imprudent and to perform acts which are remunerative.

This system of rewards and penalties not only helps to bring about a uniform distribution of capital and labour in

general, but is also constantly operating beneficially in numberless particular cases. If, at a given moment, there were too little wheat in this country, the price of wheat here would rise, and the persons to benefit most by the rise would be those who had contrived to be the first to get wheat imported from abroad. These would enjoy a large premium by reason of their zeal; society would reward them for having been the first to supply its wants. For those who had come too late, and had brought wheat into the country after it had ceased to be scarce, there would be a penalty. They would have to suffer loss—as a punishment for their sloth. Or suppose there are not enough ships in the East Indies to carry produce to Europe, and freights rise there very much in consequence. A shrewd shipowner has foreseen this and sent his ships to the East Indies in good time; he makes large profits in reward for his sharpness—to him the prize. Attracted by the high freights, ships now arrive from all quarters, and presently there are too many of them; those that arrive last have to leave with half-empty holds, and their owners, instead of earning rewards, suffer penalties. They have failed to foresee the temporary demand of the East Indian community for more ships, and have perhaps sent theirs to ports where no more ships were needed; they cannot escape the penalty which such mistakes entail under the free play of supply and demand. Or, suppose the cotton crop has been particularly redundant in a given year. Prudent merchants will then invest part of their property in cotton, that article being, for the time, very cheap; later, when a light crop has succeeded the heavy crop, they will sell their cotton at a profit. What is this profit but a reward for their foresight? If those merchants had done the reverse of this—if they had laid in stocks of cotton in a year when the crop had failed and prices were high, and had sold these stocks after an abundant crop, their action would have been the reverse of productive. But it would also have been the reverse of profitable, and their penalty would not be light.

Enough has been said by way of illustration to show that there are forces in the economic world which tend to make supply adapt itself to demand. These same forces also make demand adapt itself to supply, for every movement in prices

operates in two directions: it moderates what is too strong and stimulates what is too weak. This effect on the demand is often very wholesome, especially in the case of bad harvests. Public opinion is generally amiss in its judgment of what then takes place. In most cases it regards the *rise in prices* as a calamity; this is wrong, however. When an article has become scarce, every rise in the price should be regarded as an advantage, in fact as an indispensable remedy. The disadvantage lies in the scarcity itself, which makes it necessary to restrict consumption, and it is much better that this restriction should begin at once than that every one should continue to consume as much as before, with the result that after a time no more of the article could be had. We all know the French saying: *Le meilleur remède contre la cherté, c'est la cherté*; this dearth is the best remedy both because of the increase of supply and because of the decrease of consumption which it brings about; for the latter is as necessary as the former if the trouble is to be kept within the narrowest possible limits. Some years ago we used to hear a good deal about scarcity of dwellings in certain localities; house rents rose considerably in those places and gave rise to loud complaints. But, surely, the real evil lay in the fact that the population had become too congested at certain points and that building land could not be had at those points. The rise in rents proved a remedy for both. It prevented more people from flocking towards these points and forced many to return to their native parishes. It also created an incentive for placing at the disposal of builders land which had previously been used for other purposes. Thus, in a short time the cause of the complaint was removed; in fact, builders began to complain of difficulty in finding tenants for their new dwellings.

If we take a bird's-eye view of the economic world, without allowing our gaze to linger too much on details, we cannot fail to be struck by the way in which price affects supply and demand. We marvel at this mariner's compass, which is far more than a compass, for it regulates as well as guides; and we marvel not without good reason. Let us consider for a moment what it means to supply a large city like London or Paris; what huge quantities of goods of all sorts are required by such a city day by day; and with what regularity those

goods are supplied, without any intervention or guidance on the part of the governing authorities. We find everything working automatically; we see that the labour of each is connected with that of others, that there is seldom too much, and seldom or never too little of anything in the commercial sense. We see an organisation, which nobody has created, and which, nevertheless—or, ought we perhaps to say, for that very reason?—is, on the whole, eminently successful in fulfilling the purpose of its existence. We see about us a natural order in the sense that, although based on, and having its root in law, it has not been made, but has grown spontaneously. This order merits our admiration too by reason of the encouragement which it gives to the improvement and simplification of production. Society rewards not only the labour which consists in supplying its wants, but also, and often with far greater liberality, the labour which devises means for enabling those wants to be supplied more readily and with less effort than before. Those who succeed in devising means for economising the effort involved in production, or for obtaining more valuable goods without increasing that effort, make larger profits than others. These profits will not indeed last for ever, for ultimately—though not till after many years, where a patent has been granted—the secret of a few will become the property of all. It then enures entirely to the advantage of the community. Thus self-interest is a spur to actions from which, at first perhaps a few only, but in the long run a great many derive benefit. And we may add here, that this same spur leads to the discovery of new products which supply wants of which people are as yet unconscious. How many goods are we not now in the habit of using day by day, which were placed within our reach before we had expressed any desire to have them! The talent of the *entrepreneur* finds expression not only in saving the effort involved in producing things with which we are familiar, but also in devising new things. Who, for instance, had ever thought of the telephone before it was placed at our disposal?

It is by no means superfluous to recall these very simple truths and to imbue our minds with a proper sense of the importance of self-interest as a factor in production. To overrate this importance is a serious mistake; but the error

of underrating it is equally serious, for it prevents our seeing what is requisite for the existence of any form of social order. It would be a sufficient reason for rejecting any social order under which the incentives to production, or to improved methods of production, were less strong than under the existing order, or which furnished less trustworthy safeguards against capital and labour being distributed improperly, wants being supplied too slowly, or stocks being consumed too rapidly after an unsuccessful harvest. It is no small problem how the thousand and odd million of human beings who inhabit the globe are to be fed, clothed, housed, and provided with innumerable conveniences which they require in addition. Under the operation of self-interest that problem is solved, not in a perfect fashion indeed, but at least in such a way that great disturbances are rare. So much, at any rate, can be said in support of the existing social order; they who would replace it by another, must first prove that as much can be said of the order proposed by them.

They would also have to prove that the *future* of production would be as well assured under the new order as it is now. This is perhaps the most important point; we have therefore reserved it for the last.

There can be no production without capital, and the greater the volume of necessary production, the greater the amount of capital required. Society must therefore be ordered on such lines that little capital shall be lost, and that as the population increases, new capital shall be formed. Under the existing order, these conditions are fulfilled, if not absolutely, at any rate in a very great measure. As capital is almost exclusively in the possession of private persons, loss of capital means in most cases individual impoverishment, and growth of capital, individual enrichment; so that for every individual there exists an inducement to maintain the instruments of production in an unimpaired condition; and in fact to add to them; in other words, to help to fulfil the conditions which shall enable future generations to satisfy their wants. The law of inheritance therefore forms an essential part of the existing social order, and it has yet to be proved that sufficient capital could be formed without it. The law of inheritance binds one generation to another. It supplies a motive in the

living generation, to think not of itself alone, but also of those who are to come after. It operates, together with the right of property, towards maintaining and increasing the instruments of production.

## § 2

### Defects in the Operation of Self-Interest

We have shown what self-interest can do in furtherance of production, and we have seen that it can do much. We need not wonder, therefore, if shallow minds have become enraptured by this and have embraced the doctrine of complete *laissez faire*. They have failed to note that self-interest is continually taking advantage of institutions, views, and conditions which have been created under influences, differing entirely from its own, but without which it could not operate beneficially. We are reminded that the free play of supply and demand satisfies many economic wants without direct intervention on the part of the State. But why is this free play of supply and demand possible, and why is it capable of yielding good results? Because there are laws supported by public opinion; because religion, morality, and art have led us away from barbarism and made social life possible for us; because science has placed herself at the service of mankind, and spread enough knowledge among all sections of the population to make even the least cultured take part to some extent in commercial intercourse. We are accustomed to all this, and therefore, as a rule, fail to notice it. Self-interest finds a well-prepared ground on which it can pursue its aims without obstruction; and we forget the labour of those who have brought the ground into its present condition, or keep it in that condition; we reserve all our admiration for the social forces operating there.<sup>1</sup> This is the chief error of the *laissez faire* system—an error in theory which would have had very serious consequences in practice if the *laissez faire* system had ever been adopted in real earnest by its advocates.

But there is something more to be said in this connection.

<sup>1</sup> F. A. LANGE, in his *Geschichte des Materialismus* (5th edition, Part II. pp. 474-476), makes some observations on this point which are well worth reading.

Self-interest can do much, but there are many things which it cannot do. Its action is incomplete in certain important respects.

Self-interest provides a sufficient incentive only as regards the production of those things by the acquisition of which we can procure some advantage for ourselves. In a society where exchange has acquired a firm foothold, these will, in the main, be the things which have a selling value, that is to say, the things which will sell for money sufficient to cover all expenses and yield a normal profit. If it can be shown that economic advantage accrues to mankind from actions which do not yield this result, then it will have been proved that the operation of self-interest is not to be relied on entirely.

That there are actions of this kind is beyond question. One we know of already, namely, the improvement of non-economic goods. If means were invented by which, in a locality where the air was impure, its impurities could be removed, no *entrepreneur* would find any advantage in applying the invention, since the air would be just as redundant after being purified as it was before, and therefore as little of an economic good. But other actions might be named which, although they satisfy pressing material needs, hold out no prospect of profit to a single *entrepreneur*. No profit is to be made, for instance, by founding hospitals, or schools for the poor, or public libraries, or public parks. All these things must be provided; but if we were to wait until self-interest provided them, we should wait in vain. We have not to look far for the reason why, in these and all similar cases, self-interest lacks its usual incentive to action. When a man makes a thing, he himself usually appropriates whatever advantage it affords, and this he does either directly, by using the thing himself, or indirectly, by getting the equivalent from some other person. But in the cases just mentioned, neither of these things takes place. We have one person producing, and another person enjoying the gains. Such cases are more numerous than they appear; although part of the gain does sometimes accrue to the producer, that part is often very small in proportion to the whole.

This is necessarily so in the case of means of transport. The freights that a railway or steamship company can

demand represent necessarily always only a relatively small part of the advantages which such an enterprise brings to the country in which it is established. It must be deemed fortunate that this is so; the utility of means of transport would not be very great for mankind in general if the increase of the aggregate of incomes which they bring about were, for the most part, to have no other result than the enrichment of a few capitalists. But fortunate or not, it is certainly possible under the free play of supply and demand, that enterprises which would be very useful because very productive for mankind, fail to come into existence. The reasons why the advantages which accrue to the community from transport facilities in most cases greatly exceed the gains which they bring to the *entrepreneurs* who provided them are mainly the following.

In the first place, the *entrepreneurs* cannot always regulate the freights as they would like, their tariffs being often subject to Government approval. Also they compete with each other; railway companies have to be guided by what other similar enterprises are doing, and frequently there is a competing canal. But apart from this, a railway company, even when it enjoys a complete monopoly, cannot, as a rule, manage to get enough traffic unless it fixes its freights in such a way that the tract of country which it serves shall be greatly benefited. We must remember that there is great disparity in conditions of production, so that freights which, for some, would prove a sufficient inducement to use the transport facilities, would for others be too high. Suppose a railway to be established in a country with plenty of fertile land, but no export trade in corn owing to the cost of transport being too great. Let us assume that the company that owns the railway begins by charging very high freights. The result will be that only the very fertile and well-situated tracts will be brought into cultivation, and that the traffic receipts of the company will be low. The company then reduces its freights somewhat, so that less fertile and less favourably situated tracts are brought into cultivation; its traffic will now be increased, but according to RICARDO'S well-known law, the tracts that were the first to be brought into cultivation will then begin to yield rent. The

company's traffic, though it has increased, still proves insufficient, and further freight reductions are decided upon. A third and a fourth class of land now get into cultivation; but the more freights are reduced, the larger will become the rent-yielding areas, and the higher the rents of those areas which were the first to get into cultivation. Now what are these rents but advantages, which the railway has procured for the community, but which are not enjoyed by the railway company itself? These advantages will be especially great in those cases where, in order to get sufficient traffic, it is found necessary to charge very low freights, and this will be necessarily so when there is very great disparity in the conditions of production.

We might have taken industry instead of agriculture for the purpose of our illustration. Suppose that a given industrial product is not being exported now, but a railway comes which will render a large export trade in that article possible, if only the freights charged are low enough to prove an inducement, not only to those *entrepreneurs* who are rich, who enjoy exceptional credit or have great ability, whose works are conveniently situated for obtaining raw material and fuel, and for disposing of the finished product—not only to these privileged *entrepreneurs* but to others as well. It is obvious that if the freights are regulated according to this principle, the privileged *entrepreneurs* will be great gainers. Their surplus<sup>1</sup> will reach a very high figure, and here we have another instance of an advantage accruing to the community from the company's enterprise without adding anything to the company's income.

Finally, we have to remember the general reduction in prices which improved transport brings about, or at any rate may bring about; for, the effect of improved transport is to bring the prices of different countries nearer to the same level by raising them here and lowering them there. But wherever a reduction of prices ensues, an advantage will have accrued to all who had fixed incomes, such as owners of stocks and shares, and to all whose property consisted of money. The reduction in prices will have enabled them to procure more goods for themselves, to enjoy larger incomes, in fact,

<sup>1</sup> Cf. Vol. I. p. 248 for sense in which the expression "surplus" is used.

than before. It is true that the shareholders in the railway company, as members of the community, will have profited by these advantages; but they will not have been the only gainers, they will have had to share their gains with others.

The fact that many transport undertakings are nevertheless profit-yielding is quite compatible with the above. A share may be small considered as a part of a whole, and yet be large in itself. The freights which a railway or steamboat company receives may represent a small portion of the aggregate gains procured by the railway or the steamships, and yet be large enough to enable the undertaking to yield a fair income. All we wished to point out is, that this is not necessarily the case. It is not only conceivable, but frequently happens, that the share of advantage accruing to the enterprise is not only comparatively small, but also small in relation to the capital employed, and no enterprise of which this is likely, or deemed likely, to be true, would come into existence under the stimulus of self-interest, however useful such enterprise might be to the people at large. This has been very well illustrated in Holland. For twenty years the Dutch relied entirely on private industry for their railways, with the result that only a few lines were built, and various parts of the country were left unprovided with railways. Was private enterprise mistaken in confining itself to these few lines of railway? Experience has shown that it was not; the railways built by the State yield very little interest directly. But consider what welfare they have spread, and what industries they have helped to develop! It is the same with canals, harbours, and other works for the benefit of commerce. The economic advantage which they procure for the community may be very great while the mere profit which they bring the capitalist who pays for them may amount to little or nothing. In such cases the stimulus of self-interest cannot be expected to provide them, and yet nobody can doubt that they must be provided in some way or other.

We spoke of value in exchange as the compass whereby production steers its course. We now see that, like the mariner's compass, it is subject to deviations, and that we should be wrong to trust ourselves entirely to its guidance.

For the capitalist or the *entrepreneur* it is on the whole a fairly accurate guide; it tells him what it will be to *his own* particular interest to do or not to do; but it is not always possible to learn from it what course production should follow in the interests of mankind or of society.

The action of self-interest as a motive for production is thus incomplete and needs the assistance of other motives. This assistance may come from either of two directions: from the people themselves or from the State. In a country where philanthropy is not lacking, we find numerous institutions established which offer no prospect of profit—in fact they cost large sums every year—and which, nevertheless, owe their origin to private initiative. Charity here supplies the place of profit-seeking; concern for the general good steps in to do what self-interest must necessarily leave undone. It would be wrong to regard these philanthropic institutions as not economically productive simply because they bring no profits to those who support them. It is quite possible that they are not productive in the economic sense, but the mere fact that they yield no profit does not prove it. Schools, hospitals, institutions for the blind and the aged, are material goods, and every act whereby material things which are not superfluous are brought forth, is economically a productive act. Why should the building of a house, or the making of a useful piece of furniture, be considered productive, and the laying out of a park for the use of the public unproductive? Certain capitalists provide a system of water-supply and charge for the use of it: this, people say, is productive. Certain other capitalists provide a fountain from which all can obtain their water free: this is considered unproductive. A builder makes a house, which he can sell at a profit or let for a rent: a productive act, people say. A charitable man founds an ophthalmic institution for the poor, and his action is styled unproductive. Those who hold such views mistake the real nature of production, and assign undue importance to value in exchange.

It is from the State, however, that the principal initiative comes, in completing what is wanting in the operation of self-interest; and if our analysis has been correct, we are now in a position to determine a large part of the task which may

properly be assigned to the State in the sphere of production. What private initiative does in this complementary sense consists as a rule, though not as an invariable rule, in the establishment of institutions having for their object the mitigation of suffering, the spread of knowledge, or the cultivation of morals. Hospitals are built from motives of philanthropy, but it is not so often that we find capital being given for railways and canals out of pure consideration for the common good; it is done sometimes, of course, but in most cases on a limited scale. We see at once, therefore, wherein the action of the State should primarily consist. It is the business of the State to create those institutions and pay for those operations which are very helpful in promoting the material prosperity of the nation, but which, for the reasons already stated, we cannot expect private industry to undertake. We do not maintain that the State should confine itself to these things; we merely wish to indicate what should in any case be undertaken by the State irrespective of whether the active help of philanthropy were forthcoming or not. However generously private initiative may contribute towards the relief of social needs, all that pertains to the provision of public works for the benefit of commerce, agriculture, and industry should, in the main, be left to the care of the State. By the State we mean not only the central Government, but also provincial and local authorities.<sup>1</sup>

The pecuniary sacrifices which such works entail upon the Exchequer are in most cases much smaller than they seem, for the prosperity which they diffuse usually manifests itself in increased revenue from taxation. But even if this were not the case, or if it were true only to a limited extent, the public works may be very productive, for it depends to a great extent how taxation is regulated whether the revenue that it yields does or does not increase automatically with increased prosperity. The test we should apply is not what flows into the Exchequer, but what flows into the pockets of the people. All public works that satisfy a want are productive in the economic sense.

<sup>1</sup> Public works are here mentioned by way of illustration only. Cf. Dr. H. TH.'s *JACOB'S* treatise on *What the State can do to promote Cattle Breeding* (Amersfoort, 1896).

It would not be difficult to elucidate this, and to justify on economic grounds certain kinds of work undertaken by the State in the domain of production. But just as easy as it is to prove that the State has a certain task to fulfil in the sphere of production, just so difficult is it for the State to fulfil that task properly. That a public work is economically productive when it satisfies a want, is certain; but it is not enough that it should be truly productive: it must be productive in the highest degree attainable at a given moment. The work of a cotton-grower is productive if he pays £10,000 in wages, interest, and rent in order to obtain cotton worth £5,000, for he will be producing goods which mankind wants. Where his work is at fault is, not in being unproductive, but in not being sufficiently productive. It is difficult for the State always to avoid this fault, and if it fails to do so, it does not necessarily incur the charge of having performed work which had only the semblance of production, but that of having by its action prevented more advantageous work being done.

All that science can do here is to lay down the principle by which the State should be guided, and that principle is very simple. In the first place, there must be proof that the work, which it is proposed to pay for, or to subsidise, is of the kind mentioned above, that is to say, work from which the gains accruing to the population will be far greater than any which capitalists could get by providing and exploiting the same work. The application of this principle would at once rule out subsidies to factories and to many other undertakings, so that the sphere of State action is confined to very narrow limits. In the second place, there must be proof that the advantages which may accrue to the community from the work outweigh the sacrifices which the State would have to make in carrying it out. This proof is only to be obtained by accurately measuring both the advantages and the sacrifices. But it is just in the measurement of the advantages that a great difficulty lies; it is seldom possible to get beyond mere conjecture in the process, so that the danger of making mistakes and wasting money is very great in these matters. Even after the work has been completed, it is often impossible to determine with certainty in what

measure it has been productive. We can therefore very well understand why many States hesitate to furnish capital for railways and similar purposes. They know with certainty what they will have to sacrifice in such cases; there is reason for believing that the labour and capital withdrawn from existing enterprises would have yielded a normal income in those enterprises. It is therefore certain that, to begin with, there will be a reduction of the general income, and not till later will it be possible to determine what the compensating increase of income amounts to: whether, in fact, the undertaking has resulted in a gain, or whether it has resulted in a loss to the community at large. When the indications of the compass of value in exchange can no longer be relied on, we wish we had some other compass to take its place; this wish is never fulfilled. But all that we are entitled to deduce from these and similar considerations can only be that great circumspection is necessary in these matters, not that it is a paramount duty to abstain from all action. For this at any rate is certain, that we cannot rely entirely upon the action of self-interest. In any country where the principle of *laissez faire* was rigorously applied in relation to production, there would be a danger, nay a certainty, of much useful work being left undone.

### § 3

#### Trade Depressions

We have made the student acquainted with certain defects in the action of self-interest, and in doing so have purposely assumed that *entrepreneurs* and capitalists are alive to their interests, and are not lacking in the experience and mental capacity to pursue their own advantage. Obviously, where this assumption does not hold good, a still greater defect exists than any that we have already pointed out. In a country where the people are indolent and ignorant, where those concerned are incapable of mutually agreeing as to the execution of the most useful and simple work requiring to be undertaken in common, the range of duties which an enlightened State would have to perform in the sphere of production would

be much wider than that sketched above. It seems needless to dilate upon this, however. In order to judge of the action of self-interest, we must assume that it really is a force—a force which exercises a strong influence in the economic life of the people. We must assume that, without any encouragement from the State, capital will flow towards industries which are profitable, and will recede from those in which loss is incurred. It is only by assuming this that we can see what self-interest is capable or incapable of effecting, and how production develops under its influence.

A little investigation suffices to show us that this force has one quality in common with the forces of nature. It operates ruthlessly, without regard to persons. It may be likened to the hurricane, which clears the air, but also tears down the poor man's cottage and destroys the crops; or to the torrid rays of the sun, which do good where the soil is moist, but prove disastrous in dry regions. Even when the operation of self-interest manifests itself in straightening what has grown crooked, levelling what has grown too high, restoring normal and healthy conditions, in fact—even then, we are unable to close our eyes to the bitter suffering which usually follows in its train. If we are to admire this force of which we are speaking, we must examine the things which it does, and not always the manner in which it does them. We must not think of all the wounds which it inflicts while fulfilling its purpose if we wish to feel satisfied with its work.

It is these very points which we now propose to consider. We will discuss trade depressions and crises, both of them terms which indicate a state of sickness.

What is meant by depression in agriculture, industry, or commerce?

To understand this aright we must bear in mind that profits of *entrepreneurs* have their origin in price differences, so that the continuance of these differences is the only thing in which the *entrepreneur*, in this capacity, is interested. A farmer may be very prosperous while the general level of the prices of agricultural produce is low, or while the general level of rent and agricultural wages is high, provided the two conditions do not prevail together; if produce is cheap, then either land or labour, or both, must not be dear. A manufacturer

may succeed just as well when his goods fetch low prices, as he does when they fetch high prices; so long as there is a proper margin between his raw materials and his finished products he will make a profit. A shipping concern may thrive while freights are low, provided the expenses also are low. The interests of producers and consumers are not so directly antagonistic as they are generally believed to be; in fact, low prices are good for producers in so far as they increase sales. Certain differences of prices must exist, however, between the goods and services for which the producers have to pay on the one hand, and the things which they sell on the other, if any profit is to remain over.

Depression is the disturbance of these relations so that margins become too small, or disappear altogether. Depression in agriculture means that farmers have to pay high rents and wages, and can only get low prices for their produce. Depression in the cotton industry means that the difference in price between raw cotton and yarn, or between cotton yarn and woven goods, has diminished to an extent which materially affects the profit of the spinner or the weaver as the case may be. Depression in the shipbuilding trade means that the prices which shipbuilders are able to get for the vessels which they supply are not high enough, or only just high enough to repay the cost incurred in respect of materials, wages, interest, and wear and tear of machinery. Depression, therefore, is depression of the profits of *entrepreneurs*. It is that in the first place, though it will be readily understood that occurrences accompany it which affect the interests of others as well, more especially those of the labourers. Depression in a trade always manifests itself in the discharge of workpeople, or the reduction of working time, and consequently in the impoverishment of the lower classes in so far as they are connected with the particular trade affected. But when a trade provides many people with a livelihood, the circle of those who are interested is even wider than it appears at first sight; for a reduction of the incomes of any numerous class of society results in a reduction of the incomes of a number of shopkeepers and others as well—of those, in fact, who get a living by supplying goods and services to the people who are directly connected with the languishing trade.

Such a condition of things may arise out of either of two causes.

It may result from scarcity or dearness of raw material. The most striking illustration of this was afforded by the cotton crisis in England caused by the American Civil War in 1861-1865. We know what misery then prevailed in Manchester and elsewhere, how the death of many from starvation was only averted by the charity which was so extensively practised at the time. When raw materials become dearer the prices of the manufactured articles do not always rise immediately in proportion, and although they ultimately do rise, the number of factories and operatives must decline. But before all this has come about, before capital and labour have found other employment, a period of depression will have to be struggled through, and this depression will be more or less acute according as the amount of capital and labour for which new employment has to be found is large or small.

But depression may also be caused by a fall in the prices of the products, and here we would do well to note that not only occurrences which are detrimental, but also those which are very beneficial to the general welfare may bring about such a fall in prices. The cause of the fall will be detrimental—at any rate so far as a particular country is concerned—when it consists in the fact that industrial progress has been achieved by competing nations. Thus the development of agriculture in the United States, British India, and the Argentine was a cause of injury to Russia. Similarly the rise of the beet sugar industry in Europe was injurious to Java and Cuba. When we speak of increase of production as being beneficial to mankind, we must never forget that in certain cases it brings loss to the people of some particular country. The nation thus prejudicially affected cannot of course be said to suffer loss through any increase of its own production—in fact, the one remedy open to it will be to increase the productivity of its own instruments of production to the highest possible degree; it suffers injury through increased production on the part of its competitors.

The cause of the fall is prejudicial also when it consists of a decline of wealth among those to whom we are accustomed to sell what we produce, irrespective of whether the purchasers

reside at home or abroad. In such a case sales become restricted, payments are slow, and depression results. Finally, the cause of the fall in prices is prejudicial when it consists in production having been excessive at some previous period. A time of strong demand for houses, ships, rails and locomotives will create a great activity in particular trades; but this activity may be carried too far, so that more of everything is produced than can be sold with profit; in that case many undertakings will have to stand idle. This would be an instance of "over-production," and, as we have already seen, such a state of things can never exist in respect to all goods simultaneously. Yet it may exist in respect to particular classes of goods.

But besides these unfavourable causes of a fall in prices, there are others of which it may be said that, in general and in the long run, they are beneficial in the highest degree. This is true of inventions, of machinery, of everything, in short, which effects a saving in the effort of production. We have already had occasion in an earlier part of this work to refute the opinion that such changes reduce wages. We hold it to be beyond all reasonable doubt that where adequate formation of capital is taking place, the machine is the best friend, and not the enemy of the working-man, and that the better the machine, the more useful a friend it is to him. Nevertheless, we think it safe to say that no invention has ever yet been applied without producing depression somewhere. Some establishments will go on working on the old lines because they lack knowledge and capital, or because they have a liking for bygone methods, or because the operatives are only fitted for a particular kind of work; meanwhile new undertakings spring up, which are able to supply the same products at lower prices, and the less progressive establishments suffer loss of business and decay, a result which entails some kind of loss upon all who have to do with the establishments in question. In the long run, self-interest will operate beneficially in such a case as this. After a few years nobody will have reason to complain of the change that has come about. But who can tell what those have suffered whose businesses were ruined? Who can describe the poverty of the workpeople who lost their employment in consequence, and especially of those among them who were too old to procure work elsewhere?

Let us take another case which has beneficial results in the end, though productive of great depression in certain quarters at the outset.

A country which consumes more corn than it produces must be the gainer by a fall in the price of corn. It consumes, say, 10,000,000 quarters and produces only 6,000,000 quarters per annum. Now if the price were to fall by 3 shillings per quarter, the consumers would gain £1,500,000 and the producers would lose £900,000, so that the country as a whole would gain to the extent of £600,000. The producers' loss would in the long run be borne by the landowners; for if corn prices decline, so also will rents; the agricultural classes, in so far as they happen to be occupiers without being owners of the land, gain nothing by high prices of agricultural produce. The decline of those prices in a country such as has been described must therefore be regarded as being on the whole a thing to be desired. After some time has passed, the result will be that a relatively small number of people find their income reduced, while every one effects a considerable saving in expenditure, and that the advantage to the gainers far outweighs the detriment to the losers.

But think of the disturbance that must take place before that time arrives. Many leases run for a long term of years; but even where short leases are the rule, they cannot be so short but what the decline in prices will at first press almost exclusively upon the agricultural classes. Well-to-do farmers will be reduced to comparative poverty, if not to absolute indigence, and this will react unfavourably upon production. For capital is needed in order to carry on the business of agriculture with success, especially in order to prepare the soil as it should be prepared; and if a person is poor nobody will be disposed to supply him with capital. He may scarcely venture to ask anybody to do so, lest he should get too heavily into debt. Nor will this depression be confined to the farmers: it will affect all those with whom the farmers have dealings—the shopkeepers in the neighbouring villages and market towns.

But even if the period of transition could be avoided and rents at once adjusted to the reduced prices, there would still be no escape from depression so far as certain classes are con-

cerned. The tenant farmers, indeed, would in that case escape it, but the industrial and retail shopkeeping classes would feel it acutely. For though the reduction in expenditures or investments on the part of the landowners would then be more than outweighed by increased expenditures or investments on the part of other classes—that this would be so is certain—it is very doubtful if the constituent parts of the demand would remain unaltered. As a rule a change in the distribution of incomes brings about some alteration of this kind. If the change be such as to make the rich less rich, and the poor less poor—as it would in the present case—then the demand for articles of luxury, objects of art, large dwellings and the like, will recede in favour of demand for the necessaries of life. The industries engaged in producing the articles of luxury will thereby be brought into an unsatisfactory condition, and this condition will not change until capital and labour have been transferred from those industries to others.

We have not the least hesitation in saying that in all these cases the depression has its good side. Like a bodily pain it serves as a useful warning; it does more: it gives a powerful incentive to do what is urgently needed to be done. We might even go further and say that human nature being prone to sluggishness, depressions provide the stimulant without which there would be no progress. Nobody with any knowledge of practical affairs can deny that countless improvements are delayed until necessity forces people to invent and adopt them. What has always been a flourishing industry becomes in time an industry characterised by easy-going and antiquated methods. Under the pressure of the times those who are engaged in it learn to economise expenses, to utilise materials previously treated as waste, to employ machinery for doing what had previously been done by hand, to supervise in person where formerly they had paid others to do so. Consider, for instance, how the sugar industry of Java prospered after it had passed through the crisis of 1884-1887. But conceding all this, we yet maintain that industrial depressions are gloomy things to contemplate. They are the penalties which society inflicts on those who, either recklessly or through no fault of theirs, have done what they should have left undone, or omitted

to do what they should have done ; but these penalties are often heavy, and although directly they fall only upon those for whom they are designed, yet indirectly they affect others as well. They may be the price that has to be paid for the restoration of equilibrium, but it is a sad thing that such a price should have to be paid. They may, by stimulating self-interest, promote industrial progress, but that such painful stimulants should be required is not a circumstance which tells in favour of the operation of self-interest.

## § 4

### Crises

A crisis is closely akin to a depression. French writers use the one expression *Crise* for both ; the term "Depression," used in the economic sense, is of English origin. The only difference between a crisis and a depression is that the former comes suddenly and with violence, while the latter approaches slowly and by degrees. But there are a number of other things with which this difference is connected. A depression, as has been shown, may originate either in a decline in the price of the finished article or in an advance in the price of the raw material ; or, if we are considering commercial depression, it may originate either in goods becoming dearer in their country of origin or cheaper in their country of destination. With a crisis it is different. In the great majority of cases a crisis is due to decline and not to advance of prices. During the times of great trade disturbance recorded in economic history—say in 1763, 1799, 1857, and 1873—there has always been a strong shrinkage of prices, and it has been this very shrinkage that constituted the evil. Germans prefer using the term *Krach* instead of Crisis. The fact that they can properly do so, is itself an indication of the way in which a crisis usually comes about. In a crisis the artificially inflated prices collapse like a hastily built house, and in their fall they drag with them the credit as well as the capital of many merchants and manufacturers. Then comes a moment of great stress. Firms in which the utmost confidence had been placed stop payment. Nobody knows but what others

will do the same. In order to save themselves, people are anxious to sell their goods, but only for cash, a thing now more difficult than ever. Thus prices fall still lower; fear turns into panic. The remedies resorted to sometimes aggravate the evil. It will be a fortunate thing if, under such circumstances, the banking system is so organised as to enable the banks to lend some support to tottering credit. But for such a banking system to be available in the time of need, it is necessary, as we shall presently see, that in banking matters some restriction shall have been placed on the operation of self-interest.

It is instructive to inquire into the origin of crises; it is no less instructive for our purpose to inquire into the manner in which they are ultimately cured.

The well-known origin is in all cases the same, namely, over-confidence and overestimation of certain wants; all that need be explained here is how this state of mind may arise at certain times. Over-confidence may be the result of some political occurrence, such as a treaty of peace. When the political situation has for a long time been threatening, war has at length broken out, and under the stress of the times great depression has prevailed so that few large enterprises have been undertaken, the conclusion of peace often produces a sense of relief which is apt to develop into a too optimistic view of things in general. It can hardly be mere coincidence that the crises of 1857 and 1873 should each have been preceded by a treaty of peace, though the treaty itself was in neither case the sole operating cause. Whenever, owing to an excessive spirit of enterprise, the prices of many goods rise—as they necessarily must in that case, since every undertaking starts by purchasing things—there arises a vicious circle, if we may use such an expression. Each rise in the price of a particular article, no matter what its cause may be, incites to speculation, because it leads many to expect a further rise; and as soon as speculators obtain control of the article, the price actually does rise still further, though it be only by new speculators that the higher price is paid. At last, people come to believe that some general cause is at work by which all goods will be made dearer; articles which were at first left untouched are drawn into the movement.

The wider the circle grows, the stronger does the movement become, until it carries almost all goods with it.

The circle is vicious for other reasons as well. In order to pay for the goods which they have bought, the speculators need money, and for this purpose they employ instruments of credit. The banks are accordingly busier than ever in discounting bills and granting loans; people who have no more bills or promissory notes to be discounted, get credits opened to them by bankers and others, whose acceptances they endeavour to dispose of. The result is that the uncovered circulation of the banks—or, where the current account system is in operation, the amount of the uncovered balances and deposits—increases considerably, thereby giving rise to an increased circulation of the things which serve as substitutes for metallic money. This operates as an additional aid to the upward movement of prices, at a moment, too, when there is so little occasion for helping that movement!

The phenomena we have been describing may also result from a purely economic occurrence. The crisis of 1857, for example, was to a great extent helped forward by the gold discoveries in America and Australia, which gave rise to a strong demand for goods to be sent to those countries. For how could the gold, which those countries were exporting, be paid for if not with goods? The rise was at first confined to those articles for which purchasers could be found in America and Australia; other causes, however, combined to make the movement more extended, of which the principal were the reaction from the pessimistic feelings which the troubles of 1848 and 1849 had everywhere engendered, and the reviving effect produced by the Peace of Paris, which terminated the Crimean War. The inflation which preceded the crisis of 1857 was specially strong, because at that time many causes which could not fail to produce it were operating simultaneously.

We spoke of over-confidence as well as overestimation of wants. The latter expression is not strictly correct, for the material wants of mankind are so numerous and so barely supplied that it is hardly possible to speak of them as ever being overestimated. In this case, however, we are using the language of daily life, and when we speak of "wants" we do

not mean those things which are actually needed, but those for which there is demand at such a price as will recompense the *entrepreneur* for his outlay and leave him a profit over and above. What we mean, therefore, in this case, is over-estimation of the quantities that will fetch normal prices. We have already spoken of this cause as being one of those which produce a depression; when it operates on a wide scale it may also be assigned an important place among the causes which give rise to a crisis. Thirty-five thousand miles of railway were opened in the United States between 1865 and 1873; just the same length as had been opened during the preceding thirty-five years. Subsequent experience showed that even so large an extension of railways was insufficient to meet the requirements, and the length of line open in 1873 (70,000 miles) has since been more than doubled. Nevertheless, the extension was too rapid for that time; there was not enough traffic to ensure a suitable return for so many new lines, and those who supplied capital for the construction of American railways had to put up with heavy disappointments. What followed? Railway construction fell off considerably. The inevitable result of this was a reduced demand for iron and steel, and a heavy fall in the prices of those metals, which occupy a very important place in trade and had risen very much in price. Now, if the overestimation of wants had been confined to railways, matters would have stopped there, and only a few trades would have suffered depression. But in 1871 and 1873 the same mistake was made in many other branches of enterprise; never, for instance, had so many joint-stock companies been formed in Germany and Austria for the erection of dwellings; this was brought about by the rise in rents in certain large towns, where the population had increased rapidly. It was the so-called "Gründerperiode," a period full of the saddest memories for thousands. The evil had now attained unusually great proportions, and it was inevitable that the penalty to be exacted for the mistakes that had been made should also be exceptionally heavy.

Any large increase in the uncovered circulation of bank or Government notes also occupies a prominent place among the causes of crises. We have seen how such an increase

—that is to say, of bank notes—may be brought about by speculation itself, but it may also come about independently of speculation. Between 1855 and 1860 Russia increased her uncovered paper-money issue from £38,000,000 to about £100,000,000, simply owing to the financial difficulties in which she found herself at the time, while the United States increased theirs by the sum of £158,000,000 for no other reason, between 1860 and 1866. A similar cause led to a great increase in the paper-money circulation of France a few years later; thus in 1870 the uncovered note circulation of the Bank of France only reached £7,500,000, whereas in 1873, after the bank had lent large sums to the Government, the uncovered note circulation was about £83,000,000, or more than eleven times as great.<sup>1</sup> As we have already had occasion to point out,<sup>2</sup> such events produce the same effect as if a large quantity of gold had been suddenly discovered and put into circulation. They make rates of foreign exchange unfavourable in the countries where they take place, cause a drain of gold, and as soon as that metal has become scattered over the world's market, money depreciates and the depreciation manifests itself in a rise in prices. It is easy to understand that such a cause must operate banefully at a time when a spirit of great activity and enterprise is abroad.

Summing up, then, we find that a crisis is always preceded by a considerable rise in prices, a rise which cannot be maintained because in the end it disturbs the equilibrium between supply and demand. The crisis itself is the painful but final means by which prices are restored to the normal level, and were it nothing more than this, its operation would be wholesome. But this is not so; the crisis is not only a remedy, it is also an affliction. It brings prices back not merely to their normal level, but below that level; instead of restoring, it causes a fresh disturbance of equilibrium. Excitement gives place to depression, over-confidence to groundless fear; so that once a crisis has come about, the one aim of all who wish to remedy it should be to restore

<sup>1</sup> See table in NEUMANN SPALLART'S *Übersichten der Weltwirtschaft*, 1887, pp. 452-453.

<sup>2</sup> See Vol. I. p. 598.

confidence and stop the fall in prices. Now, experience has shown that a central bank can do much to assist this aim, and herein lies one of the strongest arguments in favour of a centralised system of banking.

It has been observed as a noteworthy fact that, throughout all the great crises that have occurred in Europe in the course of the nineteenth century, the credit of the central banks has remained unshaken. The notes of these institutions have been regarded as money; whatever distrust may have been shown towards other corporations, the solvency of the central banks has never been subject to doubt. In so far as these banks enjoyed freedom to determine their course of action, this has been a source of great strength. For every crisis consists in an excessive demand for money. When we want to sell goods, we demand money in exchange for them, and thereby show that, for the time being, we would rather possess money than goods. Supply of money means demand for other things; but then supply of other things must mean demand for money. Those from whom the demand comes in this case do not mean to *make use* of the money, but to put it by for a while until the proper time has come for investing it. People desire to turn their property into money, either because they are afraid that so long as it consists of anything else they are liable to incur still further loss; or because they wish to be prepared to meet the liabilities which they have incurred through drawing or endorsing bills. And there is another reason why the demand for money is strong during a crisis. At such a time no credit institution, unless it be one which occupies a privileged position, neglects to effect a considerable increase in its supply of cash; the chief means adopted for this purpose consists in re-discounting bills. Nor is this action on the part of the bank a mere measure of precaution: it serves to meet a real want so soon as the bank itself has come to be regarded with distrust and its creditors begin to apply for their money. In countries where the system of current accounts is very prevalent, the demand for money may grow very strong owing to this cause. An unusually large amount of money becomes necessary when all those who have any sum deposited in the bank flock to the counter and demand that it be paid them in cash.

Such a demand for money as this differs in character from that previously spoken of. It does not manifest itself in the supply of goods, and therefore has no direct influence on prices. But a rise in the rate of interest (and here we are mainly concerned with the rate for short credits) tends to lower prices, and so the measures taken by the banks with a view to increasing their cash supplies, cause prices to fall still lower, thereby aggravating the crisis. Surely, in such circumstances, there must be an immense advantage in having a central bank, the notes of which enjoy unlimited confidence, and which, on the strength of this confidence, shows itself ready to supply the demand for money on a large scale. The mere certainty that help will not be sought in vain at the bank has a reassuring effect. Crises have always been worst either where such a bank has not existed (as at Hamburg in 1857), or where, if it has existed, its action has been so hampered by legal restrictions as to render it powerless to assist where it might otherwise have been of assistance.

It was this that happened in England on three occasions, namely, in 1847, 1857, and 1866; we have already had occasion to refer to it in our description of the Peel Act, when we alluded to the defect in that Act and described the remedy which the Government had to apply in order to avert the fatal consequences of that defect. The remedy consisted in allowing the bank to increase its uncovered note circulation beyond the legal maximum, and it is characteristic of a crisis that this remedy has always brought relief: the panic has been allayed so soon as it has become known that the demand for money could be satisfied. But there should not have been any need for this remedy; legal regulations regarding the reserve to be held against the note issue are out of place if they prevent a bank from doing, at a time of crisis, the very thing which it is the business of the bank to do at such a time, and by doing which it may avert grave disasters. A great part of the advantage of centralising the note issue is that by doing so we provide a credit institution which, throughout the severest crisis, continues to enjoy unabated confidence, and is therefore in a position, when money is in great demand, to meet that demand with a plentiful supply. This advantage is nullified

by subjecting the bank to rules which do not admit of easy and timely relaxation. And such relaxation may be permitted without the least danger when it is known that the bulk of the additional notes will not be used in the ordinary sense, so that the increased circulation will have no appreciable effect on the balance of payments with foreign countries.

Now what do we learn from all this with regard to the operation of self-interest? The question to which we are seeking an answer is, whether self-interest can be relied on as a force which will ensure the proper carrying on of production, and it now seems as if it could not. We have seen in the first place that value in exchange cannot be said to be a safe guide, that it is in fact a guide which sometimes takes the wrong road, where great disappointment awaits those who follow it. In other words, self-interest does not always see clearly; its vision is sometimes clouded; it is frequently careless in observing, or else mistakes the signs of the times. We have seen in the second place that the means for mitigating the disadvantages which result from this, consist in a restriction of free competition in an important field of banking operations. To be without a strong central bank of issue is to be unprovided with a very necessary safeguard against such dreadful scenes as were enacted in Hamburg in 1857. All this proves once again that a social order in which self-interest has free play so long as it keeps within the limits of the criminal code, cannot by any means be described as perfect. It works fairly well under ordinary circumstances, but it sometimes affords opportunities for the commission of excesses which have baneful consequences not only for those who commit them but for thousands of others as well. The peculiarity of the economic order under which we live, let it be remembered once more, consists in the entirely unlimited freedom of action conceded to *entrepreneurs*. They bring capital and labour together, they determine what work shall be done, its direction and extent, at what rate it shall proceed, and whether it shall be stopped or continued. The weal and woe of society, therefore, depend on the judgment and skill with which the *entrepreneurs* exercise this power. The world of production is a republic, but it is a

republic of a special kind; one like that of the United Netherlands of former centuries, consisting of practically sovereign states. Each *entrepreneur* is practically a sovereign in his own domain, and he may exercise his sovereignty in such a way as to bring about the ruin of many. That he frequently does so, we know from experience. Nor is it alone from our experience of crises and depressions that we know it, for there is more to be considered in this connection, and this brings us to a point most worthy of our attention.

## § 5

### The Interests of Labour

We have said that the *entrepreneur* is a sovereign in his own domain. This is true in the further sense that he can engage and discharge people and can regulate their duties as he thinks best. He is free to treat his workpeople humanely or not; he is not obliged to take any steps for ensuring that the younger men are properly trained, and that the energies of the older men are not prematurely exhausted; he may establish funds for the relief of the sick or crippled; he may encourage diligence by means of bonuses; he may take a great interest in the development and improvement of his workpeople; but he is equally free to neglect all or any of these things. There is great diversity in the way in which undertakings are carried on, and from this we see that duty and self-interest do not impel every one to adopt the same course. There are many factories and workplaces where the operatives are cared for in every possible way, but there are just as many others where they are treated as if they were mere machines to be discarded and replaced by others as soon as they are worn out.

A theory of production which failed to take account of this subject would be very incomplete. For production is not an end, but a means for the spread of welfare among all classes of society; and it is a question well worth serious consideration whether the way in which production is actually carried on is the way most likely to conduce to that end. This remark is not to be regarded as conflicting with what

has already been said as to the advantages of abundant production. Abundant production is perfectly compatible with such treatment of the workpeople as is most desirable; indeed we are strongly convinced that without proper treatment of the workpeople, abundant production is impossible; that the best results will never be obtained from the co-operation of capital and labour until the interests of the latter are accorded the most careful consideration.

To prove this we have only to revert to well-known facts; especially to the simple truth that a good workman will do more than a bad one, and that therefore the degree of morality, bodily strength, knowledge, enlightenment, and cheerfulness possessed by the workpeople has an important influence in determining what they perform. In a country where children of tender years are sent to the factory or workshop to labour ten, or perhaps twelve, hours a day; where apprentices are afforded little opportunity of improving themselves; where discontent is prevalent and frequently manifests itself in strikes and other disturbances,—in such a country, certainly, production can never reach the high level to which it might be brought. In spite of all that mechanical science claims to have done, the most important agent in production still is, and will always be, the human hand, and what that hand can do will depend upon what man is in soul as well as in body. All this is self-evident, and to dwell upon it would be quite needless if all *entrepreneurs* understood the real interests of their class and acted accordingly. That diversity which we spoke of would then be nowhere visible. All employers of labour would vie with each other in making their workpeople more cultured, skilful, honourable, and happy. There would be no such thing as the abuse of child labour; Sunday rest would be allowed as far as possible; the sick would never be neglected; nobody would be denied the cheering prospect of an old age free from care. Poverty there would be even then, for wages might be low owing to excessive population and inadequate means of production. Periods of prosperity would still be followed by periods of depression; failures, the unexpected dissolution of businesses owing to death or other occurrences, would be as frequent then as they are now; extravagance and indolence would still claim many victims

among the working-classes. Nevertheless the volume of misery would be less, for it would be confined to a smaller number of persons, because the standard of civilisation would have risen, and with it production.

There is therefore no conflict between the true interests of employers and men. Why is it, then, that the interests of the latter are often so inadequately cared for? For two reasons: the first is that many employers fail to see their own true interests, and the second is that the interests of the individual employer do not always coincide with those of his class as a whole.

Many fail to see their own true interests, and as they act according to what they do see, no gain accrues from the fact that their own interests and those of their workpeople are identical. What a gain it would be if such employers could be induced to make an honest experiment! Those, for instance, who have ascertained by experiment to what number of hours the working day must be limited in order that the labour which they employ, considered in relation to the wages which they pay, may yield them the maximum of advantage, have often found themselves gainers by reducing the hours of labour. And have we ever heard of any manufacturer who had established savings banks and sick funds for his workpeople, or granted bonuses for increased industry, retracing his steps, or cautioning others against following his example? But custom, so powerful for evil as well as for good, keeps many from venturing on such experiments. Indifference, too, and cynicism have something to do with it. Like all other human weaknesses they obscure our vision of what is really for the best.

The second cause, however, is equally potent. It often happens, unfortunately, that the manufacturer, in caring little for the interests of his workpeople, understands his own interests only too well, for what is good for the general body of employers is not always good for the individual member of that body. The individual employer of labour benefits by everything which causes an immediate increase of his income. If, by employing young children, he is able to effect a saving in what he calls his cost of production, it is to his interest to do so, and if this should result in the children afterwards

developing into very inefficient workers, it will certainly prove harmful to those who are to succeed him, but not to his own material interests. If, through denying his workpeople sufficient time for rest, he exhausts their energies prematurely, he will certainly be responsible in some measure for causing a degenerate race to grow up—for exhausted adults produce weakly children—but in the meantime he secures larger profits. The interests of employers as a class are lasting interests; those of the individual employer are immediate, and his misdeeds, however long he may live, may possibly not bring forth harmful results for his successors in business until many years after his death. The former class of interests are concerned with the distant future, the latter with the near future and the present. Although we are perfectly entitled to identify the true interests of the employers as a class with those of the workpeople, there still remains the fact that the individual employer, who conducts his business on lines which are prejudicial to the interests of his workpeople, cannot always be said to be wanting in ability to discern wherein his own advantage lies. Indeed there is no contesting the fact that a manufacturer who ruthlessly discharges his operatives as soon as they become less useful to him, who insists on their always exerting themselves to their utmost capacity, who employs women and children in the place of men, whenever by doing so he can keep down his cost of production,—there is no contesting the fact that such a manufacturer, although his inhumanity will ultimately have a prejudicial effect upon production, will nevertheless often earn more than another who refrains from doing any of these things. The penalty for his misdeeds will have to be suffered; not always by himself, however, but by those who succeed him. It has been said of old that the sins of the fathers shall be visited upon their children and upon their children's children.

Self-interest, therefore, needs not only to be guided, but also to be restrained. This restraint may come either from the workpeople or from the State.

Let us take the workpeople first. They can organise Unions and Federations to defend their interests against the employers. Of this we have a striking example in England,

where the Trade Unions have a membership of some 1,500,000, and where they have become a real power in the community. The purpose of these Unions is, in the first place, to provide relief for their members in times of sickness or unemployment, to resist any reduction of wages, which may be deemed unjustifiable, or to obtain any advance in wages which may be deemed possible; but they also exist for the purpose of placing some check upon the arbitrary powers of employers, of confining their "sovereignty" within narrower limits. The final means to which workpeople, when organised in this way, have recourse is the strike; in order to be able to employ this means with success, and at the same time attain the other objects for which Trade Unions are established, they usually contrive to accumulate considerable funds. In 1892, for instance, the members of the Amalgamated Society of Engineers contributed about £2:12s. per head to the funds and numbered some 70,000. According to statistics published in 1894, 381 Unions had in 1892 an aggregate membership of 1,072,102, an income of £1,666,000, and funds amounting to £1,700,000.<sup>1</sup> Possessed of such means as these the Trade Unions can do a great deal. There is no English manufacturer who does not know their power, and does not fear to come into conflict with it. The opinions held as to the value of the Trade Unions differ widely, but whether these opinions be favourable or the reverse they are always based on the consideration that the Unions have great influence.

It is not surprising that widely differing views should be held regarding Trade Unions, for they are neither an unmixed good nor an unmixed evil. They are organisations of workpeople, and consequently of people who have had neither time nor opportunity for deep economic study; of people who, in common with the rest of mankind, are liable to be influenced by passion and prejudice, and to be mistaken in their ideas. The executive bodies of the Unions are often tyrannical,<sup>2</sup> and their rules petty; many of the regulations issued by these associations show signs of being inspired by the idea that a

<sup>1</sup> *The Statist* of August 25th, 1894. The two best works on English Trade Unions are G. HOWELL, *The Conflicts of Capital and Labour*, second edition, London, 1890; and SIDNEY and BEATRICE WEBB, *The History of Trade Unionism*, London, 1894.

<sup>2</sup> See Vol. I. pp. 268 and 320, 321.

workman must not be in too great a hurry to finish his job, and that by being very industrious he brings about a reduction of his own income and of that of his fellow-workmen. The supporters of Trade Unions hold that, under the influence of such associations, strikes, and more especially ill-considered strikes, are undertaken less frequently. But while this may be true, the strikes which they do undertake are more extensive and often last very long. In short, the Trade Unions, like every other human institution, have their defects and their merits, and are not all equally deserving either of praise or of blame. LEROY BEAULIEU'S remark concerning Trade Unions may be accepted as true; he says that national Unions are the best, district Unions somewhat less good, and local Unions the least good of all. But we ought to ask ourselves whether Trade Unions could be dispensed with in an industrial system such as that of England, where thousands of operatives are often employed in a single enterprise, so that to a certain extent the power of determining the weal or woe of an entire population rests with a few individuals; whether the power of capital does not need the presence of some other power to hold it in check, and to inspire fear where the sense of duty or humanity is lacking. It is probable that the English labouring classes, under the teaching of experience, will gradually lay aside their worst misconceptions; in some directions there are signs of progress already. Then the rules of the Unions will probably be more rational, strikes less frequent and severe, and the work of the Unions, in so far as it consists in defending the interests of their members against the encroachments of employers, will confine itself more to the removal of injustices or hardships. Without agreeing with the eulogies lavished by BRENTANO and others upon the English Trade Unions, one may be permitted to wish for the formation of similar societies outside England, or, in so far as they have already been organised elsewhere,<sup>1</sup> that they may become more like the English Trade Unions both in strength of membership and mode of action. Many abuses

<sup>1</sup> As, for instance, in the United States, with its "Knights of Labour" and its American Federation of Labour; in France, with its *Chambres Syndicales Ouvrières*; in Germany, with its *Gewerkschaften* and *Gewerkvereine*, and in Holland with its *Vakverenigingen*.

will, and must disappear, so soon as the workpeople agree among themselves not to tolerate them any longer. Exhausting work by women, young persons, and children; excessively long hours of labour, no rest on Sundays, no funds for the care of the sick and incapable, payment of wages at unseasonable times—truck system,—all these things can be changed, if only the workpeople combine in insisting that they shall be changed. Much more can be effected by the workpeople than they themselves believe possible in the way of restraining short-sighted and cynical self-interest, and in many cases it would be more desirable that this fact should be strongly impressed upon them, than that they should appeal to legislation for the removal of every abuse. Self-help is generally the best, the most effective form of help.

But self-help has its limitations. In order to inspire respect Trade Unions, as we have seen, must be well provided with funds; from this it follows that they can only attain powerful growth where the labouring population has already reached a high standard of welfare. This condition is not everywhere fulfilled, however, and still less generally do we find the condition fulfilled, under which it is possible for Trade Unions to influence public opinion in their favour. For this, it is necessary that they should be under wise direction on the whole, that they should not identify themselves with any political party, that they should keep out of the hands of demagogues, and that they should pursue attainable ends with lawful means. Their mistakes will be condoned, provided they are not repeated too often. Up till comparatively recent times the resolutions of the annual congresses of the English Trade Unions used to carry much weight, but latterly the Socialists have obtained the upper hand at those congresses (only temporarily, it is to be hoped), and the influence of these gatherings upon public opinion has not gained thereby. But the English Trade Union Congress has never gone so far as did the annual congress of the *Fédération des Travailleurs Socialistes Révolutionnaires*, which took place in Paris in 1887, and passed a series of resolutions, of which the first declared war against the middle classes root and branch!<sup>1</sup> In order

<sup>1</sup> See F. HUSSON, *L'Industrie devant les problèmes économiques et sociaux*. Tours, 1888, p. 36.

to be a useful power in society, the Trade Unions must be composed of workpeople who are not only in comparatively prosperous circumstances, but also of enlightened mind, otherwise they inspire no respect, rather do they arouse among the higher classes a determination to resist the demands of labour at any cost.

What the foregoing amounts to is this, that just where social conditions are most in need of being improved, Trade Unions are least likely to succeed in bringing any improvement about. They may possibly enable a working-class population, which has already risen above the ordinary level of welfare and enlightenment, to rise still further, and this will no doubt react favourably upon the less prosperous and enlightened in the same country; but they can never be the means of raising a working-class population which still occupies a very low level.<sup>1</sup>

To do this is the plain duty of the Legislature. It cannot be a matter of indifference to the State when production is carried on in such a way as not only to cause moral injury, but also to sap the productive energies of the nation. Even on purely economic grounds, which, in this case, are not the best grounds, the State must intervene. For the very same reason, and with the same right that it refuses to allow slavery, regulates marriage and inheritance, and declines to recognise certain kinds of contracts as legally binding, the State also prohibits or restricts the employment of children and young persons under a certain age, and devises measures in the interests of the health and safety of persons employed in factories and workshops.

“The life of a nation continues, while generation after generation disappears; the principles which a statesman adopts must have reference to this continued corporate life of the nation, and not to a short period of time.” So says an English economist of our own day in a book mainly devoted to a description and critical examination of the social legislation of his own country.<sup>2</sup> Such principles necessarily bring the statesman into conflict with individual interests, for, as

<sup>1</sup> This statement is confirmed by the facts adduced in SIDNEY and BEATRICE WEBB's book.

<sup>2</sup> See W. CUNNINGHAM, *Politics and Economics*, London, 1885, p. 112.

the same writer reminds us, "particular persons may carry on their undertakings in such a way as to increase their riches at the cost of the welfare of future generations." The statesman who understands his vocation does not for a moment hesitate to enter upon this conflict when necessary. He does not allow the future to be sacrificed to the present. He places a curb upon self-interest from the moment that it becomes a power operating harmfully instead of beneficially.

Nobody combats these ideas nowadays, so long as they are not put forward as pleas for anything more than the duty of protecting minors. Even the most ardent advocate of *laissez faire* will deny that parents have a right to send their young children to work in factories for as many hours a day as the owner or manager of the establishment may choose to keep them. Fortunately, we have got so far that there is unanimity on this point at any rate; although there are many who are not disposed to go very far in the restriction of child labour and in devising safeguards for ensuring that the hours withheld from industry shall be used in the interests of education. Active opposition, however, is still offered to social legislation which extends to adults. Some maintain that a clear line should be drawn here. It is quite fitting, they hold, that the State should look after the interests of minors, since they are neither free nor sufficiently developed to take care of themselves. But there should be no State interference with adults, for the protection of their interests must involve restriction of liberty—of individual independence. It means a shackling either of the employer or of the labourer, if not of both. Protection in this case means regulating, enjoining, and prohibiting—it means infringement of the right to make contracts. The State, which intervenes in the interests of adult labourers, says to the employer, "You shall do this" and "You shall not do that," and in a similar spirit it addresses the labourer: it forbids the performance of labour on Sundays, or by women, for instance. By so doing it brings about the loss of that precious jewel, the right of the individual to pursue his own ideals of life, to consider his own particular needs when determining his line of conduct. Every one is subjected to fixed rules enforced by the governing

power, irrespective of whether those rules are adapted to his particular circumstances or not. And how often do not those rules violate our sense of justice as well as our sense of liberty! Employers are required to compensate work-people for misfortunes by which they are visited through no fault of the employers. The workman is obliged to contribute to funds from which he may never derive any benefit.

These objections are by no means to be brushed airily aside; individual liberty is, in very truth, a precious acquisition, since it is intimately connected with the sense of personal responsibility, which needs to be strengthened and not weakened. There certainly are principles, which it is extremely dangerous to violate or to bring into disesteem, since the workpeople in whose interest this step was taken now would anon become the victims of such thoughtlessness. It is very useful that attention should be directed to this danger, especially at a time when these things are very apt to be forgotten. Nor are these the only objections attaching to social legislation. No other kind of legislation is so difficult; with no other kind of legislation is there so great a danger of another, and perhaps greater evil arising in the place of the one that has been removed. HERBERT SPENCER, who in his well-known work, *Man versus the State*, finds a satisfaction in enumerating the faults of social legislators, succeeds in laying a lengthy record of sins to their charge. To reflect upon those is not encouraging, but it is certainly instructive.

That some people object on principle to such legislation is therefore not to be regretted; if ever there can be said to be need of an opposition party, that need exists where social legislation regarding adults is in question. Nevertheless, we cannot accept the grounds upon which these objections are based.

Social legislation in the interests of adults has already been enacted on the most extensive scale, and the only reason why we are not always conscious of this is that we are accustomed to it. A large part of our Civil and Commercial Codes and of our Administrative Law consists of social legislation. You are not allowed to insure your property for more than it is worth; you may not issue bank-notes;

you may not coin money; you may not pledge your person or your labour; nor can you be married to more than one wife. Rules are framed for the protection of shareholders in joint-stock companies. Gaming-houses are prohibited. Railways and steam boilers are subject to inspection. Very many restrictions as regards property and other material rights are social legislation pure and simple, as their sole purpose is to prevent the violation of interests, which the parties interested should be quite able to look after themselves.

Those who advocate social legislation are not pleading for the adoption of any new principle, but for the wider application of an old and generally recognised principle. In no properly governed country does the legislator start from the assumption that every adult person has enough knowledge of affairs and enough judgment, and that he is at the same time in a sufficiently independent position to be able to ensure that, in whatever he may do or leave undone, or in any contract which he may conclude, he shall not suffer detriment at the hands of his fellow-citizens. Everywhere the State adopts measures to prevent ignorance, lack of judgment, and a position of dependence from being taken advantage of; and what is social legislation in the interests of labour but a further step in the same direction? The German Workmen's Insurance Laws—whatever we may think of their efficacy—may be regarded in the same light. In introducing a system of insurance against the consequences of sickness and accident, for example, the State was actuated by the consideration that workpeople would better attend to their own interests and those of their families if they established funds for providing relief in such cases; furthermore, that it would not be unreasonable to require the employers to contribute towards such funds, seeing that many illnesses and many accidents arise out of work performed in the employers' service. Since, however, it too rarely happened that provident funds were established by workpeople and at the same time contributed to by employers, the State ordered that both these things should be done. We may disapprove of this action, but, after all, the principle is precisely the same as that which underlies many other measures involving State intervention in favour of individual

interests. Or is it, perhaps, that in the case of compulsory insurance the innovation lies in compelling workpeople to do something which is exclusively in their own interest; whereas, in other laws, the main purpose of the restriction of freedom is to safeguard the interests of others? But the insurance is not exclusively in the interests of the workmen; it is also in the interest of their wives, and sometimes of their children. In so far as it concerns the wives and children, it concerns the future of the community, and becomes a part of the general policy which has for its object the national well-being—that “continued corporate life of the nation” of which CUNNINGHAM speaks.

No, the objections to social legislation in the interests of adults do not consist in such legislation being in conflict with accepted principles; they are of a practical nature. The State can do so little in this respect. It can prescribe many things, but it cannot infuse a better spirit into the class of employers. Beside the few abuses which the State manages to remove, there are many others against which legislation is powerless. And frequently a law which would do good in one direction would do harm in another. In such cases, one has to consider whether the good would outweigh the evil, or the evil the good, and frequently the conclusion arrived at is, that it is hardly possible to foretell; or else that the evil would counterbalance, if not outweigh, the good. No social legislation can supply a perfect remedy against the excesses of self-interest, any more than Trade Unions can; it can mitigate the evil and that is all.

When we reflect upon all this, and when we bear in mind whatever else may be urged against the existing order of production, we no longer wonder at the fact that there should be persons who condemn our whole social order, and would like to see it abolished in favour of a new. Lengthy as our criticism has been, we have not mentioned everything that might be urged against the existing order of production; we have said nothing of the most serious objection of all, namely, the great disparity of welfare to which it gives rise. It is inevitable, and there is no help for it that, in the struggle for existence, some should push to the front while others are left behind, some should accumulate fortunes while others

become beggars. And when discussing distribution of income we saw that there are causes which, while operating injuriously for the community as a whole, may yet be operating beneficially for certain classes of the community, so that the injury falls upon the others, more especially upon those whose share in the nation's income is smallest. State loans to cover a deficit cause an advance in the rate of interest, but a decline in wages. Growth of population, again a cause of decline in wages, tends to raise interest and the rent of land. LEROY-BEAULIEU, in his book on the distribution of wealth, may contend that there is a natural tendency towards a diminution of economic inequalities; the proposition, as it stands, cannot be maintained. Fortunately, there are certain forces operating towards greater economic equality; we have had occasion to discuss them. But there are also forces operating in the contrary direction, and it remains to be proved that the former will prevail in the end.

We reach no practical results by shutting our eyes to the defects in the existing social order and denying that certain of these defects are inherent to it. We must not try to cover up the naked and sometimes unpleasant truth with a cloak woven of bias or caution. Above all, we must guard ourselves against the error of regarding the existing social order as the "natural order." It is no more a natural order than any other. It is based on the right of property, a creation of the legislator, which has force for its support. To regard it as anything other than one of many conceivable social orders would be incompatible with a strictly scientific treatment of the material on which we are engaged, and no economist can shirk a scrupulous examination of the question whether the existing order is the best. Less than ever can he do so in these days when the question is being asked with greater insistency than at any previous time, and when thousands, nay hundreds of thousands, are answering it in the negative.

## § 6

### **Socialism**

The spread of socialism is remarkable in the highest degree. Probably there never has been a time in the history

of Europe when workpeople as a whole enjoyed a higher degree of welfare than they do at the present day, except in the second half of the fourteenth century, when the plague caused an enormous reduction of the population. No matter what tests we apply, so far as investigation is possible, we arrive at this conclusion. And yet there never has been a time when complaints were louder, or opposition to the existing social order was more violent than at the present day. The opposition is no longer directed merely against some particular feature of the existing order—such as the granting of privileges to one class and the oppression of another—but against its very foundations. What is now being aimed at is neither more nor less than an entirely new social order.

In what sense? What is it proposed to substitute for the old order? Here again we are confronted with a remarkable thing: with very few exceptions, the schemes of social reconstruction are so vague that we scarcely know how much or how little of the original structure it is proposed to leave standing. LASSALLE proposed that capital should be furnished by the State to co-operative societies of working-men; did he mean to stop there, or was this only the first step? HENRY GEORGE wanted to deprive the land of all value by taxing it up to the full amount of the rent, and to make it common property; if it should turn out that this would simply have the effect of putting much money into the treasury without bringing about any single one of the other happy results with which he endeavoured to dazzle us, did he intend to go any further? CARL MARX wrote a bulky book about capital; we learn from this book how he disliked "capitalism," but do we learn anything of his ideas as to the future organisation of society? The most important points are usually left in obscurity. Thus the Dutch socialists never enlighten us on the question whether, for the carrying out of their plans, it will be necessary to wait until all the nations are prepared to adopt them, or whether each nation will be able to set the plans in operation, irrespective of what the others do—a question which one feels at once to be of great practical importance.

Very few among those who want to reconstruct society have a complete scheme, very few show precisely what their aims are, and these few are not the most dangerous opponents

of the existing social order. We must keep this point clearly before our minds, for it sheds a light on the character of the present-day socialist movement. Compare SIR THOMAS MORE'S *Utopia* with MARX'S *Das Capital*, or with the report of a speech by DOMELA NIEUWENHUIS. Wherein does the difference lie? The one is a work of pure reasoning. SIR THOMAS MORE believes our society to be organised on wrong lines, and he proceeds in imagination to reorganise it, but he does not excite himself very much over this work. It is said that ERASMUS had a part in the writing of *Utopia*; that he had seems not unlikely, for the whole book savours of the spirit of ERASMUS. The author finds leisure calmly to set down his ideas exactly in every detail, because he is able to do so dispassionately; he gives a sketch of his ideal society almost in the same way that the head of a department in a large office would sketch a new distribution of the work placed under his supervision; the feelings are hardly brought into play at all.<sup>1</sup> With our modern socialists it is quite different. When we read their writings or listen to their speeches we recognise at once that their emotions are stirred. They hate our social order, they loathe it. A world governed by self-interest is an abomination to them; that one man may be basking in luxury while another is starving causes their very souls to revolt, and they cannot bring themselves to admit that no means can be devised to alter such a state of things. What means do they themselves suggest? It would be useless to press them for an answer to this question, for their answer would not enlighten you. They hardly know themselves; all they do know for certain is that things as they are are wrong. Remember, too, that the exponents of socialism are not really scientific men; we should look in vain among the socialist writers for one who gave evidence, we will not say of learning, but of sound economic knowledge. There are, it is true, a few who claim to be men of science, but when we sound the depth of their philosophy, we soon touch the bottom. LASSALLE performs the most astounding feats in logic; HENRY GEORGE starts with a blunder; KIRKUP, the still too-little-known author of that charming book, *An Inquiry into*

<sup>1</sup> Save in the passage concerning the conversion of agricultural land into pasture land.

*Socialism*,<sup>1</sup> plays with the concept of over-production; the economic wisdom of FLÜRSCHHEIM is below the lowest conceivable level. MARX has read much, and, in his way, has thought much too; but his errors are such as make it difficult for us to accept him as a strictly scientific thinker. Let us not look for science among these men, but rather for expressions of feeling, expressions, of which the predominant tone, varying with the speaker, is either that of enthusiasm for a dimly conceived ideal, or of compassion for the lower classes; or that of intense hatred of existing conditions. There are among the socialists kindly souls, who are unwilling that a single drop of blood should be shed, since they expect that all will be brought about by lawful means. There are also demoniacal natures among them, who believe that, without a bloody revolution, the world cannot be regenerated, and who would not shrink from such a revolution.

What should be the attitude of the economist towards this movement? He has investigated the laws which govern the origin and distribution of wealth in our social organism; he knows approximately what regulates rent, wages, interest, and the foreign exchanges; he has examined production as carried on under the stimulus of self-interest, and he has noted much that is cheering, but also much that is saddening in our social life. He now finds himself confronted by a mixed group of men, who tell him that the whole organism which he has described, dissected, and explained, is rotten. Can he retort that this is no concern of his, that his business was to dissect and explain, and that having done this his task was finished? The temptation to take this line will not be very strong for any one whose economic study has enabled him to realise how much cause there is for the anger excited by existing social conditions. Remembering that his science is not responsible for those conditions, which it has simply found, and not created, he will be ready to observe and judge them with perfect impartiality, and even to endeavour to give the best possible form to any proposals that may be made for their amelioration. SCHÄFFLE tried to do this in his *Quintessenz des Socialismus*. It is certain, we believe, that no socialist has ever stated the ideals of his party with such

<sup>1</sup> London, 1887.

scrupulous care as has this opponent of those same ideals. This example is worth following.

We must get at the essence of socialism—the root idea which has been elaborated in different ways by different people, but which, however imperfectly in most cases, has nevertheless been sketched by socialists on various occasions. KIRKUP defines it as follows:—Till the present day, every man has been constantly exploited by his fellow-men in one of three ways: by slavery, by feudalism, or by the wage system. In future we must have exploitation of the soil by the one man in combination with the others. This may be expressed with greater precision as follows:—The aim of socialism is that industry shall be carried on by labourers, who shall be joint owners of the instruments of production—land and capital. Thus there shall be no more *entrepreneurs* with wage-earning workpeople, but collective ownership of capital and a sharing of the gains according to equitable rules.<sup>1</sup>

We must now try to put all this in the form which will do most justice to the ideal on which it is based, and for this purpose we will ask, in the first place, whom it is proposed to constitute owners of the instruments of production. Some group of persons, of course, not any individual: but what group? The association of working-men, the township, the State, or what?

It is very easy to show that the socialist ideal would in no single respect be realised if the ownership of the instruments of production were entrusted to associations of workmen. Precisely the same thing would happen to those associations as happened to the guilds: after a while they would become close corporations; a proletariat would then be evolved, quite as numerous as that which has grown up under the existing social order. For all the associations would not prosper in the same degree; many of them would lose their capital and be dissolved. And such of them as prospered would certainly make rules designed to restrict the admission of members' children: what member of a firm would consent to any of his co-members introducing into the firm as many sons as he liked and making partners of them, especially on terms of

<sup>1</sup> See Prof. D'AULNIS DE BOUROUILL's elaborate study, *Het Hedendasgch Socialisme*. Amsterdam, 1886, pp. 23-50.

equality as regards share in profits between the new partners and the old? A numerous body of non-members would thus be gradually formed, and these would think themselves fortunate if they were allowed to become wage-earners in the employment of the others. And so we should again have the very same wage system of which we wanted to be rid. Moreover, if capital were to pass into the hands of working-men's associations, competition would not disappear, society would not be regenerated in the true sense of the word, nor would it be placed upon a new basis; self-interest would rule as before, the inequality would still remain. The socialist ideal would not be realised by putting such a plan as this into execution; the effect would simply be that for the old employers we should have substituted new ones, who, at first, would also be working-men, it is true, but who would certainly not all remain working-men.<sup>1</sup>

A similar objection holds good with regard to the ideal which finds favour with a group of French socialists, namely, that of making the commune or township the owner of capital. We may be quite certain that the history of many village communities with undivided land would in that case repeat itself; beside the landed, there would arise a landless class corresponding to the *orang menoempang* in Java, or the *bobyly*, as they are called, in Russia. But the condition of these landless ones would be much more unfavourable. Since they would not be free to engage in commerce and industry, they would be deprived of all means of existence, except such common wage-work as people might be willing to give them. There would, moreover, ensue great disparity in point of welfare between town and town; for all the communes would not be equally prosperous in their undertakings, any more than they would all be gainers or losers in an equal degree by such events as changes in fashion or in wants, the rise of new industries, the establishment of transport facilities. Nobody who cherishes true socialist ideals could ever advocate this communal socialism. In order to compel respect for his convictions, he would have to reject it just as emphatically as he would have to reject that form of socialism which

<sup>1</sup> The same ideas are expressed by W. W. P. BLISS, *Handbook of Socialism*, London, 1895, pp. 10-12.

contemplates placing the ownership of capital in the hands of associations of working-men.

There remains, therefore, nothing worth the trouble of inquiring into except State socialism, pure and simple, under which the Government of the country would assume the ownership of the instruments of production. We take it that this end might be achieved in the following manner. Just as at the present time it already owns the postal and part of the telegraphic system, just as in certain countries it already owns and works the railways, manufactures cigars and matches, owns land, which it either farms on its own account or lets at a rent, so it might successively assume the ownership, and undertake the working of all factories and workshops, all means of transport, farms, fisheries, warehouses, and shops. In order to be able to form by degrees a staff of properly qualified officials, the State would have to be careful not to proceed with undue haste. Beginning with those branches of industry, in which no great experience or intelligence was required, it would have to proceed step by step in extending the sphere of its operations, and would have to be content if, at the end of sixty or a hundred years, it had succeeded in bringing the whole of production within that sphere. From this, however, follows the important truth on which we lay special stress, that the transfer would necessarily have to be effected on terms of adequate compensation to the present owners. We are now leaving questions of equity entirely out of consideration, and regarding only the economic aspects of the question. During the time when the State was engaged in appropriating the instruments of production, there should be no disturbances of a nature to occasion the direst distress, and such disturbances would be inevitable where sentence of confiscation was hanging like a sword of Damocles over the head of every capitalist for a number of years. The more it became evident from experience that the danger was real and no mere bogey, the worse would things grow. People would become much less inclined to save, and much more disposed to squander. The properties which the State was to take over would ultimately have got into the most melancholy condition of decay, and habits of neglect and recklessness would have become general and would be slow to disappear.

A State, which meant to become socialist, would have to do one of two things: if it offered no full compensation, it would have to take over the whole of production in a very short period of time; if, on the other hand, it meant to take over the various branches of production by degrees, it would be unable to escape the necessity of offering compensation. The former alternative would be impossible, even in such a small country as Holland. The second alternative would, therefore, have to be chosen on purely economic grounds, apart from all considerations of justice. And the compensation would have to be such as would be deemed sufficient by the recipients themselves, otherwise it would fail in its object. It has been suggested that the compensation might be paid in thirty or fifty annuities, and that these might take the form of articles of general use—food, drink, wearing apparel, boots and shoes, and the like. Certainly this system, like many another, could be applied; but we must clearly understand that everything which reduced the compensation would have the effect of diminishing the care given to such goods as the State had not yet appropriated. And it would be of the utmost importance that this care should not be relaxed, but should continue unabated up to the very end.

It would of course be possible to create a certain inducement for the owner not to neglect his property, by providing that the number or the amount of the annual payments made by way of compensation should depend upon the state of the property at the time of its transfer to the Government; it is very much to be questioned, however, whether this would prove a sufficient inducement. Every one would compare the actual advantage that accrued from saving the expense of upkeep (or from improper cultivation of the soil) with the possible disadvantages of the annual payment system, and it is easy to judge what the result of the comparison would be in most cases; more especially if the payments took a form which did not commend itself to the owner, or if there were any reason to suppose that the socialist State—like many other kinds of State—might not fulfil its obligations.

We look further into the future; sixty, or, say, a hundred years have passed; what condition of things do we see now? What has changed and what has not?

The principal survival is the inequality, the very thing that some people found most difficulty in submitting to in the past. There are no longer any merchants, shipowners, or manufacturers, there are no landowners or bankers; but, unless the annuity system of compensation has been adopted, we find, instead, a very large number of holders of Government stock, so that there are as many owners of property as before. This class will remain and increase. For the socialistic State will have recognised—if not at once, then after being taught by bitter experience—that with growth of population, capital also must grow, and that it must grow even more rapidly than the population. The State will therefore have to encourage thrift by paying a certain rate of interest on all savings entrusted to its keeping. It will have to maintain the law of inheritance; for there can be no strong incentive to save, unless goods for consumption and claims in respect of debt can be handed down from one generation to another. We do not know if this is quite compatible with the socialistic system, but we do know that it is absolutely necessary, since the need for capital will always remain, no matter on what lines society may be organised. It would only be by encouraging thrift that the socialistic State could in some measure escape the indictment which CAIRNES has brought against communism,<sup>1</sup> namely, that of discouraging the formation of capital. Communism, which would abolish rights of property, cannot escape this charge under any circumstances; socialism, however, which—as SCHÄFFLE rightly points out—does not propose to abolish rights of property, might, without being unfaithful to its own principles, devise some means of promoting the formation of capital.

The inequality thus remains; only certain of its causes disappear. Fortunes can no longer be accumulated in commerce or industry, nor does increased demand for agricultural or building land tend any longer to enrich the few at the expense of the many. But gambling on the Stock Exchange will *not* have disappeared. Even though the compensation should have taken the form of terminable annuities, it would be many years before all the bonds

<sup>1</sup> *Leading Principles*, p. 323.

establishing their holders' claims to such annuities had disappeared, and it is probable that in a socialistic State these bonds would be subject to considerable fluctuations in the market. Even if all the annuities in the country itself were to have expired, there would still, no doubt, be bonds of other countries to speculate in. Besides, there will never be wanting things to serve as the subject of betting and gambling transactions. If any one expects that the socialistic State will be able to get rid of *these* causes of inequality, his optimism must be rather extravagant. On the other hand, it would be doing less than justice to socialism not to admit that, under conditions such as we have been endeavouring to describe, the sphere of production would in many respects present a more pleasing picture to our view. Let us consider some of the good points of socialism.

In the first place, it would be possible to organise production in a much more effective manner. SIR THOMAS MORE, even in his day, did not fail to note that the existing order of production was the cause of much waste of energy, and we have only to look around in order to be convinced that he was right in his judgment. Where a single shop would suffice, we often find ten. Where one hundred ships would suffice, we sometimes find one hundred and fifty. How many enterprises find it difficult to preserve their existence, and what a saving of labour there would be if these could be amalgamated so as to form a few large enterprises. The practical objection to this would no longer exist if all enterprises were carried on for the account of the State. There can be no doubt that a simpler and more effective organisation of labour would be possible if production could be carried out according to a fixed plan, to which every individual was obliged to conform. If the postal service, instead of being in the hands of the Government, were conducted by private enterprise, involving free competition, it would absorb more capital and labour than it does now.

Secondly, a larger share of the product of industry would accrue to the community than is now the case. (The word "industry" is here used in the wide sense, which includes all kinds of businesses.) The student will remember the sense in which the expression "*entrepreneurs' surplus*" was used in the

previous volume. By this expression is meant all the gains enjoyed by *entrepreneurs* over and above the normal profit, that is over and above what we call the wages of the *entrepreneur* and the compensation for the risk which he incurs. These gains would not indeed disappear altogether; in determining the compensation to be given for the expropriated undertakings, the State would certainly be bound to admit of these gains being taken into consideration; but no new *entrepreneurs'* surplus would be created, and this would be an advantage. Then, as regards the compensation for the old surplus, it would probably be sufficient to give it the form of annual payments terminating at the death of the persons whose businesses the State had taken over, or, at any rate, at the death of the widows and children of those persons; for *entrepreneurs'* surplus is not a gain to be reckoned upon as permanent, since it depends upon personal qualities and a variety of circumstances. Ultimately, therefore, the whole of these advantages would be enjoyed by the community in general.

In the third place, there would no longer be any such things as depressions in particular branches of industry. When the State saw that it was necessary to restrict production at one point, it would extend production at some other point; in any case, it would take steps to prevent the restriction from causing poverty among particular groups of workpeople. The disadvantages which ensue whenever production has developed unequally are, under the existing order of things, borne entirely by certain members of the community. In a socialistic State they would be spread over the whole population, and would therefore cause much less suffering. Neither would there be any more crises, except on the Stock Exchange; there would be no more of that dire distress which always is the effect of disturbances in commerce.

In the fourth place, may we not expect that the socialistic State would look after the interests of its workpeople, that it would husband their energies, more especially those of the wives and children, and that it would make suitable provision for their relief in sickness and old age and in the case of accident? We would add, moreover, that there would be nothing to prevent the State from encouraging skill and diligence by

adopting a piece-wage and bonus system of payment wherever possible. This would be incompatible with communism, but not with socialism. Communism would measure the individual's wages by his wants and by no other standard, so that it would be violating its own principles if it were to reward diligence and skill. Socialism, which has much more in common with the existing order, would be quite at liberty to do so, and there is no reason for assuming that it would not make use of this liberty.

Lastly, we should hear no more about protection. The sober truth that international trade makes national labour more productive would not merely be capable of mathematical proof—it is that already—but of such simple proof that nobody could any longer doubt it. A country that produces corn is asked by the Government of another country to turn its most fertile fields into pasture land and to accept corn in exchange for cattle and dairy produce. The consideration of this proposal leads to the conclusion that its adoption would prove a means of obtaining with the same effort, but indirectly, a larger supply of agricultural produce than it had hitherto been possible to obtain by direct means. The proposal would naturally be adopted at once. Or, again, the treasury of one socialistic State is too well supplied with money, while in some other country the condition is just the reverse. An exchange of money against goods now follows as a matter of course, and neither country will fancy itself the loser by the deal.

From the last remark it will be seen that the retention of coined money appears to us to be perfectly compatible with a socialistic arrangement of society. In schemes of socialistic reform great prominence is usually given to the substitution of *labour certificates* for money. All payments, we are to understand, will be made in paper, entitling the holder to goods representing so many hours or days of labour, and the prices of all goods will be expressed in hours or days of labour. As regards the fixing of these prices, proposals have been made, involving an application of the theory of averages, though in a manner which is not always above criticism. But why all this trouble about the discarding of coined money? Is it because the use of such money is deemed superfluous? If all countries were to decide to do away with coined money, great losses

would ensue, for the industrial demand would then be the only demand for gold and silver, and nothing but a very great decline in the value of those metals could stimulate that demand to such an extent as would ensure its absorbing the immense supplies of precious metal that would flood the market in consequence. Even such an industrial demand as now exists would no longer be maintained, once the State had become the sole *entrepreneur*. The best thing that could be done if coined money were set aside, would be to take the whole of the money which had been withdrawn from circulation, hide it away, and, by degrees, convert it into articles of gold and silver. But years, perhaps centuries, would have to elapse before all these articles could be disposed of, and in the meantime all that money would have remained dead capital. Then why not leave it as it is? As a medium of exchange, it performs a most useful service.

And as regards the fixing of prices, the socialistic State would soon find that no mathematical formula was of any avail, and that the only means by which it could hope to solve the problem were exact and repeated comparisons between present and future stocks and present and future demand; it would find that prices could not be fixed once and for all, but would have to be altered frequently. Not the theory of averages, but the value of things in exchange would, in most cases, have to serve as its guide in fixing prices; and why should it reject the services of that guide? Why, for example, after failure of the wheat crop, should it not raise the price of wheat, so as to prevent stocks of that grain from being quickly exhausted; or why, after a too plentiful cherry crop, should it not allow cherries to be had very cheap so as to prevent their becoming unfit to eat and having to be thrown away? The socialists want to be too ingenious. They introduce into their system all kinds of things which give unnecessary offence, and which they ought to eliminate as a first step towards making a just appreciation of their principles possible.

We have tried to do this to the best of our ability, and we now propose to consider what disadvantages have to be set against the advantages just described. We frankly admit that the world of production would present a more attractive

appearance in some respects if socialism were introduced. In other respects it would not, for it would be a world composed entirely of officials, consequently of controllers and controlled. A world in which initiative would be stifled. An extremely conservative world; for the very thing which constitutes the chief virtue of a good official, namely, regularity in the performance of duty, makes him more liable than others to become the slave of precedent. Any one who has had experience in this matter must agree that Government offices are not fertile in creative ideas. Such ideas usually come from without, or from the brains of those at the head of affairs, not from within the offices themselves, as a rule. But, when a Department has a very wide field to administer, and more especially when its functions are very varied, it becomes very difficult for those at the top to supervise all the branches and to note all that is wanted; nor do they, as a rule, trust their own opinions until they have consulted the various offices; and how many sound ideas get stifled or buried as the result of such consultation!

The evil might certainly be mitigated in some measure by granting rewards for good results. The manager of every shop, factory, or farm might, for instance, be allowed a share in any gains that were realised. Most of the managers, too, might be allowed considerable freedom of action, so that they should not be obliged to obtain the approval of their official superiors in every case before making any change. But in order to prevent this freedom of action from being abused, it would be necessary to adopt the rule that managers must share in losses as well as in gains, and there would then be great danger that many of these officials, preferring the certain to the uncertain, would carefully refrain from trying any experiments.

Here, then, we have the first of the disadvantages of socialism: there would be little progress; and this disadvantage assumes a graver aspect when we consider two things. First, there would be no competition. There might be a certain emulation among the various directing officials to outshine one another, but this emulation would not make up for the absence of the powerful stimulus of competition. Secondly, there would be no chance of ever placing at the head of an enter-

prise, any person who had acquired his training outside the circle of officials. Why is it that, in nominating directors of joint-stock companies, care is generally taken not to select one of the staff—even the higher staff—of the office employees? The reason lies in what has just been said as to the qualities of officials. The socialistic State, however, would have no alternative. There would no longer be any persons who had managed businesses of their own. The top could only be reached by ascending each of the rungs of the official ladder. When we take all this into consideration, we think we are justified in expressing a fear that progress with regard to production is scarcely to be reconciled with socialism.

In the second place, there is reason for fearing that far too little capital would be formed. The State might, of course, as we remarked above, encourage the formation of capital by undertaking to accept the custody of people's savings, and to pay a certain interest thereon. But unless the State were to do more than this, it would not be doing anything like enough. The capital now in course of formation has its origin not only in savings effected out of normal incomes, but in the putting by of what is in excess of normal incomes. When rents rise, or large profits are made by able or fortunate *entrepreneurs*, let not our first and exclusive attention be directed to the economic inequalities produced in this manner. Let us remember that these high rents and large profits will, for a large part, prove a gain to the whole community through being converted into instruments of production. This is a point that is frequently forgotten, and yet it merits all our attention. Struck by the large incomes of certain English landlords, or of certain manufacturers like BESSEMER or KRUPP, people sometimes ask how any one can spend so much money in a year. Only a relatively small part of that income, however, is spent; the bulk of it is saved, and presently assumes the form of railways and tramways, factories, ships, reclaimed land—in short, of all the useful things without which production on a large scale would be impossible in these days. When we want to calculate how much the masses would gain if all the economic inequalities could be done away with, we must beware of the error of adding together all *incomes*, and dividing the total by the total of separate individuals or households composing the population;

what we should add together is the *expenditures*, and not the incomes: the difference between these two represents capital formed, which capital must suffice first to cover all losses from wear and tear, or through accidents, and secondly to meet the new demand for capital resulting from growth of population and other causes. If rent and *entrepreneurs'* surplus were to disappear owing to the State having become the sole landowner and the sole manufacturer, then a very potent cause of the formation of capital among the people would cease to operate, and the Government would have to bear this well in mind. It would have to leave a sufficiently wide margin between the prices which it asked and the wages which it paid. In fact it would have to neglect doing the very thing which socialists are constantly urging it to do, namely, to regulate prices in such a way that no article bought at the State stores should cost more than the average amount of labour involved in producing it.

In the third place, we have to remember the difficulties that would arise in connexion with international exchange. We will assume that socialism has been adopted in all countries; in that case international exchange can only be effected by means of negotiations between the various States. Is it to be expected that these negotiations will be absolutely uninfluenced by political considerations; that a friendly power will never be favoured at the expense of a less friendly power; that a small country will never be neglected by a greater country; that none of those disputes, which are so common among merchants, as to weight, quality, and expenses of transport, will ever arise, and that if they should arise, they will always be settled on fair terms? The socialists dream of an everlasting peace. That the application of their doctrine would help towards the attainment of that end is improbable.<sup>1</sup> We refrain from any allusion to the population question here, as we propose to deal with it in the next chapter. We will conclude, therefore, by asking whether, if the expropriation of all enterprises had been affected with the utmost care the State

<sup>1</sup> Are we to suppose, too, that the immigration of aliens will never give rise to disputes? In districts where the population has grown very much, the incentive to emigrate will be as great as it is now. Surely there will be places into which further immigration will not be permitted? Cf. ADOLF WAGNER, *Grundlegung der pol. Oekonomie*, third edition, Leipsic, 1893, Part I. p. 662.

would not have assumed a burden which it could never bear? For examples of what an enlightened body of Government officials can do, we are referred to the excellent organisation of the postal service, the State railways of Prussia and elsewhere, and the cigar factories in countries where there is a State monopoly in tobacco. These examples prove nothing, for nobody doubts that the State can do much in the sphere of industry, and do it well. What is possible for a joint-stock company is possible for the State. Both work through salaried officers, and there is no reason to believe that a salaried officer would perform his duties less faithfully in the service of the Government than he would in the service of the shareholders of a company. What needs to be proved is, not that the State can carry on a *limited number* of businesses, but that it can carry on the whole of the businesses of the country together; the difficulty lies in the magnitude of the task and the multiplicity of the operations. In the undertakings, of which the State has assumed the direction, it does not by any means do everything itself: it makes extensive use of private industry. The carriage of letters it entrusts to a large extent to private companies; it contracts for the erection of buildings; where it has taken over the working of the railways, it buys the locomotives and rolling-stock; even in connexion with military and naval equipment it constantly makes use of private industry. What does it prove if in all these cases the results are satisfactory? We admit that what is possible for a joint-stock company is possible for the State. But if the socialistic ideals were to be realised, the State would have to fulfil a task of far greater magnitude than any that has ever been imposed upon a joint-stock company, and there would no longer be any private industry by which it could get those things done which it did not wish to do itself.

To sum up. In the socialistic State the inequality of incomes would still exist, at the most it would have been slightly reduced. Fortunes would no longer be made in commerce and industry, but the formation of capital, which had its origin in the accumulation of these fortunes, would have declined. There would no longer be depressions in particular branches of industry, but instead we should have chronic depression due to scarcity of capital and to complete absence

of competition. Workpeople would receive better treatment, but they would be exposed to the evils resulting from the inevitable mistakes and oversights of the huge administration in whose service they were employed. In proportion to the total product of industry, their incomes would be larger than they are now, but that product would certainly be smaller than it is now; for though a better distribution and grouping of labour would have become possible, think what ingenuity it would require in order to make that possibility a reality. Then there would be the constant danger of disputes with foreign powers respecting prices and delivery of goods, and of trouble at home with capitalists who wanted to infringe the State monopoly. When we consider all these things together we lack the courage to recommend that socialism should be given a trial which, if it was to be worth anything, would have to be on a very large scale; for, so long as the State was in a position to rely upon private industry, it would be impossible to demonstrate the very thing which, more than anything else needs demonstration, namely, that in the carrying out of its industries, the State is capable of doing without the assistance of private enterprise. What we should gain is far too uncertain; what we might lose, far too great. And while we have no wish that this statement should be regarded as representing the last word of science—science, and more especially that of economics, which has scarcely outgrown its infancy, never professes to have spoken its last word—yet we cannot, under the circumstances, arrive at any other conclusion than this: we must strive to bring about the improvement of economic conditions, but without destroying the foundations of the existing social order. That order is not perfect, but we are not at liberty to abandon it until the socialists have disposed of the grave objections to which their own system is open.

We can understand their dislike of a world dominated by self-interest, and their reluctance to abandon the ideal of a world in which production would be regulated in some other way. Let us, too, keep this ideal before our eyes. The contest against socialism is one in which we cannot but wish to be vanquished; for we cannot help wishing we could believe that what socialism proposes would be both advantageous and possible; and the same may be said with even greater truth

of communism, for after all, socialism is only a compromise. But as yet, those who cherish that belief are without valid grounds for doing so. They have faith and nothing more; socialism has been fittingly styled a religion. It feeds on the emotions. Its doctrine is dogmatic, with all the obscurities and inconsistencies peculiar to dogma. It has its priests, its prophets, its martyrs, who, like all priests, prophets, and martyrs, frequently are entitled to admiration. But we cannot concede that it has invented a practical form of social life; still less a form of social life to be preferred to that which now exists.

Not even on moral grounds. The more comprehensive the scope of a Government Department, the greater the opportunities for speculation does it afford, and experience shows that such opportunities are never neglected. If the whole of production were carried on for the account of the State, what guarantees should we have that the whole of the products were delivered to the State? It is to be feared that the habit of pilfering some of them would gradually become very general, the more so if zeal and enterprise could no longer lead to wealth. A world dominated by self-interest excites dislike. But in the first place such a description is not altogether applicable to the existing social order,<sup>1</sup> and in the next place it would probably be equally applicable to a society organised on socialistic principles. Such a society, to work well, would require not only uncommon knowledge and talents on the part of its administration, but also an uncommonly high standard of morality among all its members. Failing that high standard, such a social order could only lead to increasing demoralisation.

Till now the strength of the socialists has lain solely in their criticism. By that criticism, even though it be exaggerated, we must endeavour to benefit. So far as constructive theory is concerned, nothing of any value has yet been contributed by the socialists.

<sup>1</sup> See Vol. I. pp. 16 *et seq.*

## CHAPTER III

### POPULATION AND PRODUCTION

#### § 1

#### **Introduction**

THE conclusions arrived at as the result of our inquiry in the last chapter were not encouraging: of depressions it was concluded that they are inevitable; of crises, that their results can only be mitigated by a well-regulated system of banking; of Trade Unions, that they cannot become powerful among a poor and backward population; of social legislation, that in principle it is absolutely unassailable, but that it is often ineffective and always difficult; of socialism, that it preaches ideals with which we are bound to feel the utmost sympathy, but that it has clothed these ideals in imperfect forms and has, so far, failed to prove that they are capable of assuming any better. What, then, remains wherewith it is possible to mitigate some of the hardships of a social order like ours, in which self-interest is permitted so much scope?

In the first place there remains charity. Charity is not only a means for helping those who have been brought to misfortune by personal circumstances; it is also a remedy, if only an imperfect remedy, against the defects of the existing social order. When, owing to some invention, or to the decline of some particular industry, hundreds of workmen are for a time unable to get employment, so that they, together with their wives and children, have to suffer weeks, perhaps months, of ever-increasing distress, this is a defect in the social mechanism, and when charity provides for the needs of those people, not only does it relieve individual suffering, but

it also performs an act which it would never be called upon to perform in a perfectly ordered society. The same is true with regard to the maintenance of persons who have been maimed in the course of their work. When a boiler bursts in a factory, and a number of workpeople are thereby rendered incapable of earning their living, the law of supply and demand simply casts these people out of the labour market, their energies are no longer worth anything. What they offer for sale is as little in request as would be a badly damaged article of merchandise. What does this prove but that a social order, which places scarcely any restriction upon the working of the law of supply and demand, is very defective? If charity intervenes to save these workpeople from starvation, its action resembles that of the engineer in the workshop who does by hand what his machine has left undone.

And then there are the old. When changes take place in the organisation of industry, when businesses are dissolved, theirs is always the saddest fate of all. When reduced demand for labour in one trade or district is balanced by increased demand for labour in another, the younger workpeople manage somehow to secure fresh employment. But who thinks of giving employment to a man of sixty, or even fifty? Even without such occurrences as those just referred to, it happens only too often that the old are deprived of their livelihood, for age is generally accompanied by infirmity, and not every employer is kindly enough, or rich enough, to continue employing labour that has lost half its usefulness. The labourer may be likened to a man of independent means, whose yearly expenditure exceeds his income; for the labourer uses up his labour power, which, in a sense, is his capital, and having used it up, he generally has no real capital to fall back upon. If charity again steps in here, is it not simply furnishing another remedy for a defective organisation of society? Production is meant to serve mankind, not mankind to serve production; and yet, if we observe the course of things, we are at times inclined to believe that the existing order of production is based on the latter idea.

Let us be honest; let no fear of the "red spectre," no fear lest labour should be emboldened to put forward unwarrant-

able demands, deter us from stating these truths frankly. Charity is still too much looked upon as something merely incidental to our social life: we give to the poor in much the same way as we give each other presents, we do it or not, just as we think fit. Young couples about to get married make up their estimates of household expenditure, but in these estimates the item "provision for the poor" usually comes last—if it is not omitted altogether. Too rarely do we find people who curtail their expenditure with a view to the needs of the poor, so that they may be able to give more liberally. We must be brought to realise that, to a very great extent, philanthropy, as it is called, is just a necessary—an absolutely indispensable—agency for assisting and improving the work of the social mechanism. The piecer at the loom, who takes up the broken threads and joins them, is not more necessary. Without true philanthropy our social order simply could not last.

There is very much to be said, therefore, in favour of poor-relief organised by State and Local Authorities, provided the limits of action of both be carefully determined. Such Authorities can provide institutions which would be too costly for private individuals; they can employ means of supervision, which are beyond the reach of such persons, and, by levying a rate, they can exact some sacrifice from those who, if they could, would evade the payment of any material contribution towards the relief of the poor. The results obtained in England do not tell wholly in favour of public poor-relief, but those obtained elsewhere—in Elberfeld, for instance—seem to show that there are better systems than that in operation in England. It is not at all necessary that, under a system of public poor-relief, the recipient should become a mere number in a register, and that his interests should receive no personal attention. It is possible for the State or other Public Authority to direct the system in such a way that the whole of the work shall not be left to officials; it can make use of the services of the citizens, and by so doing it can at the same time help very much towards the establishment of more intimate relations between rich and poor than those which, as a rule, now exist, to the disadvantage of both. In these days when the Churches are losing their influence among the

higher classes, it is more than ever deserving of serious inquiry whether private charity can be deemed sufficient. We have many charitable societies, it is true, but how small, as a rule, are not their resources compared with the existing needs? It depends for the most part upon chance whether, and if so, in what measure, a poor person shall obtain relief. It is not always those whose complaints are loudest that are most in need of help, and generally it is they who obtain the lion's share. Private charity, as a rule, is indiscriminate charity; it generally acts upon impressions and not according to fixed rules. In this way it encourages sloth and imprudence, and supports the most melancholy of all professions—that of the mendicant.<sup>1</sup>

There is a second means for mitigating the hardships occasioned by the existing social order, and it consists in bringing influence to bear upon public opinion. We must endeavour so to mould public opinion that the humane treatment of workpeople shall be regarded as a moral duty, which nobody can evade without incurring the contempt of his fellow-citizens. In this direction the State can help very much by carrying out inquiries and publishing the results; for experience has shown that nothing is better calculated to enlighten public opinion and awaken the public conscience. The reason why, in many undertakings, the interests of the workpeople are badly looked after, is in great measure explainable by the fact that scarcely any thought is given to those interests; and some people have fallen into the bad habit of giving them no thought, simply because they have never been taught otherwise. It is by destroying this habit and opening the eyes of many that good may be expected to result from

<sup>1</sup> On this subject the student would do well to consult Mr. H. SMISSAERT's academic thesis on *The State and Provision for the Poor* (Utrecht, 1893), and the equally excellent report on *The Question of Poor-relief* prepared at the request of the (Dutch) Society for the Public Welfare by Messrs. H. GOEMAN BORGESIUS, A. F. K. HARTOGH, and J. F. L. BLANKENBURG, Dr. H. J. DOMPIERRE DE CHAUFÉPIÉ, and Mr. R. J. H. PATIJN (Amsterdam, 1895). He might also consult the reports dealing with a portion of this question, which were published in 1894 at the request of the (Dutch) Society for Economics and Statistics, and the debate on the subject which took place subsequently at the annual meeting of that Society.

Government inquiries. But the State itself, as an employer, must at the same time set a good example. It can also require of those employers, whose services it utilises, that they shall apply certain principles in the interests of their workpeople.

All these things are merely palliatives, it may be said. We are quite content that they should be so termed; until some means of radical improvement are discovered, and so long as it remains uncertain that they ever will be discovered, we are bound to have recourse to palliatives. But on the other hand, let not the existing social order be judged unfairly. Great are its defects, and we have not glossed them over. These defects, however, would be much less of a hindrance than they are but for a cause which greatly increases their harmful results. And this cause is so potent that it would lead to impoverishment even if society were ordered on perfect lines. The cause in question, which we now propose to examine in detail, is the *too rapid growth of the population*.

Why is it that depressions and crises are so harmful to the lower orders? Because, as a rule, the workpeople earn too little to permit of their forming capital to any appreciable extent; when bad times come they are generally unprepared; they have no savings, and are at once plunged into the greatest distress. Why are the Trade Unions, as a rule, able to effect so little? Why are they so often unable to put forward many demands? Why are they not in a position to negotiate with the employers on equal terms at all times? Because, as a rule, their members are too poor and must consider themselves fortunate if they can obtain employment on tolerable terms. The law of supply and demand is a hard law for the working-classes, just because under its operation the most numerous class is always the weakest; if workpeople were less numerous, they would be much better off. The price of all things tends, as we know, to the point at which supply and demand balance each other, and this point is always lower according as the supply is in excess of the demand. The price of an article must fall until it reaches the point at which there are purchasers for the whole of the supply of that article in market. This is also

true of labour, as we have already had occasion to show in an earlier part of this work. But precisely the same thing is true of capital: the rate of interest must fall until it reaches the point at which investment has been found for the whole of the capital seeking investment. It is also true of land: the rent for land of a given quality must fall to the point at which cultivators can be found for the whole of that quality of land, unless that point should be below nil, in which case the whole of such land will remain uncultivated. It does not follow *a priori* that the law of supply and demand operates unfavourably for the workpeople; it is quite conceivable that it might procure a very large share of the social income for that class and compel the capitalists and landowners to content themselves with a comparatively small share. It operates unfavourably for the workpeople only when the numerical preponderance is on their side, so that they have to accept hard conditions from the capitalists and landowners. It is then that all those sufferings arise, of which we have spoken. It is then that every crisis or depression finds the workpeople in such a condition that, with any temporary stoppage of their income, they sink into ever-increasing poverty; it is then that they are practically powerless to enforce any demands respecting hours of labour, rest on Sundays, protection from the risk of accidents or of disease arising out of their work, or respecting maintenance in infirmity; it is then that they are even without the means to make provision for their old age.

We must not forget these things when we speak of the defects of the existing social order. It is only through excessive population that these defects become really serious impediments. If workpeople were much less numerous the defects of society would be borne equally by all classes, and not in a special degree by the working-classes. Workpeople would be able to adopt a totally different attitude towards employers—a less dependent attitude. Periods of unemployment would be no less frequent, but they would cause less suffering, as they would be preceded and followed by larger earnings than can now be realised. As regards culture, too, there would be less inequality between the various classes of society in most countries.

We are merely repeating here, in other words, what we demonstrated in detail when discussing the distribution of incomes. But the population question does not affect distribution only: there is another aspect from which it may be discussed. We must also inquire into population in its relation to production—the very aspect in which it is of the greatest interest. For it is only when we examine growth of population from this point of view, that we can observe its influence irrespective of any particular social order, and so obtain an insight into the fundamental causes of national poverty. We have already explained how, according as they are more numerous, the workpeople have to share on less favourable terms with the capitalists and land-owners; but what would be their condition, supposing that their numbers were to increase very much in a society where there was no such thing as private property? This is the question for which an answer must be sought, and should we find the answer to be that even under such circumstances growth of population would be attended with equally harmful results, we shall know that those are mistaken who think most in these days about transforming or regenerating society; we shall know that the problem which merits our most serious attention is a totally different one. The improvement of the existing social structure would not for that reason forfeit all claim to our attention, but it would cease to have the first claim; we should no longer be able to regard it as the *panacea* for all economic evils.

What we have here stated hypothetically is, in fact, the doctrine propounded by one whose name is always so closely identified with the population question, that it is impossible to speak of that question without thinking of him. We mean ROBERT MALTHUS. In the introduction to the present work allusion was made to the way in which his system originated, and to the circumstances which impelled him to write.<sup>1</sup> Towards the end of the eighteenth century, under the influence of the French Revolution, communism emerged; in England it found an ardent advocate in WILLIAM GODWIN, who explained and defended its doctrines, first in his *Principles of*

<sup>1</sup> Vol. I. p. 6. Cf. *Malthus and his Work*, by J. BONAR, London, 1885, *passim*.

*Justice* (1793) and afterwards in his *Enquirer* (1797). MALTHUS' father did not view these doctrines with disfavour, he was indeed in the habit of advocating them in the family circle. This led the son into the path of inquiry, and the *Essay on Population*, published in 1798, was the result. A second edition of this work, considerably altered and enlarged, was published in 1803. It will now be our business to examine this theory in detail. MALTHUS himself, towards the end of his life, furnished a short summary of it,<sup>1</sup> and we cannot do better than follow this summary, while making use of the main work for the elucidation of certain points.

## § 2

### The Malthusian Doctrine

MALTHUS begins by observing that every living creature, given proper nourishment, has a tendency to increase in a geometrical ratio, and to cover the whole earth in a certain number of years. Wheat multiplies sixfold in a single year; at this rate the earth would be overgrown with wheat at the end of fourteen years. The number of sheep could double itself in two years; at this rate there would be, at the end of seventy-six years, as many sheep to a given area all over the world, as there now are in those parts of the world where sheep are most numerous. This also applies to the human species, only it is impossible to conceive of human beings multiplying so rapidly as sheep. Still, when we consider that the rate of increase of the population in the United States of America, irrespective of immigrants, has been such as would enable it to double itself in  $22\frac{1}{3}$  years, from 1790 to 1800, in  $22\frac{1}{2}$  years, from 1800 to 1810, and in  $23\frac{7}{2}$  years, from 1810 to 1820, there are good grounds for speaking of the possibility of the population doubling itself in 25 years; especially when it is remembered that there are healthier and more fertile countries than the United States.

Assuming now that good land were available in excess of all requirements, there would be no reason whatever for

<sup>1</sup> In MACVEY NAPIER'S Supplement to the *Encyclopædia Britannica* (1824). Cf. BONAR, *op. cit.* pp. 71 *et seq.*

believing that the quantity of food-stuffs could not double itself in an equally short period of time. But there is no such superfluity of good land. So soon as the best areas have been brought into cultivation, recourse has to be had to land of an inferior quality, of which the yield per acre is less than that of the best land. And when the whole of the second-grade land has been taken in, recourse must be had to land of still inferior quality. The increase in food-stuffs, therefore, takes place under increasing difficulties, and if we assume of a densely-populated country like England or Germany that, every twenty-five years, the crops can be increased by an *equal* quantity, the assumption is certainly not too moderate; for this means that in two centuries every farm will produce eight times as much as it does now, and in five centuries twenty times as much. From this we see that the actual increase of the population in most parts of the world must be considerably less than it would be if there were nothing to interfere with it. Given adequate nourishment, the population would increase every twenty-five years in the following ratio :

1, 2, 4, 8, 16, 32, 64, 128, 256, 512, 1024,

but food-stuffs could only increase in an arithmetical progression :

1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11.

These figures might be influenced by the way in which a country was governed and by the character of its inhabitants; but even though both Government and people were perfect, the law here referred to would ultimately assert its influence. In the end it would be necessary either to reduce the birth-rate or to allow the death-rate to rise. In other words, the hard truth that the population cannot double its means of subsistence every twenty-five years would have to be reckoned with, because it would be found that Nature's laws cannot be ignored with impunity. Good government helps for a time only, it defers the evil. "If, merely since the time of William the Conqueror, all the nations of the earth had been well governed, and if the distribution of property and the habits of the rich and the poor had been the most favourable to the demands for products and labour, though the amount

of food and population would have been prodigiously greater than at present, the means of diminishing the checks to population would unquestionably be less"; for it is more especially owing to misgovernment on the part of our ancestors that many areas have been left out of cultivation.

The conclusion to which all this leads is obvious. Moral restraint, self-control in sexual matters—herein we have the sole means of preventing the impoverishment of mankind, and as this remedy is but little applied, least of all by the working-classes, no further explanation of the misery which we see everywhere around us is needed. Whenever a large population has to share the same quantity of food-stuffs as had previously been shared by a small population, wages decline and food becomes dearer. The growth of the population is then arrested spontaneously, and in the meantime production increases; when this has taken place to the extent that may be necessary, a reasonable degree of welfare is once more restored; but then the population increases again and in a little while things are as bad as they were before. So it goes on, and there is never any lasting improvement. We have a series of good years, but it is invariably succeeded by a series of bad years. High prices and low wages stimulate production, but the increased production causes renewed growth of population, and the high prices and low wages return once more.

Is it possible, as GODWIN suggests, to break through this vicious circle by abolishing private property altogether, and constructing society on a communistic basis? Judging by appearances one is apt to believe that communism is a solution for all difficulties, and it is not surprising that we are constantly having it brought to our notice. We see certain classes having more than enough, while others are in want, and to the superficial thinker the natural remedy seems to consist in equal division of products. We see a large amount of labour power expended on objects which are trivial or superfluous, and sometimes absolutely harmful, and we ask if it would not be a great gain to employ this labour for other purposes. We see one invention after another increasing production, but no proportionate increase of welfare resulting therefrom, and we naturally doubt the efficacy of a social order which makes such a thing possible. Though the world

should last for thousands of years to come, communistic theories, however often they may be suppressed, will always reappear and exercise a fascination over many. But all such theories suffer from two defects. Disproportion between production and population; that is the evil for which a remedy is wanted. Now under communism, supposing it were introduced, the incentive to produce would be weakened, the incentive to increase the population would be strengthened, thus the exact opposite of what is necessary for increase of welfare would take place. The incentive to produce would be weakened because the natural reward of good conduct, the prospects which now encourage people to be diligent and strenuous would be lacking. The growth of the population would be greater because all motive for the exercise of moral restraint would have disappeared. All being equally rich or equally poor, none would feel called upon to practise this virtue to a greater extent than their neighbours. Early marriages would take place, even more frequently than they do in these days, when many men defer marriage until they have acquired the means to support a family. Under the existing social order a natural barrier against early marriages is set up, a barrier which is absolutely indispensable. What is it proposed to substitute for this? Acts of Parliament? But what kind of enactment would be of any avail in this matter? None but such as would be too harsh, too inhuman to be thought of in any civilised country.

Would not the remedy lie in emigration? Undoubtedly emigration is very good as a palliative. It sometimes happens that, owing to special causes, welfare increases with unwonted rapidity in a country during a series of years, and then the population of that country increases at a greater rate than usual. When these causes cease to operate, the labour market continues for a time to be overstocked and great distress is the result. Under such circumstances emigration offers an excellent solution for the difficulty. Moreover, it promotes the spread of civilisation and enlarges the field of production. But if we look upon emigration as a means of affording the population an opportunity of increasing at the rate at which it naturally tends to increase, we make a serious mistake. The flow of emigration can never be strong enough for that,

and if it were, the countries towards which it was directed would soon become over-populated. Applied within certain limits, emigration provides a palliative, but it can never prove a means of release from the obligation which rests upon the human race to restrict its rate of growth, or else suffer the penalty of diminished welfare.

The above short review of the Malthusian doctrine will probably suffice for our purpose, as it touches upon all the points which require to be investigated. We usually hear it spoken of as a doctrine relating to population, though it might, with equal propriety, be called a doctrine relating to production, for it relates to the possible rate of increase of production. There is even a third name that might fittingly be applied to it. The Malthusian doctrine is a doctrine concerning the average income, for it contends that, with an excessive birth-rate, the death-rate must increase, otherwise the average income of each individual will become smaller and smaller. It has now been made clear what direction our inquiry must take. We have to see whether MALTHUS is right in what he says, first as regards population and next as regards production. Is it true that, whenever the population fails to double itself in twenty-five years, some disturbing influence must have been at work to prevent it? Is it true that production cannot (on the average) increase at a rate exceeding that of the arithmetical series given by MALTHUS?

### § 3.

#### **Examination of the Malthusian Doctrine**

The contention of MALTHUS that, in the absence of opposing influences, the population of a country is capable of doubling itself in twenty-five years, is not always properly understood. P. LEROY-BEAULIEU, concerning whose attack upon the Malthusian doctrine of population we shall have more to say presently, fancied that he had refuted it by showing that in no country had so rapid an increase of population ever yet been achieved through natural growth. He overlooked the fact that though experience may throw much light upon this subject, it cannot throw full light upon

it, seeing that the opposing influences, which MALTHUS had in mind, have always been operating. An illustration may serve to show wherein LEROY-BEAULIEU has erred. We want to find out what the results would be if a particular wheel in a machine, say, could revolve unimpeded by any resistance whatever. Owing to the circumstances of the case this cannot be discovered by experiment; it is only by reasoning, therefore, that we can find out what we want to know. By means of this reasoning we arrive in due course at a certain conclusion as to what the results would be. Can it be regarded as a refutation of that conclusion if some one should show that the results described have never yet been known to take place? It seems as though LEROY-BEAULIEU really thought it could.

MALTHUS wants to know if it is necessary that growth of population should be checked by the will of man; he wants to know whether, in the matter of the reproduction of the race, mankind is free to follow its natural bent without incurring any risk. For this purpose he has to find at what rate the human species is capable of multiplying in the absence of impeding causes. He wants to measure a force which is impeded by the operation of various causes, some of them inherent in, others extraneous to mankind. He cannot attain his object by studying the operation of this force, for in doing so he is at the same time observing the disturbing influences of the opposing forces. The experience of countries in which the influence of the opposing forces has been small is, of course, of some value here; this value, however, is, from the nature of the case, only relative, because, as MALTHUS himself remarks, even where the circumstances are most favourable, there is always some disturbing influence at work. LEROY-BEAULIEU takes much pains to demonstrate that the growth of the population in the United States in certain periods, at a rate that would enable it to double itself in twenty-five years, has been due to immigration to a far greater extent than appears from a superficial examination of the figures. In itself the demonstration is interesting, but it affects MALTHUS only in so far as he has invoked the experience of the United States; and, as we know, he does not cite the United States as an absolute corroboration of his

theory, but qualifies his appeal to that country with the remark to which we drew attention above.

Only by calculating and reasoning can we arrive at a solution of this question. And these are the means which we now propose to employ. In doing so, we have at our disposal far more abundant and trustworthy statistics than those which were available at the beginning of the nineteenth century.

First, let us put the question in a concrete form. If, in a given country, the yearly birth-rate exceeds the yearly death-rate by 100 per 10,000 inhabitants—suppose the former to be 400 and the latter 300—the population of that country, without any immigration, will increase at the rate of 1 per cent. annually, as follows :—

$$\begin{aligned} 100 + 1 \text{ per cent.} &= 101 \\ 101 + 1 \text{ ,,} &= 102\cdot01 \\ 102\cdot01 + 1 \text{ ,,} &= 103\cdot0301 \end{aligned}$$

so that there is added to the population each year not 1 per cent. of the original number, but 1 per cent. of the increasing number.

The following table shows in how many years the population would double itself at different rates of annual growth, from 0·5 to 3 per cent. :—

RATE OF ANNUAL GROWTH.		NUMBER OF YEARS WHICH IT WOULD TAKE FOR THE POPULATION TO DOUBLE ITSELF AT THAT RATE.	
0·5	per cent.	.	139 years.
0·6	"	.	116 "
0·7	"	.	95 "
0·8	"	.	87 "
0·9	"	.	74 "
1·0	"	.	69 "
1·25	"	.	56 "
1·5	"	.	46 "
1·75	"	.	40 "
2·0	"	.	34 "
2·25	"	.	30 "
2·5	"	.	28 "
2·8	"	.	25 "
3·0	"	.	23 "

From this we see that the excess of births over deaths must be 2·8 per 100, or 280 per 10,000 inhabitants, if the population is to double itself in twenty-five years. Is this possible ?

In the period 1865 to 1883 the number of births (excluding still-births) per 10,000 inhabitants in the whole of Europe was, on the average, 387.

The highest figures were those of:

Russia (exclusive of Poland) . . . . .	494
Croatia and Slavonia . . . . .	453
Servia . . . . .	436
Hungary . . . . .	430
Wurtemberg . . . . .	426
Saxony . . . . .	424
Russian Poland . . . . .	419

The lowest figures were those of:

France . . . . .	254
Ireland . . . . .	264
Greece . . . . .	284
Roumania . . . . .	297
Switzerland . . . . .	302
Sweden . . . . .	302
Norway . . . . .	308
Denmark . . . . .	313
Belgium . . . . .	315
Portugal . . . . .	319

Between these extremes lay:

England and Wales . . . . .	351
Scotland . . . . .	347
Holland . . . . .	359
Prussia . . . . .	388
Bavaria . . . . .	385
Austria . . . . .	384
Spain . . . . .	339
Italy . . . . .	368 <sup>1</sup>

Let us now consult the mortality statistics. In the period 1865 to 1883 the average number of deaths per 10,000 inhabitants in the whole of Europe was 281.

The highest figures were those of:

<sup>1</sup> These figures and those which immediately follow them are taken from RAWSON'S paper "On International Statistics" in the *Bulletin de l'Institut International de Statistique*. Tome i. p. 178. Later figures will be found in the next section of the present work.

Those interested in population statistics could not do better than consult the latest edition of Prof. ADOLF WAGNER'S *Grundlegung der politischen Oekonomie* (Erster Theil: *Grundlagen der Volkswirtschaft*, Viertes Buch), and Dr. VON JURASOHEK'S *Übersichten der Weltwirtschaft*, pp. ciii-cxvi.

Croatia and Slavonia . . . . .	387
Hungary . . . . .	382
Russia (exclusive of Poland) . . . . .	357
Wurtemberg . . . . .	315
Austria . . . . .	310
Bavaria . . . . .	306

The lowest figures were those of:

Norway . . . . .	172
Ireland . . . . .	178 <sup>1</sup>
Sweden . . . . .	189
Denmark . . . . .	197
Greece . . . . .	208
Portugal . . . . .	210
England and Wales . . . . .	214
Scotland . . . . .	214
Belgium . . . . .	224
Switzerland . . . . .	235
France . . . . .	238

Between these extremes lay:

Holland . . . . .	246
Prussia . . . . .	265
Saxony . . . . .	290
Spain . . . . .	291
Italy . . . . .	291
Servia . . . . .	267
Roumania . . . . .	254
Russian Poland . . . . .	268

It will be seen from these figures that in a country with a birth-rate like that of Russia during the period 1865-83 (494 per 10,000 inhabitants), and a death-rate like that of England and Wales during the same period (214 per 10,000), the population would double itself in twenty-five years.

But it is far from certain that even under the most favourable economic conditions such a birth-rate and such a death-rate could be found in conjunction. Of every 1,000 infants born alive, the number who died during the first year of life was 296 in Russia in Europe (1871-79), while in Great Britain (1871-80) it was only 145,<sup>2</sup> and there is reason for believing that this high rate of infant mortality is connected with the high birth-rate. People marry very young in Russia. As all the previous figures relate to the period

<sup>1</sup> The low birth-rate and death-rate in Ireland are due to emigration.

<sup>2</sup> *Statistik des deutschen Reichs*, Neue Folge, Band 44, p. 71 of Introduction.

1865-83, we will prove this from statistics relating to a part of the same period (1870-82). According to LEVASSEUR,<sup>1</sup> the proportion of persons who, at the time of their marriage, had not reached the age of 20 was as follows (per 1000):—

	Men.	Women.
Russia in Europe . . . . .	378	580
England and Wales . . . . .	33	144
Scotland . . . . .	31	134

These figures give food for thought. It is quite possible that children born of very youthful parents have a smaller chance of life than others; if this were really the case, we should be wrong, statistically, in calculating as we have been doing. A very high birth-rate, like that of Russia, can only be looked for in the case of early marriages, and it is conceivable, to say the least, that early marriages make a high rate of infant mortality, and therefore a high death-rate for the population as a whole, inevitable.<sup>2</sup>

<sup>1</sup> *La Population française*, Part II. pp. 215-216. Figures, both more recent and more complete, are given in § 5 of the present chapter (p. 163).

<sup>2</sup> Cf. ADOLF WAGNER's *Grundlegung*, 3rd edition, pp. 502-503. WAGNER emphasises other factors, viz., that "with the number of births, infant mortality rather increases than declines, because the children receive less attention, because they succeed each other too quickly, and perhaps for that reason too, are weaker," etc.

Between the birth-rate and the percentage of infant mortality there is no *fixed* ratio, as may be seen from the following Table which is based upon data contained in the *Statistik des deutschen Reichs*, Neue Folge, Band 44, pp. 11 and 71 of the Introduction. The figures relate to the years 1871-80 (occasionally to a somewhat shorter period).

	No. of Births (including Still-births) per 10,000 Inhabitants.	No. of Deaths during First Year of Life among every 1000 Live-born Children.
Russia in Europe . . . . .	493	296
Galicia and Bukowina . . . . .	456	257
Germany . . . . .	406	230
Holland . . . . .	384	203
Finland . . . . .	381	167
Italy . . . . .	380	214
Austria (West) . . . . .	377	256
Great Britain . . . . .	354	145
Belgium . . . . .	341	169
Denmark . . . . .	325	138
Switzerland . . . . .	322	194
Norway . . . . .	321	104
Sweden . . . . .	315	130
Roumania . . . . .	298	197
Greece . . . . .	276	138
France . . . . .	266	166

} Excl. of Wur-  
temberg, Sachs-  
Meiningen, and  
Hamburg.

It is quite comprehensible, therefore, and even justifiable, that the possibility of the population doubling itself in twenty-five years should have been contested. The experience of the United States—as LEROY-BEAULIEU rightly judges—does not afford strong enough proof, because the population figure of that country was influenced by immigration to a greater extent than MALTHUS supposed. The “natural” growth of the population of a country like the United States of America can never be calculated accurately; for a large proportion of the immigrants are married or marriageable people, so that their arrival is likely to cause a considerable increase in the number of births. When experience affords no light, and calculation is the only available means of finding what we want, we should go to work very cautiously, and it is to be feared that MALTHUS was not mindful enough of this rule when he assumed that the population could double itself in twenty-five years.

He need never have incurred the charge of exaggeration, however, if, instead of every twenty-five years he had said every forty years. Even in Europe—where poverty is to be found in every country, and mortality is therefore everywhere greater than it would be in a community such as MALTHUS had in his mind—there are countries where the natural growth of the population approximates fairly closely to the rate (1·75 per cent.) required in order to double itself in forty years. From 1865 to 1883 the annual excess of births over deaths was <sup>1</sup>

In Holland . . . . .	1·13	per cent. of the population ;
„ Germany . . . . .	1·24	„ „ „
„ Norway . . . . .	1·36	„ „ „
„ England and Wales . . . . .	1·37	„ „ „
„ Russia (exclusive of Poland)	1·37	„ „ „
„ Russian Poland . . . . .	1·51 <sup>2</sup>	„ „ „

the last of these rates being such as to enable the population to double itself in forty-six years.

<sup>1</sup> RAWSON, *op. cit.* p. 178.

<sup>2</sup> Since the above was written the birth-rate has greatly diminished in many countries, but the death-rate has diminished still more, thus causing the annual excess of births over deaths to increase. In Holland this excess amounted in each of the years 1900-1903 to no less than 1·51, 1·55, and 1·60 per cent. of the population.

In our further treatment of this subject we will substitute the figure 40 for the figure 25 which MALTHUS takes as the number of years in which the population can double itself. He himself repeatedly declares that we are free to alter the figure in this way, for he thinks his arguments would still hold good even if a much longer period than twenty-five years were held to be necessary in order to enable the population to double itself.

Let us now turn to production. Is MALTHUS right in his contention that it is impossible for production to double itself every twenty-five years, for which figure likewise that of forty might be substituted?

Here a difficulty arises, because it is not quite clear what MALTHUS meant. Did he mean it to be understood that if, in a given period of time, the productive forces of mankind were increased twofold, this would not of itself ensure the doubling of the returns of production? That if 1,500 millions of people inhabit the earth and their number grows to 3,000 millions, the mere fact that these 3,000 millions are twice as numerous as the 1,500 millions will not enable them to produce twice the quantity of goods? If that is what he meant, if, therefore, MALTHUS assumed that capital would not grow, and moreover that mankind would not advance in knowledge and skill, then he has proved his contention at once. For, if capital, knowledge, and skill remain stationary the average quantity of goods produced per individual must of necessity decline, since the most fertile and favourably situated areas are as a rule under cultivation, and increase of production can therefore only take place on the less fertile and less favourably situated areas. In that case, however, MALTHUS has proved more than he perhaps intended to prove. His conclusion ought then to have been that increase of population, *at however slow a rate it proceeds*, gradually reduces the average income.

This conclusion would be true of countries where the population had reached such a degree of density as to permit of a proper distribution of labour. Not all countries are in this condition; in some there is still a redundancy of fertile lands. There are districts where large factories could not exist, because there would be too small a market for the

products which they supplied; where, moreover, agriculture and stock-rearing could be considerably extended without necessitating the employment of very much capital. In such districts the doubling of the population would have the effect of more than doubling the amount of produce obtained, for, owing to the increased amount of labour-power, a better distribution of labour would have become possible. Mr. W. C. MEES<sup>1</sup> rightly observes that "in order to be able to make full use of the advantages which a country offers for industry, a certain density of population is often necessary, and this applies not only to commerce and manufactures, but also to agriculture. Until the required degree of density has been attained, increase of population, instead of hindering, actually facilitates the production of the quantity even of agricultural produce required for the support of the existing population.

"That is why there are always great difficulties to encounter in connexion with the first establishment of agricultural colonies, even in fertile and well-situated regions. But once the initial difficulties have been overcome, the conditions readily become favourable enough to cause population and capital to increase both by spontaneous growth from within and by influx from without; and under such circumstances this increase is not at all detrimental to welfare. On the contrary, welfare is advanced still further, owing to the better organisation of industry which has become possible in consequence. This advance in welfare creates a fresh incentive for increase of population and capital; and we find the density of the population and the volume of industry in such countries growing with wonderful and ever-increasing rapidity, while the level of welfare is maintained and even raised."

But this condition of things does not apply to Europe, to the greater part of Southern Asia, or to the Eastern States of the North American Union. Of the countries comprised within these areas, it can be proved that increase of population, however slowly it may proceed, tends to bring about increase of poverty. This does not mean that in those countries increase of population must necessarily be accompanied by increase of poverty; for, while the population is increasing, new inventions may be applied, more capital may be formed,

<sup>1</sup> *Overzicht van eenige hoofdstukken der Staatshuishoudkunde*, p. 152.

the workpeople, through better education and higher civilisation, may learn to apply their labour power more effectually. But even though all these things should happen, the increase of population would still have a detrimental effect in itself. Any advance in welfare would not be due to the increase of population, in fact it would have been achieved in spite of such increase.<sup>1</sup>

When growth of population is accompanied by various occurrences that operate favourably upon production, and the average *per capita* income then increases, the growth of population will have exercised its harmful effects all the same: there would have been a far greater increase of the average income had there been no increase of population.

MALTHUS had no need of his geometrical series in order to prove the proposition which we now assume it to have been his intention to proclaim. He had only to point out that all industry requires raw materials, and that with the same amount of labour poor land will yield less than rich land, a half-exhausted mine less than one on which work has only just been begun. To those who would have seen a strong argument against his doctrine in the fact that, in many parts of the earth, good land and rich mines are still plentiful, he might have put the question whether it costs no labour, first to transfer people to remote regions, then to transfer products from those regions to the place of consumption; whether sites of agriculture and industry a long way off are just as eligible as those that are near at hand. In this way MALTHUS might have considerably reduced the size of his book, and his conclusion would have been incontrovertible.

There is only one consideration which can make us hesitate to speak of growth of population as of a thing which is harmful in itself. Does it not create an incentive to exertion; would not diligence decline if the population ceased to grow? There are those who assert that it would. They point to the many great men who have sprung from very large families, and they are of opinion that these men would have been less great, or at any rate less energetic if they had belonged to smaller families. In a large family with a limited income each member has to brace himself.

<sup>1</sup> Cf. Vol. I. pp. 32, 33.

From their infancy upwards the children are taught that labour is the law of life. The result is that each child begins from an early age to fit himself for some occupation, and often such a child attains far greater prosperity than he would ever have achieved if his parents had only had a small family. LEROY-BEAULIEU lays great stress upon these considerations.<sup>1</sup> His contention is that in small families inordinate care is given to the education of the children; their education is too effeminate, not such as to build up character. Hence stationary populations gradually become effete and too little inclined to enter upon new paths. We then find that such efforts as the upper and middle classes make to better themselves are confined to saving; whatever is difficult or dangerous is avoided; the highest ambition is to enter the public service. In order to grow strong within and without, a nation must increase gradually in numbers. Such is the conclusion arrived at by LEROY-BEAULIEU.

There is an element of truth in these arguments; where they err is in applying to all members of the community what is true of only a very few. It cannot be denied that among the well-to-do middle classes a numerous family is an incentive to work. Any one, from his own personal observation, could testify to this. Whoever is certain of succeeding to a large fortune, whoever has even a prospect of inheriting a moderate fortune, lacks an incentive to work, which others possess. But now let us turn from the upper and middle classes, and let us consider those who form the great mass of the population in every community, especially in Europe; whose whole income consists in wages earned by manual labour; for whose children nourishing food can sometimes be obtained only through charity, and proper education can never be provided without monetary aid from State or Church or private individuals. The daily occupation of the parents would in itself suffice to prevent their giving much attention to education, and the child must begin to earn as soon as possible, often as soon as ever the law permits. We see these little ones as we go through the working-class quarters of our cities, and we cannot but pity them. How little care they get; both body

<sup>1</sup> *Traité*, Part IV. p. 628.

and soul are often neglected; nor can we find the heart to blame their parents overmuch, knowing as we do what difficulties they have to contend with in order to provide bare necessaries for their numerous offspring. With such pictures before our mind, how can we feel impressed by the words of those who would have people beware lest there should be any decline in the size of the family; who warn them against the enervating results of such decline; who prate about the care of parents for their children becoming inordinate, about big families producing strong men, and more to that effect? Enervating results! What can be more enervating than want? Inordinate care, forsooth! We should hardly have thought there was any great danger of that.

LEROY-BEAULIEU had only the French middle classes in his mind. From his own data we learn that, in the years 1886-88, there were, on an average, 253 births for 10,000 inhabitants in Massachusetts, 225 in Connecticut, and 233 in Rhode Island; figures which differ little from those of France. There is no mention of any enervating results having been observed in these States. Neither do we hear any unfavourable reports as to the industrious habits of the peasant proprietors of France, among whom, as it happens, the two-child system is very generally adopted. On the other hand, we are not told that these small proprietors have any great reputation for knowledge; which suggests that their parents did not bestow inordinate care on their education.

Another argument in support of the proposition that a small population exercises an adverse influence upon diligence and initiative appeals to the bracing effect of the struggle for existence, which must be milder in a thinly peopled country than elsewhere. Quite so, but there are other stimuli to take its place. The civilised man requires to be more roomily housed and better clothed than the uncivilised; his pleasures must be of a higher and more expensive order; he desires a more careful education for his children. All this furnishes a strong motive for exertion. There is, indeed, a degree of wealth at which the inclination to engage in economically productive work disappears, at least with many; but checking the growth of the population can never enable the great majority to attain such a degree of wealth as that; it is much

more likely to have the effect of preventing the formation of large fortunes, because it will operate in favour of a more equal distribution of wealth. All that can be expected from it is that it will bring somewhat easier circumstances to those who are now maintaining a precarious existence. Then, too, the food of the working-classes will be more nourishing, and their working power, now so often deficient, will be increased. Fewer hours will be worked, perhaps, but those hours will be more productive.

As the level of welfare rises, the struggle for existence will change, but not diminish; it will become a struggle, not for life itself, but for the comforts of life, and there is no reason to believe that this latter struggle will be less severe. It will be a struggle like that in which, already now, we may see the banker engaged when he does not want to be forestalled by his fellow-bankers; or the manufacturer, who wants to attain a high standing in his trade; or the shopkeeper or dealer who wants to compete successfully. If we were bound to assume that, with advancing welfare, wants would remain stationary, we should not be right in saying what we have said. But as welfare increases, wants increase, even more rapidly as a rule.

What MALTHUS teaches concerning production admits of a second construction, according to which his proposition should be stated as follows: "However much capital may be formed, and however much progress achieved in agriculture and industry, it is even then impossible for production to double itself regularly in short periods, whether of twenty-five years or of forty years." MALTHUS' doctrine has indeed been often interpreted in this sense, and then it has been regarded by some as quite untenable and by others as an axiom.

It is both. It is absolutely untenable if we take a short period; it becomes less and less improbable as we take a longer period; it becomes absolutely irrefutable if we take a period extending over centuries.

From 1852 to 1858 the average annual yield of the American cotton crop was 3,351,540 bales; from 1893 to 1896 it was 8,194,000 bales. In 1864 the average yield of

sugar in Java per acre was 28 cwts. ; in 1891-94 it amounted to twice as much. Between 1860 and 1890 the world's output of mineral coal rose from 136 to 514 millions of tons, and the production of iron from 7.4 to 27.3 millions of tons. In the face of such examples—and many more might be given—it is impossible to deny that production may double itself in forty years. It is true that the rate of increase is often slower. THOROLD ROGERS<sup>1</sup> assures us that in England in the thirteenth century an acre of land yielded, on an average, 8 bushels of wheat, and that 13 bushels to the acre was considered a heavy crop ; the average yield per acre now is 28 bushels,<sup>2</sup> so that in six centuries the yield per acre has not doubled itself even twice. We have no grounds, however, for denying the possibility that in forty years' time the quantity of all kinds of goods produced may be twice what it is now. Nobody can tell what inventions may be perfected, what improvements made in agriculture, what fertilisers, for instance, may be discovered and what their virtues may prove to be. Neither can any one tell what the future has in store as regards the formation of capital. Then the means of transport may become quicker and cheaper, so that the colonisation of distant countries will no longer be attended with the same difficulties as it is in these days.

But now let us look further ahead. The forty years have passed: the United States produce, not 8, but 16 million bales of cotton ; the yield of sugar per acre in Java instead of being 56 cwts. is 112 cwts. The production of coal, iron, wheat, live-stock --of everything in fact, has doubled. The 1,500,000 head of cattle and 264,000 horses who now find pasture on an area of 2,717,000 acres in Holland, and whose number has grown but little since 1871,<sup>3</sup> have increased to 3,000,000 and 528,000 respectively. Is it likely that, in another forty years, these figures will again have increased

<sup>1</sup> *Six Centuries of Work and Wages*, pp. 41 and 119.

<sup>2</sup> *Journal of the Royal Statistical Society*, 1896, p. 673.

	1871.	1894.
<sup>3</sup> Horses . . . . .	252,200	263,800
Cattle . . . . .	1,376,000	1,508,300
Sheep . . . . .	668,000	665,300
Goats . . . . .	135,100	167,500
Swine . . . . .	318,600	640,200

twofold? And yet again after a further forty years have passed? Is it likely, for instance, that in 120 years from now there will be 12,000,000 head of cattle and 2,112,000 horses in Holland? The most sanguine minded would hesitate to reply that it is, and the larger the number of doublings involved in the question the greater would his hesitation be.

The question may be looked at from yet another point of view. And now we will abandon the fictitious figure 40 and adhere to actual facts. According to LEVASSEUR<sup>1</sup> the population of Europe increased between 1801 and 1886 (in spite of emigration) from 175 to 360·9 millions; so that it more than doubled itself in those 85 years. Suppose that it had doubled itself and no more, and suppose for one moment that this process of doubling goes on. The result will be that in

5 × 85 years from 1886 there will be	32 times.
10 × 85                   "           "	1,024   "
15 × 85                   "           "	32,768   "
360·9 millions of inhabitants in Europe.	

Thus,

at the end of	425 years there will be	11,548 millions.
"           "	850                   "           "	369,561   "
"           "	1,275                 "           "	11,825,971   "

Or shall we express it in another way?

According to ADOLF WAGNER<sup>2</sup> the mean density of the population in Europe at the present time is 37 inhabitants per square kilometre.

In 425 years it will be	1,184 inhabitants per square kilometre.
" 850                   "	37,888 <sup>3</sup> "           "
" 1,275                 "	1,212,416                 "           "

As a square kilometre is equal to a million square metres, the average space available per individual at the end of 1,275 years will be a little more than 0·82 of a square metre; 85 years later it will have dwindled down to 0·41, and after a further 85 years to 0·21 of a square metre. Does any one

<sup>1</sup> *La Population française* (Paris, 1892), p. 240.

<sup>2</sup> *Grundlegung*, p. 572.

<sup>3</sup> A town in which there are 18,000 to 20,000 inhabitants per square kilometre (say, 49,000 per square mile) may be considered to be fairly densely populated (see Vol. I. p. 145).

believe this to be possible? Dare any one suppose that there will be enough means of subsistence for such a densely-packed population? A moment's reflection must enable any one to see quite clearly that it would be impossible for production to keep pace—at any rate in the long run—even with such growth of the population as the nineteenth century has witnessed. It might do so for a time, perhaps for a couple of centuries; but once America had become densely populated, so that it could no longer export any food-stuffs, and so soon as all the fertile areas in other parts of the world, where grain might be grown, had been brought into cultivation, we should have reached the limit fixed by nature. Evil days would then be in store for mankind, unless the births declined very much in number. Average incomes, more especially wages, would fall lower and lower, and the death-rate would rise in proportion.

MALTHUS might, therefore, very well be defended if his doctrine concerning production were meant to be interpreted as we have been supposing. We do not believe, however, that it was intended to be so interpreted. He took his stand upon experience—the experience of his own time and environment. He was speaking not in the abstract, but with concrete conditions before his mind. His doctrine, as we understand it, was as follows: “Unless means that battle our most sanguine expectations be found for increasing production, we cannot hope that it will increase more rapidly every twenty-five years than at the rate expressed by the arithmetical series 1, 2, 3, etc. This is the maximum. In conceding that such a rate of increase is possible (with such growth of capital as now takes place and such development of industry as now seems probable) we are already conceding very much; our proposition would still hold good even if somewhat longer periods of time were substituted. Whoever denies the necessity for moral restraint must, therefore, show that we have greatly understated the growing capacity of production; he is bound to prove that that capacity is likely to increase to such an extent as may be necessary in order to convert the arithmetical series: 1, 2, 3 into a geometrical series: 1, 2, 4. It is not to be expected, however, that this proof will ever be forthcoming. From what we know of the conditions under

which production takes place, we are certain that even a continuous increase in the ratio of 1, 2, 3, every twenty-five or forty years is highly improbable, and what those conditions will become in a remote future nobody can say. In the light which we now possess, no conclusion other than that at which we have arrived would be justified. But then it is evident that the only means by which a considerable increase of the death-rate can be avoided, the only means also by which, in the long run, the average income can be made to rise, is a decline of the birth-rate. The remedies for excessive growth of population are of two kinds, the one preventive the other repressive. Mankind applies the former, nature the latter. Recourse must be had to the preventive remedies in order to avert the necessity for nature's applying the repressive ones. The remedies which nature employs are impoverishment, shortening the duration of life; the best remedy which mankind can apply is self-restraint."

Apart from the very last point, as to which we shall have something further to say at the end of the present chapter, all this appears to us to be incontrovertible. If it be granted that, under the most favourable conditions conceivable, it would *ultimately* become impossible to find enough means of subsistence for a population which keeps doubling itself within comparatively short periods, then it must be admitted as being beyond all question that under conditions of production such as existed in Malthus' time, this improbability will much sooner become manifest. In fact, the conditions of production assumed by MALTHUS in propounding his doctrine were no other than those which then existed.

But our interest in a distant future is not very great, and in our own time, owing to increased transport facilities and improved processes, production has made strides of which MALTHUS could never have dreamt. The question whether MALTHUS' doctrine has any importance for us is therefore not altogether irrelevant. We might concede that it will some day become a burning question for mankind, and still be doubtful whether that day was very imminent. Let us examine, therefore, whether the Malthusian doctrine has any practical bearing for the present generation and for the generations that will follow, not in a distant but in a nearer future.

We hold that it has, for however true it may be that production has made giant strides in our time, it is equally true that the population is growing with unwonted rapidity. RÜMELIN<sup>1</sup> asserts, on the authority of WIETERSHEIM, that the European parts of the Roman Empire had a population of 45,000,000 in the second century A.D.; this figure must be regarded as very high if Dr. BELOCH<sup>2</sup> is right in putting the number of inhabitants in all Europe at the time of Augustus at 30,000,000 only. The number of inhabitants occupying the same area in 1882, as calculated in that year by RÜMELIN, was 156,000,000, so that the yearly growth since the second century cannot have exceeded 0·07 per cent. A population growing at that rate would double itself in 950 years; but between 1801 and 1886 the population of Europe increased more than twofold! THOROLD ROGERS<sup>3</sup> reckoned that the population of England from the thirteenth to the fourteenth century, therefore about the year 1300, can scarcely have amounted to 2,500,000; in 1811 it amounted to over 10,000,000, which means that it doubled itself, on an average, every 250 years. But in 1861 it had risen to 20,200,000, so that in those fifty years its growth was as great as it had previously been in a period five times as long.

The growth of the population in Holland, as shown by the results of the six last censuses, was as follows—the population on 1st January 1830 being represented by 100:—

January 1, 1830 . . . 100	December 1, 1869 . . . 136·97
„ 1, 1840 . . . 109·46	„ 31, 1879 . . . 153·54
November 19, 1849 . . . 116·97	„ 31, 1889 . . . 172·62
December 31, 1859 . . . 126·62	„ 31, 1899 . . . 195·29

From which it appears that the population of Holland in 70 years has increased by 95 per cent. But to give more figures would be unnecessary. It may be true that, in our time, production has made astounding progress, but it is equally true that this astounding progress has been absolutely necessary in order to keep pace with the growth of population. Growth of production at such a rate as has been achieved in

<sup>1</sup> In SCHÖNBERG'S *Handbuch*, p. 1242.

<sup>2</sup> *Die Bevölkerung der griechisch-römischen Welt*, Leipsic, 1886, p. 502.

<sup>3</sup> *Six Centuries of Work and Wages*, p. 119.

past centuries, or even at a much greater rate, would not suffice in these days.

We must also remember that a rate of growth sufficient to enable it to *keep pace with* population is not all that we require of production; it must grow more rapidly than the population, otherwise the average income will never rise. Suppose that the Dutch census of 1909 were to show that the population of Holland had again increased by 13 per cent. in the preceding ten years, and that statistics were to show that the income of the nation, too, had increased by 13 per cent., the people of Holland might comfort themselves with the reflection that no economic decline had taken place; but there would certainly be no sign of economic progress. And it is urgently necessary that there should be progress. The more we think about the average income, the more inclined are we to regard it as insufficient. If it were to be equally divided, it is very improbable that each individual's share would be large enough to support him in moderate comfort, not even on the assumption that the aggregate of production suffered no shrinkage owing to the measures necessitated by the policy of equal division. There is always a danger, as we observed once before, of overestimating the aggregate income of a people. Gifts, payments for non-economic labour, interest for capital already consumed, in fact all incomes derived from those of other people, are counted more than once in the total. People forget as a rule that part of incomes must be set aside, not only in order to repair loss (through disasters and wear and tear), but also to strengthen the means of production.<sup>1</sup> A correct estimate of the amount of income available for spending can only be arrived at by making a total of everything that is *consumed* and not of everything that is *enjoyed*. This alone is the true method, and although statistics have not yet been developed sufficiently to allow of this method being applied with precision, still, we know enough already to enable us to suspect what their results would be. We know, for instance, that the number of rich people is very small in proportion to the number of those who can only manage with difficulty to support themselves, so that the average income available for consumption cannot

<sup>1</sup> See *ante*, pp. 28-31 and 96-97.

be influenced to any very great extent by the presence of the former. Here again we are unable to speak with perfect accuracy, and can only rely upon impressions. But when all is considered, these impressions do not favour the notion that some ideal ratio should exist between the population figure and the sum-total of products available for consumption. Moreover, even if the average income were fairly large, what would it avail the workpeople if their own income could never reach that average? Growth of population has a double significance for the workpeople, in connexion with the economic laws which determine, on the one hand, their incomes, that is their money wages, and on the other hand, their main objects of expenditure, namely housing and food. Both of these subjects have been fully discussed in the first part of this treatise, to which the student is referred. Nowhere do the theories of production and consumption touch each other so closely as they do in the field which we are now investigating.

Even if it were true—which we deny—that, under a system of equal division, increase of the average income would not be strictly necessary, this ideal of equal division can never be realised under the existing social order. And if the present social order were abolished, the average income would decline again of itself, so that nothing would have been gained. So we always come back to MALTHUS. He has pointed out the road that may lead to the raising both of the average income and of the share of that income which accrues to the workman.

He has also taught that we should judge every measure enacted in the interests of the working-classes by the effect which it will have on the growth of the population. This is not the only, or indeed the principal, standard by which we ought to judge such measures. But among the many things which have to be inquired into when we want to ascertain whether a particular piece of legislation will operate beneficially or not, the effect which it is likely to have on the growth of the population should certainly be included. If it would promote the growth of the population, there may still be reasons for regarding it as useful—but that would be in spite of its effect on the population; this effect in itself would

always constitute a drawback, and a very serious drawback, if the stimulus to the growth of population were strong. Production would then have to increase very much more rapidly than would otherwise have been necessary.

All this, however, is not generally admitted. The Malthusian doctrine—even what we have described as its principal parts—is still rejected by many. We now propose to examine the reasons for this rejection, and to endeavour to gauge the value of those reasons.

#### § 4

### Objections to the Malthusian Doctrine examined

In the first place, we will ask, What was the prevailing theory as to the relation between welfare and population at the time when MALTHUS' book appeared ?

The old school (whose ablest representative was BECCARIA, the well-known reformer of the Criminal Laws, who was appointed professor of economics at Milan in 1768) did not deny that abundance or scarcity of the means of subsistence affected the growth of the population. As a matter of fact that school never failed, when enumerating the causes which may lead to increase of population, to assign a prominent place to increase of welfare. They thought, however—and this was what was peculiar to their way of thinking—that a reciprocal relationship existed between population and welfare ; each might alternately be either cause or effect. Welfare is necessary in order to bring about density of population ; but once the density exists, it operates favourably upon welfare by raising its level. Some of the older writers have been styled precursors of MALTHUS, simply because they had pointed out that, without increase of welfare, there could be no increase of population ; but if this were enough to constitute any one a precursor of MALTHUS, then there was not a single economist of the seventeenth or eighteenth century who might not justly have been accorded the title. BECCARIA, for instance, is at great pains to show that there are natural limits to the growth of the population ; without food man cannot exist,

and food-stuffs are yielded by the land ; growth of population is therefore only possible to the extent that agriculture admits of intensive and extensive development, or to the extent that agricultural produce can be purchased from abroad with other products. BECCARIA, however, does not limit himself to this remark. For him this represents only one side of the question. He proceeds at once to review the other side. Growth of population, he then tells us, is always desirable, for it occasions increase of work (*travaglio*); in consequence of that increase, the prices of goods go up, and taxes become less burdensome. This thought is ever present with him. He then goes on to say that with increased chances of earning more people arrive ; but so soon as there are more people, the chances of earning are increased : the second proposition seems to him as true as the first. The old doctrine has never been better expressed than by the German writer, J. J. BECKER (born in 1626), who says : "Through increase of population come increased facilities for subsistence, and through the latter comes influx of people ; this in its turn causes further increase of population, and so on in an everlasting circle."<sup>1</sup> MALTHUS' doctrine is directly opposed to this circle theory. Of the two propositions : (a) population depends upon the means of subsistence, and (b) increase of population always brings increase of welfare, he adheres only to the first, because the second is opposed to the economic truth that production alone, and not consumption, is the source of welfare.

It is easy to understand how the old school fell into their error. If we compare a shop in a densely-populated town with another of the same class in a remote village, there can be no doubt as to which of the two sells most. The farmer taking his goods to market prefers to go to a place where many people live than to a place with only a few inhabitants. Aggregation of population always occurs at points which afford opportunities for increased earnings,<sup>2</sup> so that wherever

<sup>1</sup> See Dr. O. JOLLES, "Die Ansichten der deutschen national-ökonomischen Schriftsteller des 16. und 17. Jahrhunderts über Bevölkerungswesen" (in HILDEBRAND'S *Jahrbücher*, vol. xvii. pp. 193-224).

<sup>2</sup> See the essay by WILH. ROSCHER, already cited in Vol. I. p. 146 of this treatise, "Betrachtungen über die geographische Lage der grossen Städte" (*Ansichten der Volkswirtschaft*, 3rd edition, vol. i. pp. 316-368).

the population is large, there also we find much wealth. The essential is then confounded with the incidental, and what is really due to the wealth is attributed to the largeness of the population. The easiest way of showing this is to suppose that the population of a town diminishes by one-half, while the total income of its inhabitants does not diminish. This town will then be as good a market as it was before. There will be less demand for some articles, but all the more demand for others; the articles in which most trade is done will not be the same, but this will not affect the aggregate volume of the trade of the town. It is not surprising that such a confusion, as we have alluded to, should have arisen at a time when economics was in its infancy, and the methods of observation and analysis were still too little applied.

But the population theory of the old school is not without its adherents even at the present day. It had the support, for instance, of Professor CORT VAN DER LINDEN, who wrote as follows in *De Gids*:<sup>1</sup> "What would happen if the number of available workpeople were to diminish, or at any rate, not to increase? Would the reduction in the supply of labour really result in the raising of wages and of the level of welfare? How could it do so? There would be less demand for articles of working-class consumption, the volume of production would have to decline, and a number of branches of industry—the great industries of the world trade, building materials, cotton, tobacco, corn, sugar—would have to undergo a permanent shrinkage. The shorter supply of workpeople would, in great measure, be quickly outweighed by a smaller demand for their services.

"It is true that, for other branches of industry, consumption would not actually decline; the demand for articles of luxury for the upper classes would at first remain the same, but presently the decline in the number of working-class consumers would bring about a decline in the profits of producers of articles of common use, and therefore also a decline in the purchasing power of the higher classes, so that the demand for articles of luxury would also of necessity decline. Then, sooner or later, labour-saving machines would be sure to be introduced, better systems of distributing labour

<sup>1</sup> See the issue of that journal for July 1887 (p. 101).

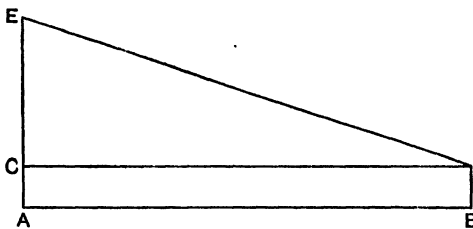
would be adopted, the employment of more capital would enable businesses to be undertaken on a larger scale, and as a result of all this, there would be too many workpeople; competition would then cause wages to fall, and a proletariat would be formed, to which, as at present, even the higher classes would add their contingent of prodigal, depraved, and unfortunate persons. The same social structure would reappear on a reduced scale: the same want on the one hand and surfeit on the other, the same dominion of chance and the same injustice."

BECKER'S circle theory could not be reproduced with greater accuracy. If the population declines, so also does the demand for goods, and if the demand for goods declines, how is it possible for wages to rise? Instead of rising they must fall. We have only to pursue this argument a little further in order to reach the conclusion that "through increase of population come increased facilities for subsistence." For, if decline of population causes wages to fall, growth of population must cause them to rise. By increase in their numbers, therefore, the working-classes are really benefited.

Is there any error in this reasoning? Is it not true, then, that a small population requires less goods than a large population? Can any one deny that if, instead of the 390,000,000 inhabitants, or thereabouts, who now dwell in Europe, the number were only 175,000,000, as it was in 1801, Europe would require less corn, less cotton, less building materials? To these questions there is only one answer, but that answer proves nothing. It is not the total quantity of goods that is important, but the average quantity available per inhabitant, and the terms of distribution; and in both respects the condition is changed for the worse by increase of population. If the population of Europe were much smaller than it is, agriculture and stock-rearing could be confined to the fertile and well-situated areas. We should be able to grow our own corn instead of having to sell millions of pounds' worth of manufactured articles to America and India at low prices in order to obtain from those countries the corn which we need. Far less capital would be required for purposes of trade with other continents, and the surplus capital would seek investment in Europe. Would wages be affected adversely

by all this? Rents of land and of houses would be lower, also interest, but not wages—these would be much higher than they are now.

When population decreases, demand for goods also decreases, it is true, but not in the same proportion, so that the condition of the working-classes really improves. If the population of a country were to be reduced by one-half, the remaining population would produce and consume, not half, but considerably more than half of what was produced and consumed by the original population. We can explain this

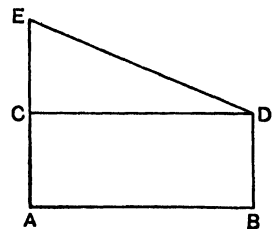


best by means of the following diagrams, in which the lowest line A B represents the number of the population, while the space A B D E above that line represents

the sum of the goods of which the nation's income is made up. All that lies above the line C D is rent of land and *entrepreneurs'* surplus, and all below that line interest, wages of *entrepreneurs*, and more especially wages of labour.

Now, if the population were to be reduced by one-half, the diagram would assume the form shown below.

In other words, the space A B D E becomes not 50 per cent., but only one-fifth or one-sixth smaller, and the line C D, which shows how the income is apportioned, rises considerably: a smaller proportion is now absorbed by rent and *entrepreneurs'* surplus, and a larger proportion by wages and interest.



We might, perhaps, still have some hesitation in stating these things positively, were we not able to adduce the following facts in corroboration. The Black Death, which originated in China about the year 1333, made its appearance in the Island of Cyprus toward the end of the year 1347, and in a little more than eight months from that time, had spread over Italy, France, England, and Germany. In 1349 it reached

Poland, Sweden, and Norway,<sup>1</sup> and not even Iceland and Greenland escaped; by 1351 it had penetrated to Russia. It is reckoned that, through this disease, the population of Europe was reduced by no less than one-third, or by 25,000,000 souls; but in some places its ravages were much greater. The course of wages in England under the influence of that sad occurrence has been minutely described by Professor THOROLD ROGERS in his *History of Prices and Agriculture in England*, and in his *Six Centuries of Work and Wages*. Well, what ROGERS tells us is exactly what theory had taught us to expect as the result. In the period 1350-1400, as compared with the years which immediately preceded it, the wages paid for threshing, for instance, were higher by 60 per cent. in the Eastern counties, 48 per cent. in the Southern, 36 per cent. in the Western, 59 per cent. in the Northern counties, and 73 per cent. in the Midlands. For carpenters the rise amounted to 48 per cent., and for masons to 60 per cent. Wages rose most—over 100 per cent.—for women, probably because the women were able to stay at home owing to the increased earnings of the men. There was at the same time a great decline in the rent of land and of houses. Thus a mill, previously rented for 50 shillings, soon fetched no more than 22 shillings; landowners had the greatest difficulty in finding tenants. It was then that those harsh laws against labourers originated, which forbade them to demand more than a certain wage, and which, because they were being constantly broken, had repeatedly to be renewed.<sup>2</sup>

Our confidence is strengthened in a theory, which not only withstands all criticism, but at the same time is capable of being supported by such facts as those here stated.

Still further arguments have been adduced against MALTHUS. It has been asserted<sup>3</sup> that he "starts from the *tacit* assumption that a nation is a self-contained entity, having no other source of food-supply but its own soil, that

<sup>1</sup> How it still survives in the folk-lore of that country is mentioned by C. HONIGH in his book on Norway, Part I. pp. 136-141.

<sup>2</sup> See also WALKER PAGE, *The End of Villainage in England*, New York, 1906, where it is shown how, by the effect of the Black Death, the conversion of villainage into copyhold has been encouraged.

<sup>3</sup> By Dr. H. TEN HAAR in the weekly paper *Sociaal Weekblad* of 1878, p. 366.

its people are therefore driven by degrees from the fertile to the barren areas, so that with each increase in the population labour *must* become less productive. But every one knows that this is *not* the case, and that on the contrary, a nation, whose commerce and industry have been sufficiently developed, procures everything that it needs by means of exchange in the world market, without troubling to cultivate its barren lands.

“This disposes completely of any reasons, in virtue of which labour *must* become less productive as population increases. At any rate it postpones the operation of the economic law thus proclaimed until the time when all the lands of the earth are fully cultivated.

“The followers of MALTHUS dispute this, and say that it is very small consolation to the inhabitants of an over-populated country to know that there are still enormous areas awaiting cultivation in America. But here again these people are ambiguous. What they say is true, from the point of view of *available room*, as the populations of large cities know from experience. But it is quite untrue with reference to the question, whence the nation shall draw its food-supplies, as we in these days know, to the great grief of landlords and farmers, but to the advantage of the community as a whole.”

The statement contained in the very first sentence of this quotation is most inaccurate. MALTHUS does *not* start from the assumption that a nation forms a self-contained entity, for he discusses emigration at considerable length, pointing not only to its drawbacks, but also to its advantages, and mentioning among the latter the more general spread of agriculture throughout the world. He also enlarges upon commerce and manufactures as means of procuring corn from abroad, when the national soil has already, in great part, been put into cultivation. His book contains a chapter, which appears to have escaped the notice of the writer whose words we quoted above, and which answers every one of that writer's arguments. The chapter in question is headed: “Of the Commercial System,” and we propose to recall the substance of some of its arguments.

A country, says MALTHUS, which excels in commerce and manufactures may purchase corn from a great variety of others; and from this it might be supposed that such a

country would be able to maintain a rapidly increasing population till the lands of all the nations with which it traded were fully cultivated. This is not so, however. Long before this had come about, and while the means of raising food in the surrounding countries were still, perhaps, comparatively abundant, the country which we are considering would find it necessary to check the growth of its population.

There are four reasons for this. In the first place, advantages in commerce cannot, from their nature, be permanent. Improvements in machinery are copied elsewhere; capital is accumulated in countries which were previously poor. It is not to be expected that any one country should retain a monopoly uninterrupted by foreign competition, and when foreign competition steps in, the exportable commodities of the country in question will fall in price. But lower prices mean reduced profits, and the fall of profits will reduce both the power and the will to save, consequently less capital will be accumulated.

In the second place, even if foreign competition should not bring about these results, domestic competition would do so. If a machine is invented, by the aid of which one man can do the work of ten, the possessors of it will at first make very large profits; but owing to competition these large profits must, before long, decline to the normal level. Perhaps at an early period of such a manufacture, the product of the industry of one man will sell abroad for as much as would feed forty or fifty men, but after a while this must alter completely.

Thirdly, a country which is obliged to purchase both the raw materials for its manufactures and the means of subsistence for its population from foreign countries, is always entirely dependent for the increase of its wealth and population on the increasing wealth and demands of the countries with which it trades. However skilful, industrious, and saving such a nation might be, if its customers would not or could not take off a yearly increasing value of its commodities, the fruits of its skill and industry would be of short duration.

Fourthly, the foreign demand for the products of such a country as we are considering is subject to a natural decline, according as the foreign nations, which are its customers,

develop their own manufactures. They will not do this while they still possess an abundance of fertile lands, for, so long as they are in that position agricultural profits will continue high and it will pay them better to import manufactured goods in exchange for agricultural produce than to manufacture the goods for themselves. But once the best lands are fully cultivated, these conditions will change; profits from land will decline, the development of agriculture will slacken and that of the manufacturing industries will begin with such raw materials as happen to be near at hand. The manufacturing country will then experience more and more difficulty in finding customers for the goods which formerly sold at such remunerative prices; in other words, the inhabitants of that country will find it more and more difficult to purchase raw materials and means of subsistence in exchange for their manufactures.

These four reasons appear to us to be decisive, although the second would have been much strengthened had MALTHUS demonstrated that growth of population in the manufacturing country must inevitably be accompanied by increased domestic competition. He might also have pointed out that the conditions under which agricultural produce was acquired would have been rendered less favourable by the very fact of that produce having to be brought from distant countries; for, increase in the distance from which produce has to be brought, and decrease of fertility in the land on which it has to be raised, have practically the same effect economically. The law under which, other things being equal, the returns from labour must diminish as population increases, is none the less operative because no single nation is self-contained. From the moment that a country, in order to increase its means of subsistence, is obliged to have recourse either to less fertile or to *more distant* lands, that law has become operative and its hard effects are being experienced. What has happened during the last fifty years must not be allowed for one moment to betray us into believing that this is not so. The law of diminishing returns has been operating, even while wheat has been falling 50 per cent. in price, and our farmers and landowners have been temporarily reduced to despair. Owing, however, to the extension of railways in Russia, in the Western States of America,

in the North-West Provinces of India and in Argentina, an extension of agricultural production for the European markets has been rendered possible, such as nobody had ever dreamt of. To employ an old simile: a weight has indeed been placed in one scale of the balance, but a much heavier weight has been placed in the other, so that in the end the beam has inclined to the latter side. None the less true, however, remains the proposition that, other things being equal, growth of population in an already densely-populated country obliges the people of that country to perform less productive labour, and that it is under all circumstances advantageous to avoid that necessity. The truth of that proposition would have been more clearly seen, but for the fact that events took place which had the effect of enabling large quantities of corn and other agricultural produce to be exported to Europe. But, as we said before, our scientific inquiry should teach us to discern clearly what lies hidden behind the phenomena of the moment. It should teach us to observe the forces, of which these phenomena are, as it were, the resultant.

That the socialists, too, should have opposed MALTHUS need not surprise us in the least. What does surprise us, on the contrary, is that so many of them should have preserved absolute silence in the face of a writer who assailed the very foundations of their system, and that such of them as have answered him, should only have done so in passing. The attitude of the socialists towards MALTHUS has been made the subject of close inquiry in an excellent treatise by Dr. H. SOETBEER, a German writer.<sup>1</sup> Nothing in that work is more noticeable than the small space usually occupied by the doctrine of population in socialistic literature. This is true even of the most learned book ever written by a socialist, *Das Kapital* by KARL MARX. In vain do we look through the three large volumes for a separate chapter dealing with MALTHUS. MARX, who is never afraid of being prolix, has not thought it necessary even to touch upon MALTHUS' objections against socialism. Not that he omits all reference to that writer's name, but he does not deal with him specifically, except in a footnote, in

<sup>1</sup> *Die Stellung der Sozialisten zur Malthus'schen Bevölkerungslehre*, Berlin, 1886.

which he questions MALTHUS' originality and love of truth: the "Essay on the Principle of Population" he considers to be an impudent plagiarism, written in the interests of the upper classes, who like to hear that the main causes of poverty lie outside social institutions. We pass over these remarks for reasons that are obvious: we can only regret that there are some people, in whom the second of them still finds an echo. Those who are capable of writing such things must understand very little of the spirit in which MALTHUS wrote.

KARL MARX'S criticism of MALTHUS is to a great extent comprised in what he has to say on the subject of machinery. In order to be able to understand him properly, we have first of all to realise clearly that MARX regards the machine as the *competitor* of the labourer.<sup>1</sup> With him this idea is constantly recurring. Machinery renders the labourers "redundant." Wherever it is introduced, it brings about "chronic misery." "The instrument of labour kills the labourer." He does, indeed, admit in passing that the factory operatives may be more numerous than the workmen superseded by the machinery,<sup>2</sup> but he lays no stress upon the fact and passes on to the conclusion that after all, in proportion to the amount of capital employed, the number of workpeople suffers through the introduction of machinery<sup>3</sup> a permanent reduction.

He assumes the capital employed in an undertaking to be £500, of which £200 consists of instruments of production and £300 of wages fund, while the workpeople employed number 300. Then a machine worth £200 is bought, after which the capital of £500 consists of instruments of production, £400, and wages fund, £100. From 300, the number of workpeople now falls to 100—two-thirds are deprived of their means of livelihood. It is, of course, conceivable that the employer's capital, now that he is making large profits, may increase threefold or even fourfold; in which case there would, before long, be 400 men employed in the undertaking, 300 more, in fact, than there were at first. But formerly, a capital of £500 sufficed to provide work for 300 people, whereas now it takes £1,500 to do the same thing.

<sup>1</sup> "As a machine the instrument of labour becomes at once the competitor of the labourer himself."—*Das Kapital*, 1st edition, Part I. p. 422.

<sup>2</sup> *Op. cit.* p. 439.

<sup>3</sup> *Op. cit.* pp. 439, 440, and 614.

And even that cannot last. It will only continue for a time, and it will be a time of prosperity for the workpeople, since every accumulation of capital means fresh demand for labour, and that means increased wages. But presently the process, which has just been described, will repeat itself; the ratio between instruments of production and wages fund, at first as 4:3, next as 4:1, becomes as 5:1, perhaps even as 7:1. Once again we have workpeople being made redundant, nor will it be possible for them to find fresh employment until such an amount of capital has been accumulated that one-seventh or one-fifth of it will represent as large a sum as one-fourth of the old amount. Here, then, we see a course of things as inevitable as it is sad. MARX styles the instruments of production (in the more restricted sense) the *constant*, and the sum employed in paying wages the *variable* part of capital, and he thinks that he has discovered the following law: "As the accumulation of capital proceeds, a change comes about in the ratio between that part of capital which is constant and that part which is variable: from being originally as 1:1, the ratio becomes successively as 2:1, as 3:1, as 4:1, as 5:1, as 7:1." Now, since the demand for labour is determined, not by the aggregate amount of capital, but by that part of it only which is variable, the demand for labour diminishes progressively as capital increases; not absolutely, of course, but relatively. Thus an ever-increasing rate of accumulation of capital is required in order to provide work for an increasing population. Unfortunately, this increasing rate of accumulation causes the law of the conversion of variable into constant capital to operate more quickly, so that a healthy state of things can never come about. This, however, is precisely what MARX wants to prove,—the whole of what he terms the "capitalistic" mode of production is deserving of condemnation, because it brings the workman within a vicious circle, from which he cannot escape, and which he himself, quite involuntarily, and because he cannot help it, is constantly drawing closer and closer. For the capital, which is presently to prove his destroyer, is the product of his own labour. It owes its origin to the fact that the workman receives not the equivalent, but something less than the equivalent of his labour. If things were ordered on sound lines, he would enjoy the whole

product of his labour, now he receives only a part of that product, the surplus falling to the employer, who converts it into capital. Thus the workpeople, by their own action, render themselves redundant. "With the accumulation of capital produced by themselves, the working-classes produce, on an increasing scale, the means of bringing about their own relative redundancy."

Let us pause here for a moment in order to consider what must follow from this proposition, supposing it to be true. Obviously it should lead the working-classes to conclude that, so long as the existing social order prevailed, it behoved them above all things not to multiply too fast. Note well that MARX expresses no doubt as to the accumulation of capital having a favourable effect on wages; he does not contend that accumulation of capital makes labourers redundant in an absolute sense, all he contends is that it does so in a relative sense. Growth of capital tends, moreover, in his opinion, to increase the demand for labour; it does not, however, increase that demand to the extent commonly supposed, because an ever-increasing proportion of capital is being converted into machinery. Here we have a strong counteracting cause arising out of the very fact that capital has accumulated—a cause, of which, according to MARX, no notice is taken as a rule. Well, in that case the working-classes have all the more reason to hearken to the teaching of MALTHUS; then their "relative redundancy" would not become "absolute," and in spite of the law of increasing disproportion between variable and constant capital, their lot would improve steadily.

Does MARX lay any emphasis on this? Not at all. Immediately after the sentence quoted above, we read that "This is a law of population peculiar to the capitalistic mode of production, as, indeed, every particular historic mode of production has its own historic law of population. There is no such thing as an abstract law of population, except for plants and animals." He then endeavours to prove that a redundant labouring population—*eine disponible industrielle Reservearmee*, as he calls it, in that mixture of French and German which he affects—is absolutely necessary for production as now carried on. The terms which he uses are very far-reaching: the "*disponible industrielle Reservearmee*"

is an *Existenzbedingung der kapitalistischen Produktionsweise* (necessary condition of capitalistic production).<sup>1</sup> All the more reason, we should imagine, for agreeing with MALTHUS. If the "capitalistic" mode of production cannot be maintained unless the population keeps on increasing, why heap abuse on the man who wants to check the growth of the population? He is not an enemy, he is an ally, even though an unwilling ally; for the course which he advises is the very one which, according to MARX, should make an end of "capitalism." All this is so obvious, that we are surprised there should be any occasion for saying it. This at any rate is certain, that whoever accepts the MARXIAN doctrine regarding machinery and variable capital, and who nevertheless, while the present mode of production is maintained, neglects to warn the labouring classes to check their numerical growth, behaves in an inexcusable manner.

But now a word as to this doctrine itself. MARX justly contends that the ratio between variable and constant, or let us rather say, between circulating and fixed, capital is always changing, the tendency ever being towards an increasing preponderance of fixed over circulating capital; with the spread of railways, factories, and other things of permanent utility all over the surface of the earth, this must necessarily be so. Such a course of things, however, need cause us no misgivings, least of all in regard to the working-classes.

Increase of fixed capital means greater productivity for the enterprises concerned; its effect is similar to that of increased fertility in the land, and, in the long run, is advantageous, not only to capital but also to labour.

MARX fails to take sufficient note of the many-sided character of the effects of machinery. He is too much engrossed by the fact that when a machine has superseded hand labour, workpeople are discharged. The discharge of workpeople is one result, but there are others. New income is created, the sum of the goods to be distributed among the various classes of the community is enlarged; this gives rise to the formation of new capital, which quickly fills up the gap caused in circulating capital. According to MARX, wages should be constantly declining, and the rate of interest

<sup>1</sup> Cf. *op. cit.* p. 618.

constantly rising in a country with highly developed manufactures, unless indeed savings were accumulated there to an extent never witnessed in any country. But we have the experience of England to show that this is not the case; nowhere is the rate of interest so low as it is in that country.<sup>1</sup>

Even if all this were wrong, however, would MARX have succeeded in refuting MALTHUS' arguments against socialism? He would have proved that under the existing social order it is doubly necessary that the growth of the population should be slow; but he would not have proved that under socialism this necessity would not exist; least of all would he have proved that such a state of things as he advocates would not constitute a strong encouragement for people to marry, and to marry early. He does not touch on this point at all. He admits that high wages encourage rapid growth of the population; but he would have us believe that the existing social order is responsible for this. He would persuade us that the working-classes marry early as a speculation: knowing as they do that child labour is in great demand in factories, they see in this an inducement to marry early.<sup>2</sup> He does not dwell on this, however, as it would have been his duty to do. He contends that "every mode of production has its own law of population." In that case the socialistic "mode of production," too, must have its "law of population." MARX ought, therefore, to have stated wherein this law differed from that discovered by MALTHUS.

The objections which we have been endeavouring to answer are those which one hears most frequently. Population creates business; fertile lands exist in superfluity; were it not for machinery, there would be no over-population. Those are the arguments usually brought against MALTHUS. Some add a further argument: the MALTHUSIAN doctrine,

<sup>1</sup> This subject is fully discussed in Part I. (§ 6) of the present treatise.

<sup>2</sup> "The absolute growth of the working-class population must be accomplished in such a way as to swell their numbers, though the units composing that population wear themselves out quickly. . . . This is achieved by early marriages, the inevitable result of conditions such as those in which the work-people employed in the great industries live, and by the premium set by the exploiting of working-class children upon the production of such children" (*op. cit.* p. 628).

they say, is incompatible with belief in a wise and loving Providence. This argument, however, we must leave unanswered, as it would be impossible to deal with it scientifically. There still remains one more objection, which is worth considering. If MALTHUS is right, so we are told, all measures in the interests of health, all charitable agencies, are to be condemned. We must let those die whom nature has not fitted to live. We must not establish any hospitals, especially hospitals for children. We must not offer any help to the poor; by doing so, we only perpetuate overpopulation, in fact we encourage it, because we remove the penalty decreed by nature for ill-considered marriages. Could any one advise the adoption of such a course as this? Our whole nature revolts against it. But this means that our whole nature revolts against the MALTHUSIAN doctrine from which all this must follow.

There appears to us to be just as little force in this argument as there was in the previous ones. Let us take our minds back again to the middle of the fourteenth century; it is now clear beyond all doubt that the sudden death of twenty-five millions of human beings has had a favourable effect upon the material welfare of the survivors. Had a MALTHUS arisen shortly before, and proclaimed that, in the event of a plague suddenly breaking out and carrying off one-third of the population, the remaining two-thirds would enjoy a greater degree of welfare, he would only have spoken the truth. But if with the announcement of this truth he had coupled the advice that all should abstain from adopting any hygienic measures for averting the Black Death, surely every one would have had a perfect right to reject such advice. It would have been not only their right, but also their duty, to reject it. Theoretical truths regarding one particular interest only cannot without further inquiry be converted into practical rules of life in which other and much higher interests are involved. Granted that the death of many may be productive of economic advantage for the survivors, is this a reason for desiring the death of many? It would certainly be a cheap system which would suffer those who were unable to provide for themselves to die of starvation. But poor-relief is provided in the economic

interests, not of those who provide, but of those who receive it. If ten persons had to share a legacy, five of them would benefit very much if the other five were carried off by sickness; but why should the one five excite our interest more than the other?

A community which did nothing for its poor would be unfeeling, nay inhuman, and would become more so in the course of time. The relations between its members would be governed entirely by self-interest; among such a community sympathy would die, and one of the finest sources of higher moral life would be choked. Even though it were established beyond all doubt that, by care for the poor, we create more misery than we alleviate, we should nevertheless be bound to recommend it. Material welfare is neither the end nor the best of all things. A thousand times better a world where much want has to be suffered than a world from which love has been banished. Not by bread alone do we live, not even by bread in the first place.<sup>1</sup>

But is it really certain that, by caring for the poor, we stimulate the growth of the population? In order to prove that we do, it would be necessary to show that fewer ill-considered marriages would take place if the poor were left to shift for themselves; and how is this to be proved? Experience sheds little light on the subject, but such light as it does afford is not in favour of the proposition requiring demonstration. There are countries where severe famines occur almost at fixed periods; famines of such magnitude that no charity can avail to avert their consequences. Think of British India, for example. There the penalty imposed by nature for neglect of her laws is suffered almost to the full, but we do not find that marriages are less numerous in such countries than they are elsewhere. No sooner has the evil passed than the population resumes its growth at the old rate, if indeed it does not grow somewhat faster than before. Does not this truly describe the condition of man in a backward state of civilisation, that he thinks only of the day, that

<sup>1</sup> "Supposing it to be allowable," says MALTHUS, "that the exercise of our benevolence in acts of charity is not, upon the whole, really beneficial to the poor, yet we could never sanction any endeavour to extinguish an impulse, the proper gratification of which has so evident a tendency to purify and exalt the human mind" (*Essay on the Principle of Population*, 7th edition, p. 443).

his actions are governed solely by the impressions of the moment? In years of prosperity marriages are always more frequent, and are also contracted at an earlier age, though any one who reflects knows that years of prosperity are followed by years of depression, so that high earnings at one period do not warrant the assumption of equally high earnings at a later period. But lack of higher civilisation among a people manifests itself in this, that they *neglect* to take thought, that they do not consider what may happen in a more or less distant future. Would it have the effect of improving matters in this respect if the death of a family from starvation were a frequent occurrence? Is it not more likely that the level of civilisation would be lowered still further, that thoughtlessness would increase still more, if the intercourse with kind-hearted and cultured persons, which every good system of poor-relief places within the reach of the lower classes, were no longer forthcoming? The harsh doctrine of determent has had its day in the field of penal legislation, and in the end it has been found to be untenable. Is this doctrine to be revived in the field of social legislation, and would it be likely to yield any better results in that field? <sup>1</sup>

An entirely different question is, whether poor-relief may not encourage *laziness*. When, from any cause, people fall into a state in which they are unable to earn their living, does not the receipt of alms in many cases become with them a reason for remaining in that state instead of rousing themselves and

<sup>1</sup> Those who hold that it is only from harshness that any good results can be expected in a system of poor-law, should consider how small a proportion of the indigent become a charge upon the Poor Law Authorities through their own fault. From a return prepared by the Statistical Bureau of the Kingdom of Saxony, we find that among those in receipt of permanent relief in that Kingdom in 1880 the causes of poverty were as follows:—

Low wages and want of employment	. . . . .	18·52	per cent. of the recipients.
Large number of children	. . . . .	19·96	„ „
Death of breadwinner	. . . . .	5·11	„ „
Advanced age	. . . . .	17·70	„ „
Bodily or mental infirmity	. . . . .	10·22	„ „
Chronic illness	. . . . .	15·91	„ „
Accidents	. . . . .	2·64	„ „
<i>Laziness, drink, misconduct</i>	. . . . .	9·94	„ „

The foregoing passage is extracted from a work entitled *Het vraagstuk der armenverzorging* (p. 269), prepared by H. GOEMAN BORGESIUS for the *Maatschappij tot nut van 't algemeen*.

making every effort to better their condition? Of course the answer is that it does, and although this cannot be regarded as a reason for condemning charity, it should serve as a motive for the exercise of judgment in practising charity. But there is no connexion between this question and the one which we are now discussing. We are not examining the question whether alms, if they are *received*, are enervating to the mind, but whether the *prospect* of receiving alms encourages reckless marriages. We must distinguish carefully between the two questions, for the first has reference to the effects of an *act*, the second to the effects of an *expectation*; the former is concerned with the psychological effects of something that actually does happen, the latter with the psychological effects of the more or less warranted assumption that something will happen. The two sets of effects do not admit of comparison. From the presence of the former we cannot infer the presence of the latter.

Charity, like everything else that is human, is imperfect. It would seem, indeed, that mankind is fated not to be capable of accomplishing anything wholly good. Of no single institution, or law, or line of action, can we say, on reflection, that it is free from blemish. To every medal there is an obverse side. On this account conservatism and cynicism (which are closely akin) have always plenty of scope; the more so because, in this strange world of ours, where the line that divides good from evil, light from shade, is seldom clearly defined, it would be hard to point to a single institution or rule of life, however bad in general, for which at least some merit might not be pleaded. We can always find occasion, therefore, to dispute the good and defend the bad without doing violence to truth. And so it is here. If all charity were banished some good would certainly result. The question, however, is not whether some benefit would result, but whether the evil would not outweigh the good a hundredfold.

Nor must we forget that the drawbacks to charity may be mitigated to a great extent. The solution of the great problem of poor-relief may be difficult in practice; in theory it is extremely simple; it consists in cultivating personal relations with the poor, and adopting a mode of relief which goes far beyond the mere granting of doles. The care of the

poor then develops of itself into something higher and better ; it actually succeeds in raising the moral and intellectual standard of the poor, although—or, perhaps, just because—it does not deliberately aim at doing so. Even the dispensers of such a form of poor-relief are exalted thereby. “No exercise of our affection,” says MALTHUS, “can have a more evident tendency to purify and exalt the human mind. It is almost exclusively this species of charity that blesseth him that gives ; and, in a general view, it is almost exclusively this species of charity that blesseth him that takes ; at least it may be asserted that there are few other modes of exercising our charity in which large sums can be distributed without a greater chance of producing evil than good.”<sup>1</sup> From this and the previous quotation, it will be sufficiently evident what MALTHUS himself would have thought of the appeal to sentiment with which some have endeavoured to meet his doctrine. His vigorous attack on the English Poor Law, a law which, at the time when he wrote, was most defective, and had to be entirely recast in 1834, was not an attack upon charity as such, but upon the way in which charity was administered in England. His argument cannot be said to be irresistible. He contends, for instance, that the granting of relief in money always causes distress among the class immediately above that of the recipients in the scale of material well-being. If, he says, the rich were each to give five shillings per day to five hundred thousand persons, but without restricting their own expenditure in consequence, the means of subsistence would become very dear, and dear food produces poverty. This is true, but the hypothesis itself is absurd, for the rich could not possibly give £125,000 per day, or £45,625,000 per year in charity, without restricting their own expenditure very much, be it on food or on other things. Moreover, imports of food from abroad would prove an effective remedy for the high price at home. What he says as to the influence of the Poor Laws on the growth of the population is lacking in clearness. That they do influence the growth of the population he believes to be beyond dispute, but he gives us no reasons strong enough to justify his conviction. Lastly, he makes too much of private charity, and is too prone to

<sup>1</sup> *Essay on the Principle of Population*, 7th edition, p. 444.

regard public poor-relief as an institution incapable of assuming any other form than that in which it existed in England at the time when his book left the press. But all this is beside the question. What we were concerned to know was whether the Malthusian doctrine of population necessarily entailed the suppression of those sentiments and emotions which spring from the best qualities of our nature, and which it would be impossible for us to stifle without destroying those qualities.

If it did, we should be loth indeed to accept the doctrine. But we believe we have proved that it does not, and that, even on economic grounds, charity cannot be condemned, provided it be practised in the right way.

## § 5

### **Influence of Civilisation on Growth of Population : Neo-Malthusianism**

It is no easy task to give a just exposition of the Malthusian doctrine, since that doctrine is not clear on all points; neither is it easy to unravel the various problems set before us for solution by the more able assailants of that doctrine. But the greatest difficulty of all begins when, after having performed this double task, we find ourselves face to face with the question, What are the practical conclusions to be drawn from the doctrine as we understand it? There is little use in knowing that no real improvement in economic conditions will be possible until a strong check has been put on the growth of the population, unless some means can at the same time be suggested for attaining that object.

But have we any need to search for those means? Is it not certain that, with increase of wealth and civilisation, the natural growth of the population will slacken of its own accord, and perhaps cease altogether? In France, as we know, this has actually come about. There the birth-rate has been constantly declining throughout the nineteenth century, and though the death-rate, too, has been falling, it has not been falling in the same measure; the excess of births over deaths

has disappeared, in fact the excess is now on the other side.<sup>1</sup> It has been frequently asserted that what has taken place in France will take place in all civilised countries, so that we have no reason for being concerned about the growth of the population. LEROY-BEAULIEU likewise is most positive in assuring us of this in his most recent work. According to him, there exists "a law" which tends "gradually, with the advance of welfare and of a certain intellectual culture, to diminish the relative preponderance of births over deaths."<sup>2</sup> He thinks that by proving the existence of this law he finally disposes of the Malthusian doctrine, for he considers that, in regard to sexual matters, MALTHUS places man pretty well on a level with the beasts,—makes him out to be "the slave of instinct."<sup>3</sup> If it can be proved that experience belies this view, then MALTHUS' doctrine is deposed and is superseded by a better one, namely, that of LEROY-BEAULIEU.

First of all, a word of serious protest against this mode of representing MALTHUS' doctrine. MALTHUS is stated to have made mankind out to be "the slave of instinct," and this, while he was writing a book advocating "means for preventing" increase of population! No, the *Essay on Population* was an expression not of cynicism, but of belief. MALTHUS believed mankind to be capable of self-restraint in sexual matters. LEROY-BEAULIEU'S law, supposing that such a law existed, would stand, not as a refutation, but as a corroboration, of the Malthusian doctrine. We should then see that the preaching of that doctrine had borne fruit.

But what are we to think of this new law of population?

<sup>1</sup> The following figures are taken from E. LEVASSEUR, *La Population française*, Part II. pp. 15 and 149, as regards the years 1821-50. For the later years the figures are taken from P. LEROY-BEAULIEU, *Traité d'économie politique*, Part IV. pp. 578 and 587. Still-births are not included:—

	Annual Number per 10,000 Inhabitants.	
	Births.	Deaths.
1821-30 . . . . .	308 . . . . .	250
1831-40 . . . . .	290 . . . . .	250
1841-50 . . . . .	274 . . . . .	233
1851-60 . . . . .	263 . . . . .	239
1861-70 . . . . .	263 . . . . .	236
1871-80 . . . . .	254 . . . . .	236
1881-90 . . . . .	238 . . . . .	221
1891-93 . . . . .	226 . . . . .	227

<sup>2</sup> *Traité*, Part IV. p. 566.

<sup>3</sup> *Traité*, Part IV. p. 542 *passim*.

Is there, perhaps, an element of truth in it, and if so, an important element? Let us see if there is.

We are told that there exists "*une loi que nous allons constater chez tous les peuples civilisés qui tend à réduire graduellement, au fur et à mesure du développement du bien-être et d'une certaine culture intellectuelle l'excédant proportionnel des naissances sur les décès.*"

Let the reader reconcile this with the following facts, if he can. The decennial growth of the population in England and Wales between 1710 and 1801 amounted on an average to 6 per cent., and never exceeded 10·3 per cent.; between 1801 and 1891 it amounted on an average to 14 per cent., and was never less than 11·7 per cent., in spite of extensive emigration.<sup>1</sup> The yearly excess of births over deaths in Holland has been constantly increasing since 1840-49. In five successive decennial periods it amounted to 69·07, 83·39, 98·73, 118·31 and 131·99 respectively per 10,000 inhabitants. The annual growth of the population of Europe, from the second to the beginning of the nineteenth century, as we have already seen, cannot have exceeded 0·07 per cent.; between 1801 and 1886 it was 13 times as great! For the rest, lest we become too statistical, we will confine ourselves to giving the following Table,<sup>2</sup> showing the average yearly excess of births over deaths per 10,000 inhabitants in a number of European countries during the period 1871-1880:—

Finland . . . . .	148	Denmark . . . . .	120
Great Britain . . . . .	140	Germany . . . . .	119
Norway . . . . .	139	Belgium . . . . .	98
Russia in Europe (excl. of Finland and Poland)	136	Greece . . . . .	79
Sweden . . . . .	122	Austria (Western) . . . . .	75
Holland . . . . .	121	Galicia and Bukowina . . . . .	75
		Switzerland . . . . .	73

How lacking in wealth and civilisation Great Britain is here shown to be, in comparison with Greece, the western part of Austria, and Galicia and Bukowina! And what economic and intellectual decline in Europe as a whole,

<sup>1</sup> See the Table on p. 268 of MARSHALL'S *Principles of Economics*, 3rd edition, London, 1895.

<sup>2</sup> Based on the summary contained in *Statistik des deutschen Reichs*, Neue Folge, Band 44, p. 2 of the Introduction—a summary justly spoken of in terms of the highest praise by AD. WAGNER.

compared with former centuries! The figures are so striking that one asks in astonishment how LEROY-BEAULIEU can have arrived at his "Law." He arrived at it after compiling statistics of births covering the years 1874 to 1892, and relating to 26 countries.<sup>1</sup> From these statistics we obtain the following figures:—

	Yearly Number of Births (excl. Still-births) per 10,000 Inhabitants.	
	1874-76.	1889-92.
Russia in Europe . . . . .	501	485 <sup>2</sup>
Hungary . . . . .	445	422
Servia . . . . .	433	428
Germany . . . . .	405	362
Austria . . . . .	399	377
Italy . . . . .	373	370
Holland . . . . .	367	329
England and Wales . . . . .	359	308
Scotland . . . . .	355	308
Belgium . . . . .	329	291
Denmark . . . . .	318	306
Switzerland . . . . .	317	277
Norway . . . . .	312	303
Sweden . . . . .	308	279

A statement like this, says the writer, can be read in two ways, vertically or horizontally. Whichever way it be read it proves the existence of the new "law." The birth-rate is highest in the countries which have progressed least in civilisation, and as those countries advance in civilisation their birth-rate declines.

To this we answer as follows:—

In the first place, it is not proved that the high birth-rates prevailing in backward countries are due to the lack of civilisation. Russia has only 44 inhabitants per square mile, Hungary has 137, and Servia 117; in Holland, on the other hand, there are 358, in England and Wales 497, and in Belgium 539 to the square mile.<sup>3</sup> A comparison, to be of any use, must not be between quantities that are incomparable, as they are in the present case.

Secondly, births have certainly declined everywhere during the years between 1874 and 1892, but we need better evidence

<sup>1</sup> See *Traité*, Part IV. p. 605.

<sup>2</sup> In 1886, there being no later figure.

<sup>3</sup> According to the Table in AD. WAGNER'S *Grundlegung*, 3rd edition, p. 574.

than this to prove a constant general decline. We subjoin a Table<sup>1</sup> which begins earlier, but also terminates earlier than the previous one. (Except in the case of Great Britain and Russia still-births are included in these figures.)

YEARLY NUMBER OF BIRTHS PER 10,000 INHABITANTS

	1851-60.	1861-70.	1871-80.
Germany . . . . .	368	387	406
Austria (Western) . . . . .	362	365	377
France . . . . .	273	273	266
Great Britain . . . . .	342	352	354
Belgium . . . . .	318	337	341
Holland . . . . .	351	377	384
Denmark . . . . .	340	319	325
Sweden . . . . .	339	325	315
Norway . . . . .	344	321	321
Finland . . . . .	370	358	381

Thus six of the ten countries show an *increase*. If any one, shortly after the year 1880, had deduced a "law of population" from birth statistics going twenty or thirty years back, the conclusion embodied in that law would probably have differed from that embodied in LEROY-BEAULIEU'S law. The years 1874-76, with which that author's figures began, were years in which the birth-rate in most countries was very high. We see this at once when we bring together the scattered data to be found in WAPPÄUS,<sup>2</sup> and place them beside LEROY-BEAULIEU'S figures as we do in the following Table:—

AVERAGE YEARLY NUMBER OF BIRTHS (EXCLUSIVE OF STILL-BIRTHS) PER 10,000 INHABITANTS

Austria . . . . .	1842-51 . . . . .	381	1874-76 . . . . .	399
Kingdom of Saxony . . . . .	1847-56 . . . . .	384	" . . . . .	444
Wurtemberg . . . . .	1843-52 . . . . .	385	" . . . . .	447
Bavaria . . . . .	1841-50 . . . . .	342	" . . . . .	416
Holland . . . . .	1845-54 . . . . .	333	" . . . . .	367
Belgium . . . . .	1847-56 . . . . .	291	" . . . . .	329
England and Wales . . . . .	1845-54 . . . . .	332	" . . . . .	359
Norway . . . . .	1846-55 . . . . .	316	" . . . . .	312
Sweden . . . . .	1841-50 . . . . .	308	" . . . . .	308
Denmark . . . . .	1845-54 . . . . .	309	" . . . . .	318

<sup>1</sup> *Statistik des deutschen Reichs*, Neue Folge, Band 44, p. 11 of Introduction.

<sup>2</sup> *Allgemeine Bevölkerungsstatistik*, Leipzig, 1859, Part I.

Except in the case of Sweden and Norway, the figures for 1874-76 are higher—in most cases considerably higher—than those of the earlier years.

In the third place, we would observe that the growth of the population depends, not on the birth-rate alone, but on the birth-rate in conjunction with the death-rate. Since advance in welfare and civilisation usually causes the death-rate to decline, the rate of growth of the population might very well be maintained, or even accelerated, while the birth-rate was declining. Examples of this are abundant; we shall confine ourselves to Great Britain and Holland. The following Table shows, for each of these countries, the average yearly birth-rate (exclusive of still-births) per 10,000 inhabitants, and the average yearly excess of births over deaths :—

Great Britain.			Holland.		
Period.	Births.	Excess of Births over Deaths.	Period.	Births.	Excess of Births over Deaths.
1841-50	326	102	1840-49	331	69
1851-60	342	119	1850-59	335	83
1861-70	353	127	1860-69	346	98
1871-80	354	140	1870-79	363	118
1881-90	325	133	1880-81	344	132
1891-95	305	117	1890-94	330	130 <sup>1</sup>

In Great Britain, when the birth-rate was 305, the natural growth of the population was almost as great as when the birth-rate was 342 per 10,000 inhabitants. And in Holland it was 88 per cent. greater in 1890-94 than in 1840-49, although the birth-rate in the later period was somewhat lower.

<sup>1</sup> Shown in quinquennial averages, the figures for Holland for the years 1875-1894 are as follows :—

	Births (excl. of Still-births) per 10,000 Inhabitants.	Excess of Births over Deaths.
1875-79 . . . .	366 . . . .	133
1880-84 . . . .	350 . . . .	130
1885-89 . . . .	339 . . . .	133
1890-94 . . . .	330 . . . .	130

It does not follow from this that a decline in the birth-rate has no effect on the growth of the population. The foregoing Table proves that the excess of births over deaths sometimes follows the movements of the birth-rate. We merely wished to show that no "law of population" can be deduced from this fact alone.

It appears, therefore, that LEROY-BEAULIEU'S law is in conflict with the evidence of statistics. Even though it were proved that *births* decline through increase in welfare and civilisation, it would still remain to be proved that *growth of population* too is checked through this cause; for increase in welfare and civilisation also cause the death-rate to decline. It is only when the death-rate has declined to the level beyond which no further material decline is possible, and the birth-rate still keeps on falling, that we approach a condition of things like that existing in France at the present time. But even now the population of France would continue to grow if that country had a death-rate such as that of England or Scotland.<sup>1</sup> With a birth-rate of 226, even a death-rate of 187 (the average for England and Wales in 1891-95) would leave a yearly excess of 39 births per 10,000 inhabitants, or more than  $\frac{3}{8}$  of one per cent., which would give an increase of 20 per cent. in the population in 50 years.

It would be equally wrong to conclude from all this that there was no grain of truth in LEROY-BEAULIEU'S doctrine. It does, in fact, contain a grain of truth, namely, that there is reason for believing that births are far more numerous in proportion to population among the poor than the well-to-do.

As long ago as the year 1839, this was pointed out by H. PASSY.<sup>2</sup> An inquiry was made by A. BERTILLON (our

	1 Deaths per 10,000 Inhabitants.	
	England and Wales.	Scotland.
1881-90 . . . .	191	192
1891 . . . .	202	207
1892 . . . .	190	186
1893 . . . .	192	195
1894 . . . .	166	172
1895 . . . .	187	197

See *Journal of the Royal Statistical Society*, 1896, pp. 233, 239, and 388. The death-rate in Holland in 1890-94 was 199·6 per 10,000 inhabitants.

<sup>2</sup> E. LEVASSEUR, *La Population française*, Part III. p. 177.

authority for this, too, is LEVASSEUR) into the yearly number of births in conjunction with the percentage of landowners in the various departments of France in the year 1862; he found that in 30 departments with 28·5 per cent. of landowners, the number of births per 10,000 inhabitants was 247, as against 281 in 21 departments with 17·7 per cent. of landowners.<sup>1</sup> But comparisons between different districts are of little value here, as all kinds of local causes may affect the birth-rate in different ways. For this reason comparisons have been made between different quarters of the same town, and the results have been most startling. D'HAUSSONVILLE, in his work *Misère et Remèdes*,<sup>2</sup> tells us that births are most numerous in the poorest quarters of Paris; according to a return for the year 1880, they numbered, per 1,000 married women, 73 and 86 in the eighth and ninth *arrondissements* respectively, while for the nineteenth and twentieth *arrondissements* the corresponding numbers were 160 and 164 respectively. Later and fuller data than those used by D'HAUSSONVILLE are available. From a very careful investigation made by Dr. J. BERTILLON,<sup>3</sup> the Director of the Paris Municipal Statistical Office, it appears that, per 1,000 women between the ages of 15 and 50 in Paris, the births *per annum* numbered as follows:—

in 5 "very poor" <i>arrondissements</i> ,	105 to 116
„ 3 "poor" <i>arrondissements</i> ,	93 „ 99
„ 5 "well-to-do" <i>arrondissements</i> ,	69 „ 78
„ 2 "very well-to-do" <i>arrondissements</i> ,	63 „ 65
„ 4 "rich" <i>arrondissements</i> ,	47 „ 57
„ 1 "very rich" <i>arrondissement</i> ,	34

The most prolific of the *arrondissements* is the twentieth (Ménilmontant), the least prolific is the eighth (Élysée). The difference in degree of welfare between these two *arrondissements* may be judged from the fact that in the former there

<sup>1</sup> A similar inquiry, based upon other data, has been made by A. DUMONT, *Dépopulation et civilisation*, Paris, 1890, p. 166.

<sup>2</sup> Paris, 1886, pp. 184-187.

<sup>3</sup> See Dr. BERTILLON's article in the *Annuaire Statistique de la Ville de Paris* for 1893. In the Dutch journal *De Economist* for 1896, pp. 518-522, the author of the present treatise discussed the principal features of Dr. BERTILLON's method of arriving at a correct classification of the *arrondissements*.

are only 2 male and 17 female domestic servants per 1,000 families, while in the latter there are 509 and 870 respectively.<sup>1</sup>

All these data relate to France, but we can also give some figures with regard to Holland. In the report issued in November 1893 by a Commission appointed to inquire into the amount of unemployment existing in the town of Utrecht, the Commission state that they have investigated the question of the birth-rate among those who are and those who are not assessed for local income-tax respectively. The conclusion arrived at was that for every 5 births among the former, there were 8 among the latter. An inquiry carried out by the Central Statistical Commission of Holland gave similar results for Amsterdam.<sup>2</sup> It will be seen that the

<sup>1</sup> The twenty *arrondissements* are divided into eighty *quartiers*, and the average rent per dwelling on January 1, 1889, in each of these *quartiers* is known. Cf. *inter alia*, *Jahrbücher für National Ökonomie und Statistik*, vol. 60 (1893), pp. 432-438. We have made use of that source in preparing the following Table, which may serve to complete that given in Part I. (p. 169) of the present treatise:—

House Rents on January 1, 1889.		Births per 10,000 Inhabitants.
8 <i>quartiers</i> with yearly rents averaging £80 and over . . .		from 129·5 to 160·4
7 " " " £40 to £60 . . .		" 103·8 " 267·7
19 " " " £20 " £40 . . .		" 173·9 " 273·6
20 " " " £12 " £20 . . .		" 200·1 " 320·3
22 " " " £8 " £12 . . .		" 244·3 " 367·4
4 " " " less than £8 . . .		" 323·3 " 391·2

The *quartier* at the top of the Table, that is, with the highest average yearly rent (£119), is that of the Champs-Élysées. It has a birth-rate of 158 per 10,000 inhabitants. At the bottom of the Table we find the following:—

<i>Quartier.</i>	Yearly Rent.			Births per 10,000 Inhabitants.
	£	s.	d.	
Charonne . . . . .	7	12	0	323·3
Père la Chaise . . . . .	7	12	0	391·2
Maison Blanche . . . . .	7	11	2	327·4
La Gare . . . . .	7	5	7	352·5

<sup>2</sup> See *Maandcijfers*, No. 8, Appendix. We reproduce the first of the Tables there given. Six groups of birth-rates are distinguished. Columns I. to IV. to the right of the population figures show approximately the degree of welfare of each group. Column I. shows the percentage proportion of the population assessed for municipal income-tax in the fiscal year 1892-93. Column II. also shows the proportion so assessed, but only for incomes above Class 10 (£200 per annum). Column III. shows the numbers per 10,000 of the population who were entitled (under the old Law) to vote in the elections for members of the Second Chamber. Column IV. shows the number of inhabitants per inhabited

available data are still scarce, but, wherever the subject has been investigated, the result has been such as to corroborate D'HAUSSONVILLE'S statement that *la misère contribue à l'accroissement*.

In the higher social grades people, as a rule, marry later in life than they do in the other grades of society. The following Table classifies those who married in Holland in 1895 according to their age at the time of marriage:—

Age limits. (1)	Proportion per cent. whose Age at the time of Marriage was within the limits shown in Column (1).	
	Men. (2)	Women. (3)
Under 21 . . . . .	3·28	12·63
21 and under 25 . . . . .	27·46	36·38
25   "   30 . . . . .	35·72	29·11
30   "   35 . . . . .	16·18	11·12
35 and upwards . . . . .	17·36	10·76
	100·00	100·00

Thus, of the men who got married, 66 per cent. were under 30, and of the women 49 per cent. were under 25 years of age at the time of their marriage. Were it possible to obtain similar statistics regarding the upper classes alone, we should certainly not find such high percentages for men under 30 and women under 25 years of age. Incomes

house (exclusive of institutions) according to the census of 1889. Lastly, column V. shows the mean annual birth-rate per 10,000 inhabitants in 1891-94.

Population on Dec. 31, 1892.	I.	II.	III.	IV.	V.
First Group . . . . . 51,542	2·3	0·12	96	190	413
Second   "   . . . . . 100,569	4·6	0·28	257	159	395
Third   "   . . . . . 119,121	8·6	1·26	450	140	367
Fourth   "   . . . . . 112,388	12·6	2·67	703	125	312
Fifth   "   . . . . . 33,448	16·2	4·91	831	86	251
Sixth   "   . . . . . 17,973	19·2	7·55	980	78	225

The original Table also shows the mean rate of infant mortality per 10,000 inhabitants in 1891-94. In the first group it was, for children less than 1 year old, 70, and in the sixth 32. For children of 1 to 5 years it was 34 in the first and 16 in the sixth group.

among the upper classes are much more subject to growth than they are among the lower classes; with the former the amount considered necessary for the purpose of maintaining their social status is generally reached by degrees. This obstacle is overcome where the parents are in a position to contribute an allowance, but parents are not always in a position to do this, or at any rate to contribute sufficiently.

The age at which the people—more especially the women—marry is of great importance in its effect on the number of births. Statisticians have proved this on various occasions,<sup>1</sup> the last to do so being KÖRÖSI.<sup>2</sup> Other factors operate as well, of course, but this one is of especial importance. The high birth-rate of Russia, for instance, is explained by the fact that 31·3 per cent. of the men and 56 per cent. of the women who marry in that country are under the age of 20 on the day of their marriage.<sup>3</sup> It is easy therefore to explain why, among the propertied classes, the birth-rate is lower than among the working-classes.

But what consolation does this afford, what grounds for optimistic views? It is true, we are now justified in assuming—and this is the grain of truth contained in LEROY-BEAULIEU'S assertions—that *if* the bulk of the working-classes could rise to a much higher degree of prosperity, and *if*, at the same time, their standard of living were to be raised very much—to such an extent, in fact, as to bring it almost to the level of that of the small class of the well-to-do—early marriages, and consequently the number of births would decline. But this decline is itself a condition precedent to so great a social improvement; it is inconceivable unless the growth of the population be checked among the working-classes; and in most countries, up to the present, few signs are to be seen of any such check being applied by those classes. Even in highly civilised European states the percentage of early marriages is still very considerable (although nowhere so high as in Russia and Hungary). In England and Wales, for instance, 44·02 per cent. of the men

<sup>1</sup> See, for instance, the Table in *Statistik des Deutschen Reichs* (Neue Folge, vol. xliv. p. 56 of the Introduction) which MAYO-SMITH reproduces in *Statistics and Sociology* (p. 114).

<sup>2</sup> *Revue d'économie politique* (January 1895), p. 8.

<sup>3</sup> According to the most recent known data.

and 59·15 per cent. of the women who got married in the year 1892 were only 25 years of age, or less.<sup>1</sup>

In reading LEROY-BEAULIEU'S criticism of MALTHUS we are reminded of certain words of ADOLF WAGNER. In an exceedingly interesting section of his *Grundlagen der politischen Ökonomie*, in which he discusses the theory of population,<sup>2</sup> that author says that the anti-Malthusians are fond of basing arguments on imaginary facts and laws, "so as to be able to delude themselves into believing that they have disposed of such of MALTHUS' objections as are not to their liking."<sup>3</sup> To some extent this may be said to apply also to LEROY-BEAULIEU'S efforts to refute the gravity of the population problem.

Thus, with renewed persistence the question again presents itself, What are the means by which the growth of the population may be checked?

In emigration we can scarcely hope to find a remedy. The importance of emigration from the standpoint of production is not to be undervalued: to it has been primarily due

<sup>1</sup> AGE AT TIME OF MARRIAGE.

	Men.		Women.	
	Under 20 years.	20 and under 25 years.	Under 20 years.	20 and under 25 years.
	Per cent.	Per cent.	Per cent.	Per cent.
France . . . . . 1890	1·76	23·76	19·55	42·78
England and Wales . . . . . 1892	1·93	42·09	10·22	48·98
Scotland . . . . . 1891	2·49	35·28	11·25	44·83
Bavaria . . . . . 1892	0·49	30·68	10·55	43·55
Saxony . . . . . 1892	0·04	38·54	8·71	51·77
Wurtemberg . . . . . 1892	...	17·21 (a)	3·90	41·17
Austria . . . . . 1891	...	15·75 (b)	17·19	30·48 (c)
Hungary . . . . . 1891	...	22·78 (b)	36·88 (d)	34·77 (c)
Switzerland . . . . . 1889	0·87	22·25	6·90	39·78
Belgium . . . . . 1890	...	30·53 (a)	...	50·73 (a)
Sweden . . . . . 1891	0·15	24·60	6·68	34·93
Norway . . . . . 1890	1·98	26·21	7·96	38·17
Denmark . . . . . 1889	...	25·79 (a)	7·30	39·23
Russia in Europe . . . . . 1886	31·35	34·59	56·	30·43

(a) Less than 25 years. (b) Less than 24 years. (c) 20-24 years. (d) 20 years or less. These figures are computed from the detailed data contained in the *Bulletin de l'Institut International de Statistique*, vol. vii. No. 2.

<sup>2</sup> P. 539.

<sup>3</sup> ["Um sich über unliebsame Malthus'sche Bedenken hinwegtäuschen zu können."—A. A. W.]

the great development of agriculture in distant countries in the course of the nineteenth century. It has a beneficial effect on the character, the energy of a nation; it widens the outlook, stimulates zeal and thrift. The vacant places are filled by others who, in their turn, make way for their successors. But before emigration could serve as an effective means of checking growth of population in the old countries, it would be necessary for three million people to emigrate from Europe alone every year, and were this to take place, the number of people living in America and other countries would soon be so large as to produce a state of over-population in those countries. But then a new and very serious evil would have arisen. At present, a very considerable part of the agricultural produce needed by the countries of Western Europe is supplied by imports from America. The investigations of SERING and others, however, have shown that the abundance of fertile lands in North America is by no means so great as people have often believed it to be. A great increase in the population of that part of the world, therefore, would soon put an end to the exports of agricultural produce from America, and it would be difficult to exaggerate the prejudicial effect which this would have on the welfare of Europe.

Emigration has excellent effects, so long as it takes place on a limited scale—limited, that is, as compared with the population of the countries to which it is directed—or so low, as it is confined to a few nations. Ireland, for instance, has derived great benefit from it. In 1842 the population of that country was still 8,179,000; in 1891 the number of her people had declined to 4,700,000. In some parts of Italy, too, emigration has proved beneficial.<sup>1</sup> But emigration on a very large scale would be *impossible*, owing to the great cost; and even if it were possible on such a scale, the people who had emigrated would soon find that they enjoyed no greater prosperity in their new homes than they had in the old countries.

<sup>1</sup> Cf. S. SONNINO, *I Contadini in Sicilia*, Florence, 1877 (pp. 442 et seq.). Detailed statistics of emigration during the period 1871-90 are given by AD. WAGNER in his *Grundlegung* (p. 557). The data contained in these sources may be supplemented by those given in Dr. F. VON JURASCHKE's *Übersichten der Weltwirtschaft*, pp. ciii-cx. Most of the latter extend up to the year 1894.

What then remains? Nothing, except the moral restraint preached by MALTHUS himself, and the so-called Neo-Malthusianism advocated by some of his followers of the present day. There is no third way. But who believes that moral restraint will ever be widely practised? The force, which draws the sexes together, and does not spring from the baser passions alone, is generally so strong that no exhortation, however solemnly delivered, can prevail against it. To forgo the pleasures of marriage, simply because marriage involves the risk of falling to a lower rung of the social ladder, demands a degree of civilisation which the majority have not yet attained. With the great majority of the population the standard of life is very low, while thoughtlessness and extravagance are very great. So long as there is no improvement in these respects exhortations to celibacy will be of little avail, and this improvement, as we said above, is itself inconceivable so long as economic conditions have not improved. Prosperity is ever most appreciated by the prosperous. The virtue of prudence flourishes most among those who have something to lose. The remedy advocated by MALTHUS therefore advances us but little. We look to it to rid us of an evil by which the application of that very remedy is greatly impeded.

The same thing cannot be said of Neo-Malthusianism. It preaches no celibacy and makes no demand—at least no heavy demand—on self-restraint. Its advantages can be understood by the most ignorant, for it stops that increase in the number of the family which mars the happiness of many a married couple. It is no chimera to suppose that this system, if earnestly and widely recommended by persons who inspire confidence, will some day be practised extensively. We know that already it is practised extensively in a neighbouring country—among the peasant classes in France.

But can we, in conscience, recommend the adoption of that system? This point is deserving of unbiassed inquiry, and we cannot but regret that many, instead of encouraging such an inquiry, deprecate it. The rules of life which the Neo-Malthusians advocate in regard to marriage are often the subject of heated debate; they are said to be immoral, indelicate, unnatural. But when one asks for the reasons which underlie this opinion, one usually finds that none are forth-

coming. The system is condemned because it offends against certain notions and ideas to which people have always clung, but which they have never subjected to critical examination. The feeling still prevails very widely that our ideas of morality have no need to be examined; yet experience shows that in this field as in others there is room for progress, and that that progress may equally well consist in learning to approve of things which we have been accustomed to censure, as in learning to condemn things of which we have been accustomed to approve.

It is remarkable that the same people, who are most severe in their condemnation of Neo-Malthusianism, generally use the mildest language when speaking of the fact that human beings are brought into the world whose birth will add to the misery of those around them, for whose education, whether bodily or spiritual, no adequate means exist; of whom, in fact, it is certain that a large number must succumb to an early death. People scarcely see anything censurable in this. They know that poverty is the most fertile source of bestiality; they can see that over-population more than anything else feeds pauperism,<sup>1</sup> and yet they have no word of reproach for those who cause this source of evil to flow so freely. Surely the first dictate of morality is to act on principle, and not on the impulses or needs of the moment; to control our passions, and not give way to them. But this dictate seems to many not to hold good in the very sphere where, more than in any other, its observance is needful, because the interests of hundreds of thousands of human beings are at stake.

If Neo-Malthusianism is immoral, it can only be so because of the means which it advocates, and not because of the motives from which it springs, the object at which it aims. Those motives, that object, can in no single respect be accounted

<sup>1</sup> Compare the figures given in Vol. I. pp. 144, 145, 169, 170. Whenever the population of a country increases very much, it is more especially in the large towns that the increase takes place. In Germany, the cities with 100,000 inhabitants and upwards contained, on Dec. 1, 1871, 5·18 per cent. of the total population; by Dec. 1, 1880, this proportion had grown to 7·51 per cent.; and by Dec. 2, 1895, to 14·55 per cent. Between 1879 and 1895 the total population of Holland increased by 882,758, or 20 per cent.; but in the 21 towns in which, according to the census of 1889, the number of inhabitants exceeded 20,000, the growth of the population between 1879 and 1895 amounted to 516,999, or no less than 46 per cent.

wrong. If what Mr. CORT VAN DER LINDEN wrote some years ago (in the article from which we have already quoted a page) were true, then, and only then, would there be reason to condemn Neo-Malthusianism as fundamentally wrong. "Increase of population," so we are told in that article,<sup>1</sup> "is the main-spring of life, stimulating increased production and new invention, inciting that competition which is ever pulling down what is old and putting up what is new. The progressive society is like an ever-growing pyramid which, in order to be able to gain in height, has to keep widening its base. The proletariat increases, it is true, wherever there is increased development; the army of the unemployed becomes greater than it was before, but these phenomena are signs of progress. If the society is to progress, the population must increase, and an increasing population leaves an increasing residuum. Whenever you find a scanty population in the midst of a bountiful nature, you find poverty and lack of culture. Whenever you find culture and an abundance of all the enjoyments of life, you find a dense population. The society that is progressing is constantly feeding more and more workpeople, and distributing its benefits more and more lavishly among wider circles, but the number of those who have to pine in want grows together with the number of those who receive their fill."

Nobody, of course, to whom this line of thought appeals, can approve of the object which the Malthusian as well as the Neo-Malthusian has in view. But for any one, who positively declines to subscribe to all this, who regards the growth of the "proletariat," the "army of the unemployed," as signs, not of true progress, but of lack of progress; who believes that our ideal should be, not a society whose members are increasing with rapidity while the direst misery is preying at its centre, but a society from which poverty has disappeared,—for such a person there is nothing immoral in the aim of the Neo-Malthusian. He remembers the small population of ancient Greece, of Florence in the fifteenth century, of the England that produced SHAKESPEARE, of the Holland that produced REMBRANDT, and he rejects the harsh doctrine which holds a dense multitude of humanity to be a pre-requisite to a flourishing civilisation. He refuses to believe that, in order

<sup>1</sup> *De Gids* (July 1887), p. 103.

to rise higher, society must "keep widening its base." He thinks that a society can only be said to have really risen when civilisation has permeated all its grades and classes, and when the great majority of its people have been placed beyond the reach of that constant worry for the daily bread which now so often stifles every higher impulse.

We repeat, therefore, that if Neo-Malthusianism is to be condemned, it can only be on account of the *means* which it advocates for the limitation of births. Therefore, let those who are pre-eminently qualified to judge in this matter,—let the medical profession— inquire into the subject. As yet we cannot uphold Neo-Malthusianism, we cannot even partially defend it, but we protest against the superficiality with which it is usually treated. A system which has originated in the noblest aims, which seeks to join what MALTHUS has severed, because it endeavours to realise the Malthusian ideal by a path which does not lead away from married life—such a system may, after all, appear to be wrong, but it has a claim to be carefully examined. If it must be condemned, well and good; we shall then at least have the satisfaction of knowing that it has not been lightly cast aside.<sup>1</sup>

<sup>1</sup> These words, which have been reproduced without any modification from the first edition of the present treatise, still express my sentiments, both as regards what they affirm, and what they leave open to debate.

The question is far from simple. Are there means of prevention, against which no reasonable grounds of objection can be urged on the score of decency? Is the use of these means harmless from a medical point of view? Is it unlikely that, by the making known of these means, immorality would be fostered, and that it would be more effectively fostered than it now undoubtedly is by over-population? We must be able to answer each of these questions in the affirmative, and with perfect conviction, before we can advocate Neo-Malthusianism. On the other hand, sound reasons must be shown for returning negative answers to these questions, if we are to be entitled to assail this system, and as a rule such reasons are lacking. I have never yet met with a clear proof of the immorality of all preventive means, or a refutation of Professor H. TREUB'S thesis (*Leerboek der Gynæcologie*, p. 514), or even a really plausible argument in support of the proposition that, to advocate Neo-Malthusianism would be an encouragement to immorality. We get nothing but defective arguments and exclamations.

As regards the demoralising effects of over-population, some people appear to be quite blind, notwithstanding that these effects are plainly discernible.

The aversion which the Neo-Malthusian system awakens is undoubtedly in part due to the indelicacy with which the system is sometimes defended. Matters have, however, improved in this respect of late in Holland.

Some people have expressed surprise, and even annoyance, that I have not definitely taken a side in this question. But only he can definitely take a side

Moral restraint and Neo-Malthusianism—our choice lies between these two so long as we are in search of means for checking the growth of the population. But the question on which we are now engaged has to do not only with growth of the population, but with population and *production*. The average income must be raised, and there are two ways in which this may be effected; the one consists in what we have set forth, the other in increasing the volume of production. Indeed, nothing is better calculated to heighten our interest in all that pertains to production than the study of the Malthusian doctrine. The more we realise that the solution of the question from the side of population is attended with great difficulties, the more are we disposed to welcome any efforts made to reach a solution from the other side. Although we know that those efforts can never lead to a satisfactory result, still we also know that they must always do good, that they must necessarily alleviate some of the misery of mankind, and that even though the growth of the population should cease, they would not be futile. For it is not enough that the growth of the population should be arrested—if this were to happen, and the aggregate income of the nation were also to become stationary, then indeed there would be no fear of poverty increasing any more; but something more than this is needed. Increase of production is necessary in any case, whether means be found for checking the growth of the population or not.

And so the study of the Malthusian doctrine conduces to serious reflection upon everything that may impede or advance production. But what a field for inquiry here opens up before us! The economic life of a nation does not stand apart, it is most intimately connected with the whole existence of the nation—it is an inseparable part of that existence. Production is intellectual and bodily labour; everything that expands or enlightens the mind therefore conduces to production. More than once already we have had occasion to recall this simple truth: it shows us the point at which the domain of economics touches upon that of other sciences, or to put it more correctly, where the function of the former passes over

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in a question who considers that all the light necessary for its solution has been thrown upon it. And in my opinion we still need more light on this question.

to the latter. The economist would be omitting important matters if he failed to call attention to the great benefits which must accrue to production through raising the moral standard and promoting the physical health of the nation; were he, for instance, to neglect to utter a solemn warning against the error of regarding the restriction of child labour as a policy whereby economic interests were sacrificed for the sake of higher interests. He must ever keep clearly before his mind the close connexion which subsists between the two sets of interests, and he must be able to make that connection clear to others. Were he, however, to enter upon an inquiry into the means for promoting those higher interests, he would be stepping outside the limits assigned to him.

We, for our part, will respect those limits, all the more readily that, in doing so, we suffer from no lack of material. The mere question as to what economic causes operate favourably, and what unfavourably in regard to production, suggests such a variety of considerations that some limitation becomes necessary. Of the different points with which we might occupy ourselves here, we select two, namely, protectionism and land tenure. In choosing these we are influenced by the consideration that both attract very much attention in these days, and will probably do so for a long time to come.

## CHAPTER IV

### PRODUCTION AND PROTECTIONISM

#### § 1

#### **The Revival of Protectionism**

WHEN, in the eighteenth century, economic thought had already progressed beyond the stage of merely touching the fringe of economic subjects, when it had begun to assume something of a scientific character, doubts very soon began to be entertained as to the advantage of high import duties and export bounties for the development of agriculture and manufactures. The Physiocrats, led by QUESNAY, the founder of their school, were strongly opposed to protectionism; and although their arguments were not always sound, a man was soon to appear who selected what was good and rejected what was bad in their ideas, and who advocated free trade with a force and talent such as had never before been exhibited in defence of that principle. We know what influence ADAM SMITH has exercised, especially in the sphere of commercial politics. The principles which he advocated made their way by degrees into many countries, and, however strongly opposed, they gradually prevailed. Thirty or forty years ago there was every reason for believing that protectionism was in a hopeless decline, that it was, in fact, doomed. From this state of utter inanition, however, it has revived; on the continent of Europe, Holland is the only country that has not yet broken with free trade, and how many there are who urge her to do so!

Various causes have contributed to bring about the revival of protectionism; chief among these has certainly been the decline in the prices of many articles. The greater this decline, the

louder has been the cry for protection. This is no mere coincidence. Never has protectionism been more flourishing than in the years which followed the Napoleonic wars, when there was also a great decline in prices, and now, as in the past, it is applied more especially to those industries of which the products have declined most in price. If prices could rise again, the chances of free trade would improve. The abolition of the English Corn Laws was brought about, not only by COBDEN'S Anti-Corn Law League, but also by the dearness of potatoes in 1846.

The connexion to which we are alluding can be easily proved. Decline in prices may result from increased productivity of labour and capital, from large imports, or from scarcity of currency. But whatever the cause of the decline, it is absolutely certain to produce depression in certain branches of agriculture or manufacture. If increased productivity of labour and capital be the cause, then—as has been shown in Chapter I. of this volume—the *entrepreneur* class as a whole will gain on the quantity what they lose on the price; but while some *entrepreneurs* will, in this way, gain more, others will gain less than would suffice to compensate them for the decline in price. If large imports be the cause, then those *entrepreneurs* will lose with whose products the imported articles enter into competition: capital and labour must desert their industries for others. Lastly, if the decline in prices be due to scarcity of currency, then wages do not always adjust themselves quickly to the change in the value of money; the margins from which *entrepreneurs* derive their profits become too small in places, so that depression ensues in certain branches of industry—a depression which will ultimately vanish, it is true, but which may last a considerable time if the workpeople are obstinate in their refusal to accept any reduction in their money wages. Thus there will be depression in every case; and although this depression is never so general as it is represented to be, although it is offset by prosperity in other branches of industry and by economy in expenditure on the part of consumers, still it produces anxiety in many quarters and causes people to look round for some means whereby the supposed evil may be remedied. One of these means is the system of high import duties, hence protectionism

always flourishes in times of falling prices. And so soon as it has been decided by one or more States to increase their import duties, others are sure to follow; for there is a very general opinion that free trade, however excellent it might be if it were adopted by all nations, is altogether prejudicial to a country which, surrounded by States with high import tariffs, still persists in adhering to free trade.

Besides the decline in prices, however, something else has helped to bring about the revival of protectionism. There was a time when the principle of what is called *laissez faire* was held in great reverence. In practice, this principle, which is opposed to State interference in economic matters, has never been entirely victorious, and even in science it has never received such homage as many (more especially German) writers would have us believe. It cannot be denied, however, that, under the influence of the French School, with its worship of the "Natural Order"—a survival of the teaching of the Physiocrats—the principle of *laissez faire* was for a time accorded a certain esteem, in excess of its merits. In this respect a change has come about in recent years; the feeling of esteem is now entertained by a few only; many people even regard the "Natural Order" as a true model of disorder. People have come to take a more favourable view of State interference in economic matters in general, and in this way the kind of State interference known as protection has come to be seen in a more favourable light. Quite wrongly, in our opinion; for, just as it would be irrational to condemn protection solely because it hampered the operation of self-interest, so also would it be irrational to approve of it solely because it restricted freedom of trade. Our inquiry in the second chapter of this volume showed us that, in a great number of cases, self-interest certainly does impel people to perform actions which are prejudicial to the national welfare, but that in a far greater number of cases it impels them to perform actions which promote the national welfare. It may therefore be considered that the onus of proof still rests with the advocates of those restrictive measures. But in these days there are many to whom this point of view does not appeal. Formerly, the salutary effects of *laissez faire* were exaggerated; now they are not even admitted

in cases where their existence is undeniable. Formerly, too much was expected from the free play of supply and demand; now too much is expected of State control.

There is yet a third cause underlying the revival of protectionism, namely, the growth of interest in the condition of the working-classes. On grounds, the justice of which we shall presently examine, many people are convinced that protection in agriculture, manufactures, and shipping is a means of providing employment, consequently of increasing earnings and preventing poverty. We should be grossly misjudging the motives of protectionists of the present day if we suspected them of designs to promote the interests of capital, the interests of *entrepreneurs*. The majority of them—to their credit be it said—have primarily the interests of the working-classes in view. They believe that the working-classes, though deriving a certain measure of benefit from free trade in their capacity of consumers, suffer a more than corresponding loss from it in their capacity of producers; that protective duties, therefore, notwithstanding the increased prices to which they give rise, promote the welfare of the lower classes. This opinion, as may readily be understood, finds much support among the working-classes themselves; the extension of the franchise, therefore, was a gain to protectionism. It is no mere coincidence that the democratic countries—Germany, France, the United States of America—are protectionist countries. The adoption of universal suffrage in Holland would certainly not improve that country's chances of continuing to pursue a free trade policy.

The growing tendency to view the protectionist system with favour, to which these various causes have contributed, makes it necessary for us to devote a chapter to that system. At the end of our chapter on the course of foreign exchanges, we said a few words concerning one kind of protection; our main object then was to show the close connexion existing between the matter of which we are now about to treat and the theory of money.<sup>1</sup> That connexion has, we hope, been remembered. It is quite useless to set about an inquiry into the manner in which protection affects production unless we already know the laws which govern the distribution of the

<sup>1</sup> Cf. Vol. I. pp. 564-567.

precious metals, and have formed some notion of the causes in virtue of which the value of money is different in different countries. For those who satisfy these requirements the task is greatly simplified, as we shall endeavour to show. We will now recall the conclusions already arrived at, and we will use them as the basis of further arguments, designed partly with the view to meeting certain objections, and partly so as to enable the student to judge of those kinds of protection of which mention has not yet been made.

## § 2

### The Labour Price

We may take it as demonstrated, that the closest possible relation exists between the exports and the imports of a country; a relation which does not necessarily manifest itself in the two being equal, but in the fact that, whenever one of them is reduced in consequence of high duties, a reduction of the other must of necessity ensue as a result. Suppose that a country imports merchandise annually to the value of £40,000,000, that it purchases £5,000,000 worth of securities per annum more than it sells, and that each year it requires £3,000,000 worth of gold and silver in order to meet a growing demand for currency. Suppose, further, that it has annual claims on foreign countries amounting, on balance, to £2,000,000 in respect of freights, commission, interest, dividends, and the like. Then the value of the goods exported annually by that country must on an average amount to  $£40,000,000 + £5,000,000 + £3,000,000 - £2,000,000 = £46,000,000$ . Now, if, as a result of high import duties, the imports of that country are reduced by  $x$  millions sterling, then the exports will decline to the extent of  $x$  millions. This was the theory propounded in the chapter on the course of foreign exchanges. It is a theory, not of equality, but of connexion between exports and imports. So long as all other things remain the same, no rise or fall of the former is possible without being succeeded by an equally strong movement of the latter in the same direction.

This statement is based upon the proposition that artificial

reduction of imports must result in an influx of gold and silver, and consequently in the raising of the *labour price*. The student is already acquainted with the meaning of this technical term.<sup>1</sup> The labour price is the sum-total of all the money income gained by the application of a definite amount of labour and a definite amount of capital. Let us suppose that the labour of one man, supported by a capital of £100, produces in 200 days commodities worth £25; then, of course, one day's labour and one day's application of the said capital will be worth, on an average, 2s. 6d. This amount of 2s. 6d. may be distributed in such a way that capital receives 6d. and labour 2s., or in such a way that capital receives 1s. and labour 1s. 6d.; in the first case (reckoning 300 days for a year's labour) the annual interest will be at the rate of  $7\frac{1}{2}$  per cent., in the second of 15 per cent. Yet in both cases the combined remuneration of the application of a capital amounting to £100 and of the labour of one man will be 2s. 6d. per diem. Now this combined remuneration we call "labour price." The words should not be mistaken for labour wage; the labour wage and the remuneration of the *entrepreneur* are only a part of it, the remainder is interest on capital. As to rent and *entrepreneurs'* surplus, these, as we know, are not realised in every case, but only when the production has taken place under favourable circumstances. In order to be complete, our definition should run as follows: the "labour price" is the sum-total of money income derived from the application of a definite quantity of labour and capital under *unprivileged* conditions.

The term "labour price" is a short expression for a *scale* of labour prices. We speak of the labour price in the same sense as we speak of the price of sugar or of cotton, though not all sugar and not all cotton brings the same price in the market. This should not be forgotten. A rise or a fall in the scale of labour prices will not necessarily be equal for all of them; the causes operating on the money prices of services in general may also affect the relations of value existing between them.

There is no factor of greater importance in international exchange than the labour price. It is an effect as well as a

<sup>1</sup> See Vol. I. p. 368.

cause; it is the outward sign of a condition, and at the same time determines other conditions. To a great extent it determines what goods a country can import and export with advantage. These will change, with every change in the labour price. For the sum of money which it will cost a manufacturer to produce a given article depends upon two factors: (1) upon the amount of labour and capital that have to be applied in order to produce the article, and (2) upon the price of those services expressed in terms of money. It happens sometimes that an industry is unfavourably circumstanced in a particular country as regards the first of these two factors, and that it nevertheless pays that country to export products of the industry to other countries, even to those where similar products could be produced with less effort. The reason is that the low labour price compensates the *entrepreneur* for what he has to forgo in other respects.

Such a state of things can never be regarded as fortunate. An industry which relies for its existence on the low wages of labour, collapses so soon as those wages rise. This, however, is not a reason for disparaging such an industry, as people do when they speak of it as thriving at the expense of the labouring population. The labouring population, though not highly paid, benefits by the existence of the industry; without it their wages would be even lower than they are. And if the industry collapses owing to a rise in wages, the *entrepreneurs* alone will be the sufferers, for wages will have risen because of the starting of new industries, in which higher wages can be earned. But in such an industry, even more than in others, it behoves the workpeople to be mindful of the dangers to which strikes would expose them. They will have need to realise the nature of the melancholy condition under which alone it is possible for the industry to exist, and they will have to beware of making exorbitant demands.

In the effect of the labour price on international trade we also find the simplest explanation of a truth, which was enunciated at the beginning of the nineteenth century by TORRENS,<sup>1</sup> and later by JAMES MILL,<sup>2</sup> and which at first seems very difficult of acceptance. It is this: If all things

<sup>1</sup> *The Economists Refuted*, 1808.

<sup>2</sup> *Elements of Political Economy*, 1821.

without distinction entailed exactly as much more or as much less of effort in their production in one country as in another, commerce between the different nations would be impossible. The strictly scientific proof of this proposition has often been furnished; it amounts to this, that, in the circumstances assumed, no saving of labour could be effected by international trade, since what was gained on exports would be exactly counterbalanced by a loss on imports. But it is only when we take the labour price into consideration that this truth becomes really palpable, as the following illustration will perhaps show.

Suppose that England and France have no export products except iron and wheat, and that the effort of production of these two articles is as follows:—

It is possible to produce :

	In England.	In France.
10 quarters of wheat . . . . .	in 100 days	in 200 days.
10 tons of iron . . . . .	”	”

Now, if the money value both of a quarter of wheat and of a ton of iron in the world market amounts to 40s., then the labour price will be :

In England 4s. per day.  
In France 2s. per day.

The labour price must stand exactly in an inverse ratio to the effort of production; otherwise an unstable condition of things will result. Suppose, for example, that owing to accidental causes, the labour price advances in France to 3s. Sixty shillings (*i.e.* the equivalent of that sum in French money) will now be the cost, both of a ton of iron and of a quarter of wheat, in France. This will cause large quantities of wheat and iron to be sent to that country until the prices of both have fallen once more to 40s. And so soon as this has taken place, the labour price in France will, of itself, drop back to the old figure of 2s. per day.

We will now extend our hypothesis. We will suppose that not only wheat and iron, but twenty, fifty, one hundred articles can be produced in England with less effort than in France; we will also suppose, in respect to each of these articles, that the relative efforts are as 1 to 2. Will any

trade now be possible between the two countries? Of course not, for each article will now be just as dear (as much money will have to be paid for it) in England as in France. Merchants do not trouble themselves about differences as regards the effort of production, differences as regards the price are all that they inquire about, and in this case no such difference exists, for  $4 \times x$  gives the same result as  $2 \times 2x$ . But suppose the fixed ratio to be disturbed in respect to any one of the articles: suppose, for example, that the land on which wheat is grown in England loses in fertility, so that instead of 100 days, as before, it takes 150 days to produce 10 quarters of wheat, while, with regard to all other things, conditions remain unchanged. An opportunity for brisk trading at once arises. It now costs the farmer  $15 \times 4 = 60s.$  to produce a quarter of wheat, a price which nobody in England is disposed to pay, seeing that a quarter of wheat can be produced in France for 40s. In future, therefore, wheat will be imported from that country. At first there will be nothing in England wherewith to pay for the wheat except gold, for everything except wheat still costs as much money in England as in France; but a change will come about in this respect before long. Gold will become scarce in England, consequently the labour price in England will fall; in France, gold will become redundant, consequently the labour price in that country will rise. Labour prices and efforts of production no longer bear an inverse ratio to each other, differences in price arise, and in these commerce sees a chance of profit. Suppose, for example, that the labour price now stands at 3s. 6d. in England and at 2s. 6d. in France: it will now cost an *entrepreneur* 35s. in the former, and 50s. in the latter country to produce a ton of iron. Just as France will supply England with wheat—although the production of wheat is still attended with less effort in England than in France—so also will England supply France with iron.

From the foregoing, the student will perhaps be able to form a somewhat better idea of the great importance of the labour price in its bearing on international trade, and it is upon the recognition of this importance that the theory of the relation between imports and exports is based. We think it

worth while to work out the following hypothesis. Suppose that there arises in the world market a brisk demand for certain goods, which only one particular country produces; that country, however, has no need itself of foreign goods, and does not want to buy them at any price. Such a case, we admit, is inconceivable; but it is necessary to assume it if we wish properly to realise this truth, that, except for the purpose of effecting the transfer of capital, the payment of interest and other debts, or the purchase of gold and silver for conversion into currency, a country cannot export without importing to the same amount. At least it cannot in the long run.

Now, what will happen under the circumstances assumed? Gold and silver will be accepted in payment for the exported goods. At first this will produce no effect beyond depressing the rate of interest in the credit market; for this, as we know, is the usual effect of importing gold and silver. As the banks have less discounting and lending to do, their uncovered note circulation declines, and if nothing else were to happen the stock of money (of all kinds) would not increase. But the fall in the rate of interest will stimulate the demand for credit, so that new money will get into circulation. All goods will advance in price, therefore the labour price too will advance; nor will this movement be likely to end soon, for gold and silver will keep on flowing into the country. But this cannot go on for ever, for the rise in export products must come to an end. There must come a moment when foreign demand for these products begins to decline, and the dearer they become, the greater this decline; at length there remains not a single foreign buyer in the market. It is not possible to determine in advance how far the price must rise before this state of things is reached, but there can be no doubt that it *must* ultimately be reached; for however much an article may be in demand, if it keeps constantly getting dearer, a time must come when there is no longer any sale for it. If a rise of 50 per cent. does not suffice to stop the sale, then a rise of 100, or perhaps 1,000 per cent. will take place. But ultimately a moment will come when all exports of the article shall cease.

It may, perhaps, be objected that we have overlooked an

important point, namely, the trade in securities. Indeed, it is not inconceivable that in this particular case trade may develop great proportions. As a rule we may expect that when there is strong demand abroad for the products of a country, part of the profits, which accrue to that country from its export trade, will be invested in securities. Suppose that this actually happens: that not only gold and silver, but also a large amount of securities come into the country in payment for the goods which it exports. We will go even further than this: we will suppose that at first only securities, and no bullion and specie whatever, are received for the exported goods; will this alter in any way the conclusion to which our argument leads? Only to the extent that under the new hypothesis a longer time might have to elapse before the exports ceased; but cease they ultimately would. For every foreign bond has its coupon sheet, and every coupon of such a bond, from the day on which its payment falls due, represents so much foreign indebtedness. The larger the imports of securities the greater does this yearly sum of foreign indebtedness grow. In fifteen or twenty years it amounts to a year's imports of securities; if it grows beyond that limit, it hastens the approach of the time just spoken of; for then gold will come into the country, not only in payment for the exported goods, but also to meet a constantly increasing portion of the maturing coupons. This shows that, so far as our argument is concerned, we may safely neglect the trade in securities. Whether the exports are paid for with gold, or with securities, they must ultimately cease, unless an import trade in goods to the same value be developed.

And there is reason to expect that this import trade will actually be forthcoming. The advance in the labour price will itself suffice to bring it about, since it will make it advantageous to import goods which have previously been supplied by home production. It is of particular importance that this point should be well understood. A change in the labour price, which results from increase or diminution of the amount of currency in a country, has an effect, not only on the exports and imports of that country, but also on its production. The production undergoes a change at many points, it assumes another form. When the labour price falls, the imports of certain

articles cease to be profitable, because it then pays better to produce those articles at home; on the other hand, it becomes possible to export certain articles which foreign countries have hitherto been wont to obtain elsewhere, or to produce themselves. When the labour price goes up, the converse of all this takes place: imports are stimulated and exports checked. But in either case some industries will be benefited, others depressed. In many the number of enterprises will become inadequate, in others excessive. A certain shifting—a certain redistribution—of capital and labour will have become necessary. Perhaps agriculture will develop at the expense of cattle-rearing or *vice versa*, or both will decline in favour of manufactures, or else supersede the latter. That such changes entail suffering, nobody can deny: who has not heard of the loud complaints which arose in England at the beginning of the sixteenth century owing to the numerous conversions of arable into pasture land. We recalled in a previous chapter<sup>1</sup> how, in alluding to that circumstance, the usually placid Latin of SIR THOMAS MORE assumes a tone of unwonted warmth. For this reason all governmental action, which, without procuring any advantage such as would compensate for this evil, influences the course of international trade, is to be deprecated in the strongest terms. For such action influences the course of production at the same time. Some industries are promoted, but others are injured. Wealth is created, but also poverty. Here prosperity ensues, there depression. Fortunes are amassed, but fortunes are also lost. And how do the working-classes fare? New industries look out for young and able-bodied workpeople; the old industries that are ruined leave their aged workpeople unprovided for.

### § 3

#### High Import Duties

Such, then, as a rule, is the effect of high import duties; wherever they decrease imports they also decrease exports, and whatever national industry they create, they destroy exactly the same amount. And frequently the process of

<sup>1</sup> P. 84, *ante*.

destruction is much simpler than has here been assumed, for a protected article may be a raw material or an instrument of production, and then the injurious effects of protection on the unprotected industries become evident at once. Dear corn is bad for milling, yeast-making, and distilling; dear cattle-fodder for butter and cheese-making; dear timber and cordage for the fishing and shipping trades; dear iron for steam navigation and a host of other industries; dear yarn is bad for weavers, dear cloth for printers. When prices of building materials rise, the building trades languish; a rise in the prices of implements and machinery means loss all round. To remedy these evils, recourse is had to the system of "drawbacks": thus the miller, on exporting flour, is refunded a sum estimated to be the equivalent of the import duty comprised in the price of the corn, from which the exported flour has been made. But this system gives no help to the industries which produce little or nothing for export, and it can never be strictly applied, owing to the differences in the quantity of finished products which different manufacturers succeed in obtaining from the same quantity of raw material. The drawback is either too high or too low; generally too high, and then it operates as an export bounty.

There is yet another thing to be borne in mind. Since the same person cannot afford to pay the same sum of money twice over, therefore, whenever the prices of a large number of articles are increased, the demand for the other articles must of necessity decline. This is a conclusion from which it is impossible for protectionists to escape, however they may try to do so. But perhaps they will retort with the objection mentioned above as regards the labour price. Perhaps they will contend that under the system of protection, all money incomes will be increased, so that there will be no difficulty in paying the higher prices. This line of argument is, in fact, frequently adopted, but those who adopt it forget that in doing so they are conceding everything that can with reason be said against the system of protection by means of high import duties. It is quite true that if a large number of articles are protected, the labour price will go up considerably; but will it then be possible to maintain exports? Will not the foreign demand decline if for every

article that used to cost  $x$  times 1s., the price now asked is  $x$  times 1s. 3*d.*, or  $x$  times 1s. 6*d.*? The theory which we propounded at the end of the chapter on foreign exchanges, and which we are now putting forward again, is based upon this very increase of the labour price. If it be admitted that protection necessarily entails a rise in the labour price, then it is also admitted that high import duties act as a check on the production of articles of export; and that is precisely what we wished to show.

What are the arguments usually adduced against this? So far as we know there are only four which are deserving of serious consideration. It is contended:

1. That high import duties do not necessarily cause a reduction, they often merely cause a change, in the imports;
2. That even though they should entail a sacrifice on the nation, this sacrifice is compensated by an all-round expansion of the nation's industries;
3. That in countries where the wages of labour are high, high protective duties may prove to be a means of preventing the decline of those wages;
4. That such duties may be a means of averting temporary depression.

Let us examine these contentions.

1. The protectionists deny that high import duties must necessarily act as a check upon imports.

Yes, they say, the imports of the protected articles do and must diminish. It is the intention of the legislator that they should, but raw materials and instruments of production are imported instead. Less cloth will be imported, but more wool; less yarn, but more calico; less machinery, but more iron and coal. Nor does the imposition of protective duties necessarily disturb the balance of payments, because it distributes wealth, and increase of wealth induces imports of tropical and other produce, which cannot be raised at home.

Is this true? It is contended that the imports of raw materials and instruments of production will amount to as much as the previous imports of manufactured articles. In that case the demand for manufactured articles must have

increased, and it must have increased in spite of the rise in prices of those articles caused by the import duties. Originally the import value of a manufactured article was made up of raw material worth  $a$ , fuel, repairs and renewals of machinery, etc., worth  $b$ , and wages of labour worth  $c$ , making a total of  $a + b + c$ . There are now obtained by importation: the raw material =  $a$ , and the fuel and requisites for renewal of machinery =  $b$ , that is to say, things to the value of  $a + b$ . Consequently there is a diminution of imports to the extent of  $c$ , unless the imports of raw material and instruments of production amount to *more* than has here been assumed, and this, as we have pointed out, can only be the case on the assumption that the demand for manufactured goods has increased. But no increase—on the contrary a decrease—of that demand is to be expected. The imports will amount, not to  $a + b$ , but say to  $\frac{3}{4}a + \frac{3}{4}b$ , so that they will be less by  $\frac{1}{4}a + \frac{1}{4}b + c$ .

We pass on, however. It may be that at first, while new factories have to be established and equipped, the decrease in imports of manufactured articles will be fully offset by increase in imports of other things. Possibly too, the demand for the dear articles will not be appreciably smaller than the former demand for the cheap articles. But, then, surely the consumers of the article that has been rendered dear will have to economise as regards other articles, and the question now arises, On what articles will they economise? On products of native industry? If so, we have another proof that protection destroys native industries. On products of foreign industry then? If so, imports will certainly decline and the balance of payments will no longer be maintained. No, says the protectionist, money wages and other money incomes derived from manufacture will rise, owing to the new industry which has been established; this will increase the demand both for articles manufactured at home and for articles manufactured abroad.

But will money wages and other money incomes derived from manufacture really rise, without one single ounce of gold having come into the country, since the balance of payments, as we are told, remains undisturbed? If so, the rise can only be a temporary one, and must be immediately followed by a decline. If money wages and other money incomes have risen,

but not owing to increased fertility of the land, or to improved instruments of production, or better methods of applying those instruments, then, surely, the cost prices of articles of export must also have risen, and in addition foreign manufacturers will be in a better position to compete with home manufacturers in so far as the latter are not protected. All this must lead to an unfavourable balance of payments and to exports of bullion, and those exports must be continued until money wages, and other money incomes derived from manufacturing, have fallen back to their old level. One of two things: either we must assume that protective duties do diminish imports, and then we have every reason to believe that the labour price will rise; in that case, however, the usual argument falls to the ground. Or we must assume that protective duties do not diminish imports, but in that case no rise in the labour price can be expected. Should such a rise have been brought about, nevertheless, through accidental causes, it could not be maintained, for it would bring about a series of occurrences that would speedily put an end to it. And as soon as the labour price had fallen to its old level, those economies would have to begin, of which mention has been made, and we should again be confronted with the question as to the articles in respect of which the economies would have to be exercised. We know the two answers between which the protectionist has to choose, and both of them tell against his theory.

II. The first argument, therefore, is devoid of force. Let us examine the second, namely, that even though high import duties should entail a sacrifice on the nation, this sacrifice is compensated by an all-round expansion of the nation's industries. It is quite possible, say the protectionists, that many articles might be produced at home at prices lower than those at which they are imported from abroad, if the experiment were only made, but lack of knowledge, or of enterprise, prevents this experiment from being made. Now, if the State were to impose high import duties on such articles, the effect would be to stimulate enterprise; the nation discovers its powers and resources in a field in which these have not previously been applied, and in a short time new sources of livelihood are opened up to many. For a time

the high import duties will have proved obstructive, they will even have diminished the national wealth. But that time will have been short, and the object gained will have been well worth the sacrifice.

It must be admitted that this argument is much better than the previous one. It is not based on a false conception of international trade; it does not deny that restriction of that trade is harmful, it makes no plea in favour of permanent, but only in favour of temporary protection. It will be the legislator's business to discover what goods are purchased abroad owing to lack of knowledge or initiative on the part of native *entrepreneurs*, and having obtained this information, he will be expected to tax such goods and not any others. On theoretical grounds there is nothing to be said against this argument, but on practical grounds the objections are all the greater. It assumes, on the part of the legislator, an amount of acuteness and industrial knowledge such as no legislator possesses. What if, inadvertently, he were to put a duty on goods which, after the removal of that duty, could never again be produced at a profit in the country? In that case his action would have the effect, not of awakening dormant energies, but of diverting a part of the national industry into a wrong channel, into a channel that led to the destruction of capital.

It is true that an industry has often been brought to prosperity by means of protection. In any twenty industries taxed by the legislator, there will perhaps be two or three which are capable of surviving. But it is never possible to know with certainty which those industries are; in order to obtain successful results with two or three, it is found necessary to levy duties on a long list of goods, so that the sacrifice is really much greater than it seems. And what is the legislator to do afterwards with the industries which, though protected, show themselves incapable of living? Is he to leave them to their fate? He can hardly bring himself to do that. Is he then to go on protecting them? If he does, the wealth of the nation suffers. The State which enters upon this path becomes involved in great difficulties, for the transition from protection to free trade is always accompanied by losses for some and by temporary lack of employment for a

portion of the working-classes. These are objections which usually make the legislator hesitate. Many a country has suffered for years (and perhaps still suffers) under protection, because, in addition to the industries with a future, others had been brought into life whose existence depended upon the import duties, but which the legislature feared (and perhaps still fears) to abandon to destruction. Is it not better then to foster the development of industry by good technical education instead of having recourse to tariffs for that purpose? Protection is a costly specific, and any mistakes made in applying it—mistakes which are unavoidable—produce very harmful results.

There is another matter, too, which may as well be mentioned, although it does not come within the sphere of purely economic considerations. The protectionist would impose a sacrifice upon the whole nation with the object of fostering industry at certain points. But import duties of this kind do not impose a sacrifice on the whole nation; they do so only on the consumers of particular kinds of goods; it is they who have to bear the burden. Is this fair? Where it is a question of promoting the interests of the country as a whole, all its inhabitants should set aside a portion of their income, the one more, the other less. But whatever the standard for apportioning the burdens must be, it ought never to be the quantities of certain articles that people happen to consume. A Government, for example, thinks it possible, in a country where no clocks and watches are made, to establish the manufacture of those articles as a permanent industry, by imposing high import duties on clocks and watches. Before adopting such a course, it ought to consider whether it is fair to require a sacrifice, not of every one, in proportion to his or her ability to make the sacrifice, but only of those who buy watches and clocks, and in proportion to the amount of each such person's annual purchases of these articles. Why just these people and not the others should have to contribute towards the establishment of the clock and watch industry is not clear. It would be much better to have nothing to do with import duties, and to pay bounties for the manufacture of clocks and watches, or else to grant subsidies out of the Public Exchequer to the manufacturers of these articles. If

recourse must be had to artificial means for establishing an industry, care ought to be taken not to employ means which violate the most rudimentary principles of the incidence of public taxation. It would be wrong to retort that this line of argument goes too far, inasmuch as it implies a condemnation of all import duties, even of those imposed for purely revenue purposes. In a properly regulated system of taxation, the various imposts are interrelated; one tax bears upon this, the other upon that section of the community. But protective duties stand by themselves; they impose burdens upon particular persons, not because it is deemed right that just those persons ought to bear them, but for entirely different reasons. In this there is a certain unfairness, of which, as a rule, people are not sufficiently mindful.

Lastly, it seems not unnecessary to call attention to the numbing, enervating influence usually exercised by the protective system. An industry that has been secured against foreign competition is seldom elastic, it is seldom abreast of the times. In a very large country the evil consequences of this may not be very marked; native competition is so keen that the absence of foreign competition does comparatively little harm. In a small country the case is different: there the stimulus of foreign competition is indispensable, native competition being, of course, less keen in such a country. When people speak of the disadvantages of foreign competition, they would do well not to forget its advantages, not only for the consumer, but also for the producer. It is easy enough to surround a state with a high wall that keeps things out; it is by no means such an easy thing to reawaken the numbed faculties of an enervated body. And the dangers which we are now describing are not imaginary, as experience has repeatedly shown. Even in France, industry was found to be lagging at many points when, in 1860, the protective duties were considerably reduced.

There may be some truth in the contention that protection awakens dormant energies; but it may with equal truth be asserted that protection often greatly retards progress. This, added to the other drawbacks, makes it inadvisable to promote industry by means of high import

duties. It is most likely that the object in view will not be attained by these means. They may succeed in creating a few industries which had not previously existed, and we will assume this advantage to be lasting. Nevertheless, it will probably be outweighed by so many disadvantages, that the country which has had recourse to these means will regret it.<sup>1</sup>

III. Again, it is contended that in countries where the wages of labour are high protection is useful in preventing the decline of those wages.

High real wages may be the result of various causes—of high productivity of the instruments of production, of a small population, and of a low rate of interest. We will suppose first that the high wages are due to the great productivity of the instruments of production, and we will ask ourselves whether, in such a case, protection may be advantageous to the working-classes.

Those who contend that it may, forget that high *real* wages in this case take the form of high *money* wages as compared with *normal* prices.<sup>2</sup> The state of things will be this. The workpeople will be enjoying liberal wages in the shape of money; the employers will be able to afford those liberal wages because the quantity of products which each workman turns out will be greater than it is in other places, where the instruments (or faculties) of production are less productive. What goods will then be imported? Imports, as we know, are only possible where there is difference of price. The question, therefore, reduces itself to this: What goods will be offered at lower prices outside than inside the high-wage country? It will certainly not be those goods for the production of which the country itself possesses special facilities; these, instead of costing less abroad, will cost more; rather will it be those goods for the production of which there are, in the home country, fewer facilities, either absolutely, or as compared with those which exist for the production of other

<sup>1</sup> In chap. vi. of Mr. A. BEAUJON'S work, *Handel en Handelspolitiek* (already cited), much excellent reading will be found on the subject of *Erziehungszölle* (i.e. duties imposed for the purpose of fostering industry); also in SIR ROBERT GIFFEN'S paper on "Protection of Manufactures in New Countries," in *The Economic Journal* of 1893, pp. 3-17.

<sup>2</sup> See Vol. I. pp. 374-378.

goods. And wherewithal are the imports to be paid for, if not with the goods that are produced under more favourable conditions, that is to say with the products of the particularly fertile soil, the very rich mines, the specially trained operatives? In virtue of free trade, the nation of which we are speaking will be able to benefit in a twofold sense by its special facilities for production. It will benefit directly in being able to procure for itself many things with less effort than is required in order to procure the same things elsewhere; it will benefit indirectly in being able, with the goods which it has special facilities or faculties for producing, to purchase from abroad other goods for the production of which it does not possess equal facilities or faculties. High money wages in this case indicate a favourable ratio of exchange; would there be any advantage in having a favourable ratio of exchange and yet not exchanging? So far as the workpeople are concerned, protection can here lead to no other result than the reduction of their incomes as reckoned in goods. It leaves untouched the direct advantages of the special facilities for production, but nullifies the indirect advantages.

The high level of wages may also be due to the population being small, that is to say, small in proportion to the amount of available land. The labour price will then be high, agricultural rents, on the contrary, very low. Both labourers and capitalists will share on favourable terms with the landowners, inasmuch as they will enjoy large money incomes—in this case high money wages will be consistent with a high rate of interest—while all kinds of agricultural produce will be cheap. Under free trade the exports will consist almost entirely of agricultural produce; the imports will consist mainly of manufactured articles. Will the exchange be disadvantageous? There can be no disadvantage in parting with the products of what is, for the greater part, virgin soil, and receiving by way of payment goods which have cost much labour.

But does not the foreign labourer, with his starvation wages, then enter into competition with the home labourer, who receives liberal wages? Certainly; but he asks for just as much goods as he offers, and how can that cause wages to decline? It will, indeed, prevent wages in some trades from

reaching as high a figure as they do in others. This, however, is no reason for levying high import duties, but a clear indication of the direction in which capital and labour could be employed with the best results.

There can be no doubt that in both of these cases protection does harm and nothing else. The third case—that of wages being relatively high owing to the rate of interest being low—is not quite so simple, and we must discuss it at somewhat greater length.

When speaking above of the labour price, we observed that all kinds of ratios may exist between the respective remunerations of labour and capital comprised in that price. A labour price of 2s. 6d., for instance, may represent wages of labour and of *entrepreneur* to the amount of 2s. per day, and interest at  $7\frac{1}{2}$  per cent. per annum on a capital of £100; but it may also represent 1s. 6d. in wages, and interest at 15 per cent. per annum on the same amount of capital. From this it follows that, in two countries, the labour price may be equally high, while there is a considerable difference between the two countries both as regards the rate of wages and the rate of interest, and if this be so a particular kind of exchange will be possible between the two countries. A given quantity of a certain commodity requires the labour of 10 men supported by a capital of £2,000 for one year. The cost price of that quantity of goods will now be :

In country A, where the rate of interest is $7\frac{1}{2}$ per cent. and the wage is 2s. (reckoning the year as 300 working days)	£450
But in country B, where the rate of interest is 15 per cent. and the wage 1s. 6d. per day	525

Thus in country B it will be greater by £75

A given quantity of another commodity requires the labour of 15 men supported by a capital of £500. The cost price of that quantity of goods will be :

In country A	£487 10 0
„ „ B	412 10 0
Thus in country B it will be less by	<u>£75 10 0<sup>1</sup></u>

<sup>1</sup> This calculation is not entirely correct, as the amount of capital is affected by the level of wages. This may, however, be neglected for the purpose of our illustration.

believe this to be possible? Dare any one suppose that there will be enough means of subsistence for such a densely-packed population? A moment's reflection must enable any one to see quite clearly that it would be impossible for production to keep pace—at any rate in the long run—even with such growth of the population as the nineteenth century has witnessed. It might do so for a time, perhaps for a couple of centuries; but once America had become densely populated, so that it could no longer export any food-stuffs, and so soon as all the fertile areas in other parts of the world, where grain might be grown, had been brought into cultivation, we should have reached the limit fixed by nature. Evil days would then be in store for mankind, unless the births declined very much in number. Average incomes, more especially wages, would fall lower and lower, and the death-rate would rise in proportion.

MALTHUS might, therefore, very well be defended if his doctrine concerning production were meant to be interpreted as we have been supposing. We do not believe, however, that it was intended to be so interpreted. He took his stand upon experience—the experience of his own time and environment. He was speaking not in the abstract, but with concrete conditions before his mind. His doctrine, as we understand it, was as follows: “Unless means that baffle our most sanguine expectations be found for increasing production, we cannot hope that it will increase more rapidly every twenty-five years than at the rate expressed by the arithmetical series 1, 2, 3, etc. This is the maximum. In conceding that such a rate of increase is possible (with such growth of capital as now takes place and such development of industry as now seems probable) we are already conceding very much; our proposition would still hold good even if somewhat longer periods of time were substituted. Whoever denies the necessity for moral restraint must, therefore, show that we have greatly understated the growing capacity of production; he is bound to prove that that capacity is likely to increase to such an extent as may be necessary in order to convert the arithmetical series: 1, 2, 3 into a geometrical series: 1, 2, 4. It is not to be expected, however, that this proof will ever be forthcoming. From what we know of the conditions under

the welfare of mankind in general. But we may also consider the matter from a purely national standpoint, and, starting from the assumption that high wages are beneficial, even where they exist in conjunction with a low rate of interest, we may question the merits of a trade which causes this state of things to change. We shall then be disposed to lend a ready ear to any proposals that are calculated to prevent such a change, and protective duties may be among the means proposed. Whenever, in a country such as we have been describing, heavy protective duties are imposed on goods which require for their production much labour and little capital, the effect will really be to benefit the working-classes of that country.

But with import duties of this kind, just as with those imposed for the purpose of fostering industries, the difficulty lies in the application. How is the Government to ascertain which imports have their origin exclusively in differences in the relation between wages and interest? In England, for example, wages are higher and interest is lower than in Holland, but of the goods traded in between the two countries, which are the ones that would not be traded in but for this cause? To answer this question would require a knowledge which nobody possesses. Between England and Holland there exist many disparities, some in favour of the one, and some in favour of the other country. The result of all these disparities is that England purchases certain articles from, and supplies certain other articles to, Holland. It would be impossible, however, to show in detail what part of this trade would disappear if the ratio between wages and interest were to become the same in both countries. A country which was desirous of checking, by means of import duties, such international trade as had its origin in unequal ratios between wages and interest, would have to adopt measures, the results of which would reach much further than was desired, and much further than was good for the working-classes, whose interests it was intended to promote.

It is very doubtful, too, whether this inequality of ratios, which we are now discussing, can ever be the sole cause of trade being carried on between two nations, whether it is ever anything more than a subsidiary cause. This question

suggests itself if we consider that the difference in the rate of interest between two neighbouring countries is never very great, and is therefore very likely to be made good by freight and other expenses ; it is only as between places which are far apart, and between which the freights are therefore never small, that the rates of interest differ materially. There can be no doubt that England owes a great part of her commerce to the abundance of capital which she possesses. Many countries would be unable to supply England with goods, if England were not in a position to pay ready cash for those goods, and to give long credit for her sales. But will it often happen that England imports goods solely because of her high wages, or exports goods solely because of her low rate of interest? In the abstract it may, but if it actually does, will it happen on such a scale as to exercise an appreciable influence on the level of wages?

Moreover, everything that tends to depress the rate of interest in a country where that rate is already low, promotes the transfer of capital from that country to other countries. Against such transfer legislation can do nothing. For instance, it cannot prevent imports of securities. Of what use, then, is protection here? Even though it were applied with the fullest knowledge of things, and with the utmost tact, it would prove unavailing, and in so far as it might prove the reverse, it would bring about the very thing which it was intended to prevent. If the English Government were to impose heavy duties on all articles, the importation of which into England is solely due to the ratio existing between wages and interest, and if, as a result, the rate of interest in England were to fall even lower than the low figure at which, as a rule, it already stands, British capital would seek permanent investment abroad to an extent even greater than it does already. What would have been gained as a result? Previously a cause of high wages was in operation; by means of high import duties a cause of low wages would have been set in operation as a counterpoise.

IV. And now a word concerning protection as a remedy against agricultural or industrial depression. Can protection ever prove a remedy for this evil? Wherever it causes exports to decline and limits home demand, it is the reverse

of a remedy. In the interests of truth, however, it must be admitted that there is one special case in which we may look to protection as a remedy against depression. It is the case of which we spoke when we were endeavouring to explain the phenomenon of depression, namely, great development of agriculture in distant countries owing to increased transport facilities in those countries, and a consequent sudden fall in the prices of agricultural produce.

We cannot for one moment admit that such an occurrence would be a misfortune, although it is often spoken of as if it would. Rather would it be an inestimable boon, in so far as it would cheapen our daily bread. The reasons adduced by those who endeavour to prove the contrary are entirely devoid of weight. They commonly amount to this: prosperity for the farmers ensures prosperity for the whole community, because a rich farmer class either consumes much or saves much, and thus brings prosperity to the manufacturing industries in either case. The proposition is true only if the prosperity of the farmer has developed spontaneously, and has not been brought about by high import duties on corn. It would be as unreasonable to defend protection on the ground referred to, as it would be to argue thus: it is good for the shopkeeper to live in a wealthy neighbourhood; we will therefore take money from the shopkeepers and distribute it among the inhabitants of the neighbourhood; these people will then be able to spend largely.

We must remember, moreover, that high or low corn prices, so soon as the rents have adjusted themselves to the prices, are a matter of complete indifference to the tenant farmers. The real, and indeed the only person ultimately interested in high prices of agricultural produce—we cannot lay enough emphasis on the fact—is the landowner: a high import duty on corn is a tribute levied upon the whole community for his advantage; a means of altering the distribution of the social income in his favour, or of preventing the distribution of that income from being altered to his disadvantage. Such a tax is never productive of good results for the national welfare. If a country be flooded with foreign corn, so much the better for that country: still better would it be to be flooded with goods of every conceivable kind. For

supply of foreign products and demand for native products are only different expressions for the same thing, and a plentiful supply at low prices in this case means that foreign countries are willing to exchange with us on terms which are greatly to our advantage.

But this, however incontrovertible it may be, detracts nothing from a truth already adverted to—as to the losses, which are invariably entailed by a sudden fall in corn prices. The results of such a fall are not *all* losses: great advantages accrue at the same time; but the losses are suffered by some and the advantages are enjoyed by others. Wealth increases very much in some parts of the country and declines very much in others. Ultimately everything readjusts itself by means of migration of persons and capital—migration from one country to another, from one industry to another—but for a time the distress will be great in places. The evil lies in the suddenness, the unexpectedness of the occurrence; and the consequences are far-reaching: much capital invested in agriculture will be lost for good, owing to the rapid fall in prices. And this will affect the interests not only of the farmers but of the whole community. For, lack of capital in agriculture means inadequate cultivation of the soil, consequently inadequate production. A measure which aims at preventing the too rapid fall of corn prices tends to the advantage, not of the farmers and the rural tradespeople exclusively, but to the advantage of the whole population.

And such a measure might consist in the imposition of import duties for a short time—import duties diminishing each year by 15 or 20 per cent. of their original amount, so that they would disappear altogether at the end of five or seven years. Suppose, for instance, that wheat suddenly falls in price from 50 shillings to 30 shillings per quarter. An import duty is then imposed, amounting to 20 shillings the first year, 17 shillings the second year, 14 shillings the third year, and so on. Every one now knows that before long the price must come down to 30 shillings—at least if supply and demand do not change. This fact can be allowed for by all who conclude agreements for the purchase or lease of land, while those who think that a price of 30 shillings per quarter of wheat would not cover their expenses, can either

choose some other business, or else temporarily put their land to some other use. In this way the advantage of the *permanent* decline in price is not taken away, while the harmfulness of the *sudden* decline is obviated. At home the decline in price will now only come about by degrees.

What is there to be said against such a measure as this? The first objection to it is, that although it does help some, it does not help all. As a rule, a country imports certain kinds of agricultural and garden produce and exports others. The protective duty can never prove helpful to those who produce articles mainly belonging to the latter class. In Holland, for instance, such a duty would bring no advantage to producers of potatoes, flax, beetroot, barley, or greenstuffs. It has been computed that, of the 2,112,000 acres of arable land in Holland, only 1,235,000 acres are used for growing such produce as might be protected by means of import duties. And a large portion of this area is owned by persons who consume their own produce and are therefore not interested in high prices at all.

In the second place, we would observe—and this lends force to what we have just said—that a decline in corn prices is frequently accompanied by a decline in the prices of cattle and dairy produce. The loss to cattle breeders then meets with partial compensation in the cheapness of corn. To withhold this compensation would be unfair. A decline in corn prices is also accompanied by a decline in the prices of goods, in the manufacture of which corn is the raw material; a protective duty must therefore have adverse effects for the industries which produce those goods. It is true that in many cases these adverse effects might be obviated if temporary import duties were at the same time laid upon the produce of stock farms, and upon flour, starch, spirits and other things manufactured from corn; but if these things belonged to the category of export articles, import duties could do no good in this case, and the only possible remedy would be to grant export bounties. And so the one thing leads to the other. The sacrifices, which are temporarily required of the nation, are greater than they appear at first sight.

In the third place, the legislator must follow a fixed rule. If that which has here been assumed to have happened in

agriculture should presently happen in some other branch of the national industry, he must again have recourse to the principles which he has once accepted. He will have to afford relief to every trade that is suffering from depression, and if import duties and export bounties should prove of no avail for the purpose, he must not shrink even from making grants of money to employers or workpeople. If he does this, he not only assumes a difficult task, but he also weakens in individual members of the community their sense of personal responsibility for action and for the choice of their own calling.

In the fourth place, to *whom* should the assistance be afforded? To all, or to a few only? When depression prevails in a trade, the one *entrepreneur* fails to secure even his *wages*, while the other has merely to forgo his *surplus* because he is working under favourable conditions. A general measure adopted by the State in the interests of a languishing industry will thus have for its result, that some, who are able without help to continue carrying on their business at a normal profit, are enriched at the cost of the Exchequer; for they are enabled to go on securing the special gains to which they have been accustomed. And this remark holds good not only as regards manufacturers, but also as regards farmers, where these are the owners of the land and have purchased it at low prices. For many farmers, the decline which has taken place in the prices of agricultural produce in our time simply means being no longer able to secure exceptionally large profits.

In the fifth place, *when* must assistance be afforded? Wheat declines from 50 shillings to 30 shillings per quarter: must we at once proceed to impose a temporary duty of 20 shillings per quarter? Certainly nobody could recommend such a step as this, as the decline might be quite temporary, in which case the duty would not only be unnecessary, but would do much harm, for it would enrich one section of the population at the expense of all the others. Rapid falls and rises are far from uncommon with such articles as corn, so that in this case hasty action must be carefully avoided. But in avoiding this mistake there is a great danger of not imposing the duty until after extensive harm has already

been wrought by the depression. Thus the legislator must not act too soon, or too late, but just at the right moment. It is easier to preach this rule than to practise it, for who can tell which is the right moment? Who can even determine how high a duty will be necessary in order to procure for the farmers a temporary recompense for their loss? When, owing to increased production, the price of an article begins to decline, nobody can foretell when the point will be reached, at which equilibrium will be restored between supply and demand.

Taking into consideration all these difficulties, and remembering, moreover, that everywhere there exists a protectionist party, who would certainly not fail to oppose each successive reduction of the duty, we feel bound to maintain that there are grave objections against giving practical effect to such a policy as that just described. It is calculated to injure many trades; it leads the legislator into a field where he cannot act consistently; it affords assistance to many who need no assistance; moreover, as regards the duty itself, it is impossible to determine even approximately either for how long or at what rate it ought to be levied. We do not deny that the plan has its favourable aspects, but the unfavourable aspects predominate, and we do not therefore consider that this kind of protection is to be recommended.

There is little more to be said; nevertheless it may have occasioned surprise that we have left a very common argument unanswered. It is frequently contended that high import duties fall, not on the home consumer, but on the foreign producer, and that this being so, one of the chief objections usually raised against such duties falls to the ground. The duties, it is argued, do not make the goods any dearer, they are a means of shifting some of the burden of taxation on to the foreigner.

We have left this unanswered, because it can hardly be regarded as an argument in favour of protection. It might serve for the purpose of showing that high import duties do no harm in the country in which they are levied, that they make no change whatever in economic conditions in that country, and that they simply serve to fill the national treasury. Under no circumstances could the argument serve

the purpose of presenting the protective system in a favourable light. If it be true that import duties are paid by the foreigner, in other words, that foreign prices decline to the full extent of the duties, then those duties afford no protection. The dutiable goods continue to be imported as before. A protectionist would then have to say that they had failed in their object. The object in view was to keep out foreign products; this was to be done by making those products dear, so that consumers might choose native goods. But if the foreign products do not become dear, if, in spite of the import duties, they are still to be had at the same prices as before, what has been gained? People will still continue to order them from abroad, and native industry will be in no way benefited.

The advocates of protection must therefore either incur the charge of merely advocating measures which do nothing whatever towards promoting the application of their system, or else they must drop the contention that the burden of the import duties is borne exclusively by the foreigner. That contention itself, moreover, cannot be persisted in. We certainly admit that import duties, if they are levied by a very large country and on an extensive scale, do depress foreign prices. If England were to put a very high duty on butter, butter prices outside England would decline. But this decline would not be equal to the duty; it would amount to less, because the English demand, however important it may be, is only a small part of the total demand for that article, and also because the decline in the price would lead to a decline in production, which, in its turn, would act as a check on the decline in the price. It is true that duties on imports are a means of replenishing the national Exchequer at the expense of the foreigner; but the sums which are made to flow into the national Exchequer at the foreigner's expense, never amount to the whole, they always amount to a part only of those duties; and where the duties are levied by a small country, that part is so small as to be scarcely worth considering.

This is the very reason why, in a small country, the effects of production are doubly injurious. In a large country the harm resulting from high import duties is, to a certain extent,

mitigated by the effect of those duties on foreign prices, and in so far as the duties have an effect on foreign prices they are *not* protective. But in a small country this advantage is almost entirely lacking, because the demand of such a country is too small to exercise any appreciable influence on prices abroad.

And now one word more in answer to a question frequently raised. Are high import duties harmful even when similar duties are levied by foreign countries? Many people are doubtful about this. Free trade, we are sometimes told, would be a good thing if it were adopted universally, but if our export trade is being hampered by foreign countries, our national interests require us to levy high import duties. The system advocated by those who hold this view is called "fair-trade," by which is meant, to put it briefly, taxing the produce of those countries whose laws diverge from the principles of free trade.

The question must be stated clearly. It is not a question as to whether the policy of levying heavy import duties against states which hamper our export trade is to be recommended as a means of inducing those states to adopt a more liberal policy. That is a question of statesmanship on which the economist is not competent to express an opinion. All that it concerns us to inquire into is whether a policy of *retaliation* in matters of tariff legislation is or is not calculated to promote, or at any rate to prevent the decline of, the national welfare. The foreigner taxes our goods; this does us a certain amount of harm. Will this harm be made any the less by our taxing the goods sent to us by the foreigner?

It requires an effort to follow the line of thought of those who could answer the above question in the affirmative. Whoever is of opinion that the injury resulting from restriction of exchange can be lessened by increasing that restriction, must entertain ideas regarding international trade quite different from those which one gradually acquires by close observation of that trade. The injury is not lessened, but remains as great as before, or it increases.

Foreign countries tax our goods. This taxation may be so heavy that all exports of such goods as we are able to produce become impossible. But then all imports will cease

of themselves, except in the case of remittances of interest and the like, and it becomes quite unnecessary to revise our tariff. By doing so we should be making matters neither worse nor better, we should merely be fixing a bolt on a door which was already hermetically fastened.

This case is scarcely likely to arise, however. As a rule the foreign duty will not be so heavy as to make it altogether impossible to export, but will press on our goods only to such an extent that we shall be obliged to accept lower prices and unable to dispose of such large quantities of the goods. Our "labour price" will therefore fall, and however deplorable this may be in itself, it will be the only means of enabling us to continue our export trade, even though it be on a more modest scale, and on less favourable terms than before. Now what will be the result, if we, in our turn, put a tax on imports? The labour price will rise again somewhat, and so a second, and perhaps a more deadly blow will fall on our export trade. The effect will be the same (not outwardly but essentially) as if the foreigner had still further raised the tariff on our goods. For let nobody imagine that we shall be gainers by the rise in the labour price. It would be easy to prove that the increase in money incomes will amount to less than the increase in the prices of the foreign products. Consequently there will be greater loss on all sides.

The advocates of retaliatory duties are not wrong in contending that the country which imposes such duties inflicts an injury on the foreigner, but they forget, as a rule, that in doing so it also inflicts an injury on itself. If it be desirable that we should suffer that injury for a time, if it should be considered, for instance, that by retaliation we shall bring the foreigner to reason, let it be adopted. We repeat that questions of statesmanship are outside the sphere to which we must confine ourselves here. But the country which resorts to retaliation should never forget that in doing so it makes a sacrifice, perhaps a very great sacrifice, and that it inflicts an injury not only on the foreigner, but on itself as well. That the foreigner should tax our products is one bad thing; but for us to retaliate by taxing his products is another bad thing, both for ourselves and for the countries with which we trade. The Government ought to know what steps to

take in order to prevent the foreigner from adopting legislation hostile to our interests; that is the business of the Government. But it must not believe that it is mitigating an evil, when it is really aggravating it.

## § 4

### Export Bounties

The most usual form of protection having now been discussed in detail, it will be sufficient in dealing with its other forms to confine ourselves to essentials. Almost every kind of permanent protection suffers from the same defect—that of benefiting the few at the cost of the many; promoting particular branches of industry, but at the same time depressing others. Protection imparts no fresh vitality to production, but only promotes parasitic growths; it never adds to the wealth of the nation as a whole, rather does it diminish the national wealth to some extent, because it diverts a certain amount of production into paths in which it is less desired. International trade is the means which a country employs in order to save itself some of the effort of production; the principal part in a system which, as a whole, may be termed that of acquiring necessaries indirectly. Instead of producing  $x$ , the country produces  $y$ , and with that product it purchases from the foreigner  $1\frac{1}{4}$  or  $1\frac{1}{2}$  times  $x$ , perhaps even more. Hampering international trade by means of protective duties is like raising freights artificially, or blocking the entrances to our harbours. In outward appearance the effects are different, but in reality all impediments, no matter of what kind, placed in the way of international trade, have the same baneful results.

But, it may be asked, does this apply equally to export bounties? Can these be said to hinder international trade? Do they not, on the contrary, promote it? We may begin by observing that this is by no means a matter of certainty; it is quite possible for export bounties to make no difference whatever in the movement of trade. This will be the case where the new industries, which the bounties have called forth, draw labour and capital away from the industries which were already working for the export trade. Then one kind

of export is simply substituted for another, and increased taxation is the sole outcome of the measure. It is the same as if the country had undertaken to pay a certain tribute annually to the foreigner.

It is conceivable, however, that exports will really increase. But if they do, then imports too must increase, otherwise the balance of payments will no longer be preserved. Of what will these increased imports consist? Of securities? There will be no reason to expect any increase in the imports of securities when taxation has been increased and savings have therefore been diminished; but even if the imports of securities should increase, they would have to do so by a proportionately larger amount each year, for the reason already stated, namely, that a country cannot become the owner of more foreign securities without becoming entitled to draw more in the shape of interest from foreign countries. And there would be another result: wages would decline; for a yearly increasing inflow of securities means a yearly increasing outflow of capital, and such a cause can only benefit interest at the expense of wages. But this last remark makes it additionally clear how untenable is the hypothesis that the increased imports will consist of securities, for a rise in the rate of interest checks imports of securities.

The question, as to what the additional imports will consist of, admits of only one answer: they will consist of goods. Then what will the export bounties have achieved? They will have achieved what we have already stated to be the result of protection in any form; they will have destroyed just as much national industry as they have created, and there will be nothing to compensate for the sacrifices that have been made. The advocates of export bounties must admit that the total export figure either remains unchanged, or else increases as a result of the bounties. If that figure remains unchanged, then an injury is done to such industries working for the export trade as are unprotected; if it increases, then the import figure also increases, and it does so at the cost of the industries working for the home market. In either case taxation will have been increased by the amount of the bounties, while no increase will have taken place either in production itself, or in the gains derived from production.

The shortest, but also the most accurate, definition of export bounties is conveyed by saying that they are gifts to the foreigner. The cost price of an article is so much per pound. This signifies that if the article should fail to fetch that price, the capital and labour employed in its production would not secure the normal rate of recompense, that is to say, they would not earn as much as it is possible for them to earn under ordinary circumstances. But the foreigner is not prepared to purchase the article at that price; in other words, if we offer that particular article, he is not prepared to recompense the labour and capital, which we employ, at the rate which it would be possible for that labour and capital to secure if it were differently employed. The obvious inference to be drawn from this is, that we must not offer the article in question, and that we must employ our energies and instruments of production for other purposes. If the legislator now steps in and says that a part of the price—*i.e.* so much of it as the foreigner thinks excessive—shall be paid out of the public Exchequer, he acts in a mistaken way, for he encourages the very thing that should be avoided with the greatest care. The nation as a whole then suffers a reduction in its income; it accepts payment which is inadequate, that is to say, inadequate in relation to the normal gains procurable by the employment of capital and labour. Nobody but the foreigner benefits by this.

When we know the manner in which export bounties affect the country by which they are granted, then we also know the manner in which such bounties, when granted by foreign countries, affect the wealth of our own country. If France and Austria grant high bounties on exports of an article which Holland is in the habit of consuming, the result is a pure gain for Holland. It is a mistake to suppose that Dutch industries must decline or become less productive in consequence, for either the foreign bounties will cause Dutch imports to *increase*, in which case Dutch exports also will increase, or they will simply cause Dutch imports to *change*, so that for certain articles which Holland had previously been in the habit of importing, certain other articles will be substituted; but in that case, too, a number of industries

which were not paying before in Holland, will be brought to a state of prosperity. What the foreign countries have lost through their bounties is so much gain for the countries to which they send their goods. Certain industries are injured, perhaps ruined; we do not wish to ignore this, nor may we do so. But that the income of the nation increases is incontestable. The effect is different, however, where the bounties are given on articles which we ourselves are in the habit of exporting, or which we export from our colonies. In that case an artificially awakened competition arises, which can only be injurious to our welfare. The export bounties on sugar, for instance, have occasioned great loss to the Dutch and English capitalists who are interested in the colonial sugar industry. But we are now speaking of goods which a country is not in the habit of exporting; of goods which it either does not produce at all, or only produces in order to supply its own wants. If bounties are paid by the foreigner for the exportation of such goods, then we think that, on the strength of the demonstration which we have given, we may maintain that the national welfare of that country suffers no harm, and in fact derives benefit from those bounties. It will be the same as if the country were to receive a certain tribute annually.

Ought we, therefore, to condemn a fiscal arrangement which endeavoured to neutralise the effects of the export bounties by imposing import duties of corresponding amount? If France, for example, were to give a bounty of so many pence for every hundredweight of flour exported, would it be a mistake for England to charge a duty of the same amount on every hundredweight of flour imported? We certainly believe that it would; nevertheless, we fancy that we shall have to adduce other reasons than those given above, in order to prove it. For it would be quite possible to assent to all that has been said above concerning foreign export bounties and yet—or rather for that very reason—to be of opinion that such import duties as we are now referring to ought to be approved of.

One might argue as follows. A time must come when the foreigner will recognise that his system is at fault even from a financial point of view; should he do so, however, a

double disadvantage is likely to be the result for us, unless, from the very first, we have been counteracting the effect of those export bounties by means of corresponding import duties. First, the foreign bounties cause one part of our industries to decay. Now it is true that they bring prosperity to another part of our industries; but from the moment that the foreign bounties are abolished, the sole cause of this prosperity disappears. The industries which were originally destroyed by the bounties then revive, no doubt, but, on the other hand, those which owed their existence to the bounties are ruined. The two things combine to bring about great loss of capital. Those who were injured by the introduction of the bounties have perhaps pulled down their factories and sold their machinery at nominal prices, and now it is the turn of those who are injured by the abolition of the bounties to do the same. Can it be right for a Government to allow the industry of the country to be exposed to such violent shocks? Is it not the duty of the Government to make every possible provision against disturbances in production and in the regular growth of the national industry?

There is a certain amount of force in this argument, but there seems to us to be more force in the objections that can be brought against it. In the first place, experience shows that once export bounties have been sanctioned by the Legislature, years and years may elapse before they are abolished. Consider, for instance, for how long the sugar industry in many European countries has been protected by such bounties. If there were good reason for thinking that the bounties would only be granted for a short time, then indeed the question of adopting a system of import duties to neutralise them would be worth serious consideration; we should be inclined to say, however, that, in that case, such a step would be entirely unnecessary, since the manufacturers, who were hit by the bounties, would then be sensible enough not to pull down their factories or to dispose of their machinery. They would understand that the difficulties with which they had to contend were temporary, such, in fact, as every industry experiences at some time or other and strives to overcome. If, on the other hand, there were no prospect of the foreigner reverting before long to a sounder system, why should we

abandon the advantages which the bounties procure for us and which we shall perhaps enjoy for a long term of years?

Secondly, the bounties are in most cases given in such a form that it is difficult to calculate exactly what they amount to. As a rule, they take the form of what are called "draw-backs," that is to say, rebates of particular excise or import duties so arranged that the amount refunded exceeds the tax originally paid. For instance, an article, which happens to be the raw material for some industry, becomes dutiable; then, in order that the industry in question may not suffer, it is provided that, on exportation of the finished product, a sum shall be refunded, which is reckoned to represent the tax paid on the raw material. But, as a rule, in making this calculation, the amount of the tax paid is intentionally overestimated; or else the manufacturer has learnt in the course of time how to make his raw material yield more of the finished product than it did at first, while the rebate remains the same. All export bounties of recent times are regulated according to this principle. Nobody can say exactly what they amount to, unless it be those who derive advantage from them; nor is this advantage as a rule the same for all, for one *entrepreneur* knows how to get more out of his raw material than another. How, then, are we to know what rate of import duty will have to be imposed in order to neutralise the effect of the foreign bounty? It is obvious that there is a chance here of committing a serious error, and that what was intended merely as a means of averting loss may prove to be protectionism. Those who are interested will always urge the fixing of the duty at a rate which shall be at least equal to the highest bounty that is being granted. It is quite possible, however, that this highest bounty is being obtained by a relatively small number of persons, in which case the duty is not an equivalent, but much more than an equivalent.

Just as in regard to the bounty itself, so also in regard to the effect of the bounty on prices, the figure decided upon is in many cases too high. Suppose, for example, that in a given country the production of a certain article for the world market at a normal profit is not possible in the first instance, but that it is made possible by means of an export bounty; the price of that article abroad cannot fall by the full

amount of the bounty, for, if it did, matters would return to their original condition in that country: the producers of the article would lose just as much as they had gained. The bounty will therefore never enable production to increase to the extent required in order to make the price of the article decline to the point just referred to. For a time it may do so, but after a time the bounty-paying country will restrict the production of the article, and then the price will go up again. A similar course of things may be expected where a bounty is paid on the exports of an article of common use, which *different* countries supply. Here again the price in the world market will fall, but if the fall should be considerable, there would be a decline in the imports of the article from the bounty-paying country as well as from the other countries. If, in such cases, an import duty were to be levied at a rate equivalent to that of the bounty, the home producer would recover more, perhaps much more than he had lost.

It has to be observed, moreover, that in countries where the export trade is protected, various other forms of protection are also in use, as a rule. Where this is the case, the bounty must frequently be regarded as being so much restitution made to manufacturers who are working for the export trade in respect of the higher wages and higher prices of machinery and fuel which they have had to pay owing to the protection afforded to other manufacturers. In such a case the bounty is one part of a system, the entire abolition of which would be more of a benefit than an injury to those to whom only nominal and not real protection is being given.

Lastly, if we impose duties for the benefit of those who are injured by foreign export bounties, we cannot refuse the same favour to manufacturers who are injured by other kinds of foreign fiscal legislation. It has often been proved that the levying of high import duties in a neighbouring country may produce an effect in that country exactly similar to that of high export bounties. This will be the case when the producers, who are protected in this way, in order not to depress the home price (and so to lose the advantage of the protection), restrict their supply in the home market and export all that they produce over and above a certain quantity, the amount of which they may or may not have fixed by

mutual agreement ("dumping"). It may be to their interest to act in this way, and if they do, the price will fall just as if an export bounty was being paid. Is it the duty of a State, which adheres to the principles of free trade, to depart from those principles for the sake of such of its citizens as are being injured by the practices just referred to? If it fails to do so in their case, while doing so in the case of those who are being injured by foreign bounties, it acts unfairly. If, on the other hand, it should be lured into this course, what remains of its free trade principles? To set about neutralising the effects of foreign export bounties by means of import duties, is to take the first step on a road, along which we shall find ourselves impelled to take many other steps—a road which ultimately leads to the complete introduction of the protective system.

## § 5

### **Protection of the National Flag**

In conclusion, we have a few words to say regarding protection of the national shipping. This kind of protection usually consists in charging higher rates of duty on goods imported in foreign ships. In order to be able to judge of this system we must assume that, if left to the free play of supply and demand, the freights would be insufficient to create or to support a national shipping industry; in other words, that, unless differential duties were imposed, both the goods brought from, and the goods sent to, foreign countries would be carried in foreign ships. Except on this assumption, the protection of national shipping by means of differential duties would be futile. If a policy of discriminating in favour of the national flag were adopted without necessity, it could have one of two results only: either the national shipping, by reason of its being secured against competition, would remain in a backward condition as compared with foreign shipping, or the freights would decline by an amount exactly corresponding to the difference in the duties. If, on the other hand, national shipping cannot exist without protection, it follows that, owing to the protection, the freights are higher than they would otherwise be.

Herein at once lies a serious objection against differential duties in favour of national shipping; for high freights are injurious to consumers and producers alike. The greater the cost of transport, the higher the prices which we must pay for the goods sold to us by the foreigner, and the lower the prices which we must accept for the goods which we sell to him.

But those who are in favour of protecting the national flag hold that against this disadvantage there must be set the important advantage of possessing a prosperous national shipping industry, with all the gains, direct and indirect, which accrue therefrom. Is it not better, they say, that commerce should be slightly obstructed, than that our wharves should be deserted, and that foreign ships should earn all the freights that have to be paid for the transport of goods by water? The injury to trade need not be great. Suppose that freights were made 25 per cent. higher than they would be under free competition. This would, in many cases, be sufficient, and on a freight rate of £5 per ton, it would mean an increase of little more than half a farthing per lb. Can this be regarded as too high a price to pay in order to acquire, or to maintain, a national shipping industry?

There is much similarity between this question and that regarding export bounties. Under unrestricted competition—that is the premiss—a national shipping industry cannot survive; this means that interest and wages are too high to leave a normal profit for those who get ships built and sail them for freight. Instead of making a normal profit they might even lose by doing so. But if interest and wages have reached such a level—not merely for a time, and as the result of concerted action on the part of organised labour, but permanently—it must be because greater advantages are to be got by employing capital and labour in other industries than could be got by employing them in the shipping industry. Under these circumstances, what good can be expected to result from legislative measures, by which, at the expense of the general income, an incentive is provided for certain capitalists to apply themselves to the shipping industry? The only result that can follow from such measures is that a part of the country's production will be diverted

into a field in which it will yield a bad return so far as the public welfare is concerned.

This brings us to a point which the protectionists always overlook. They appear not to understand quite what is meant by saying that this or that industry does not pay. There is, generally speaking, no kind of enterprise that would not pay if only the level of wages and interest would allow it to do so. We can conceive in the abstract of a level of wages and interest such as would make it profitable to grow tropical produce in Northern climes. The level would have to be a very low one, however, so low indeed that in the long run neither capitalist nor labourer could make a living out of it. Why is it that wages and interest in our own country, for instance, have never reached so low a level as this? Simply because, even at a much higher level, it is always possible for *entrepreneurs* to derive advantages from the employment of labour and capital. Even for those who work under the least favourable conditions; for, as we know, the rates both of wages and of interest are determined by the gains, not of the *entrepreneurs* who work under privileged conditions, but of those who work under unprivileged conditions. From this, however, it follows that the artificial nursing of an industry, at the cost of the community, can never be desirable. The level of wages and interest plainly says that it is not advisable to engage in a particular branch of industry. The Legislature then steps in and, as it were, offers a bribe to the *entrepreneurs* to engage in it.

The case with which we are now dealing differs radically from that which we discussed in an earlier chapter, when we were pointing out certain gaps that occur when the State leaves the whole of production to private enterprise. For in this case there will be no gap. Even though no national shipping industry should be created, it does not follow that there will be no shipping; the only difference will be that the ships will sail under a foreign flag. Neither in this nor in any other sphere does protection aim at completing what private industry leaves undone; its sole object is to divert a certain amount of private industry into a field which that industry would not itself have chosen. How can this be to the advantage of the national welfare, if it impels some people

to engage in undertakings which, unless they were subsidised by the Exchequer, would be incapable of yielding such profits as, with the existing rates of interest and wages, are to be obtained by applying capital and labour in some other direction? Any permanent sacrifice, however small, imposed upon the population in the interests of the national shipping would be too heavy; for, regarded from a strictly economic standpoint, the object here in view is not worth any sacrifice at all. Shipping enterprises which are unable, from their own resources, to obtain a normal profit, must be regarded as harmful; at least, where it is certain that there will never be any lack of shiproom. And in this case shiproom would not be lacking, in fact it would be obtainable at a lower price.

Supposing the nation to be the owner of securities, would it be necessary to modify in any way the conclusion to which our argument leads? It might be said, for instance, that securities are not capital, so that apart from the interest which they yield, their presence in the country contributes nothing towards the public welfare. If they could be converted into ships and into a wages fund for the manning of those ships, then indeed the country would benefit, it would become richer in capital as a result. Certainly it is conceivable, nay, probable, that in the event of an artificial stimulus being given to the shipping business, a number of bondholders would exchange their bonds for shares in ships or in steam shipping companies. But this artificial stimulus could only be given by making use of an expedient which would have an adverse effect on many branches of industry; for, in these days of keen competition, the least rise in freights is important. Since everything which tends to diminish the incomes derivable from manufacturing enterprise tends to promote investment in securities, a demand for securities would arise, which would probably exceed the supply; it might therefore happen that securities, instead of being exported, would be imported.

By way of reinforcing this argument we wish to call attention to another thing which is generally overlooked and yet has a very important bearing on this question, namely, that payment of freights to the foreigner is a cause of increased business at home, and that this business

disappears when we cease paying the freights. The protectionists like to remind us of the well-known truth that, with many countries, the balance of payments, in so far as it has reference to goods alone, is not made up; a country, for instance, which has a large carrying trade, will import much more than it exports. We take advantage of this reminder to observe that it therefore follows that a country, whose trade is borne by foreign ships, will export more than it imports. The freights due to the foreigner will be paid, not with money nor yet with securities, but with goods. Payment of freights to the foreigner is exchange with the foreigner: an exchange in which the one side supplies goods and the other performs services. So soon as the protection of the national flag enables us to dispense with the services of the foreigner, we cease to export the goods with which those services were recompensed; otherwise the balance of payments must always remain in our favour, and this, as we know, could not be the case unless the value of money were always declining in the world market, or the demand for currency were always growing in our own country. Neither of these things is brought about by differential duties in favour of the national shipping; consequently exports of goods *must* decline and the prosperity of various industries must necessarily be impaired at the same time. A fresh proof of the truth of the proposition, which we have repeated more than once, namely, that the prosperity which protection calls forth in some places is always obtained by causing depression in other places.

## § 6

### **International Trade as a Sign of National Prosperity**

We now take leave of the subject which has engaged our attention throughout the present chapter. The material has not been entirely exhausted, for there are other kinds of protection besides those mentioned; still, the student now knows the method which he must apply in order to judge them properly. He knows that above all he must not limit his view to what strikes the attention at once, that he must widen his outlook as far as possible, and picture to

himself, as best he can, the new condition of things which the protection will bring about, so that none of the calculable consequences may escape his consideration. In pursuing such an inquiry he can have no better guide than the theory of foreign exchanges. Not because the foreign exchanges themselves always exercise a strong influence on international trade; their fluctuations produce a powerful effect only upon those countries where the currency is defective, where, therefore, the limits of fluctuation of the exchanges are very wide, or where—as may sometimes happen—there is no limit to their upward movement. But investigation of the causes that regulate the course of foreign exchanges conduces to a knowledge of the laws that govern the distribution of the precious metals and determine the labour prices in the various countries; thus it conduces to what, more than anything else, enlightens us with regard to the trade carried on in goods. It is not due to mere chance that a country imports the one article and exports the other; that it derives its main support from agriculture, or from stock-rearing, or from a combination of the two, or from manufactures. It is not due to mere chance that the balance of payments of a country exhibits this or that peculiarity; that, so far as goods are concerned, the two sides are always even, or that the one side always outweighs the other. This has to do with the whole economic condition of the country: with the nature of its soil, the number of its population, the scarcity or abundance of its capital. And all this finds its most concrete expression in the labour price, that is to say, in the *monetary* recompense paid for productive services. Whosoever has explained the labour price of a country has found the key for explaining the trade which that country carries on with other countries and, consequently, the form assumed by its production.

By way of concluding this chapter, we wish to deal with one more point, a point to which, although it has no connexion with the protective system, our attention naturally turns when we are considering the advantages and disadvantages of protection.

When inquiring as to the prosperity of a country, people never fail to glance at its trade returns and to note any

increase or decrease in its imports and exports: increase in those figures—especially in the export figures—is very often regarded as a sign of prosperity. And it often is a sign of prosperity. If a country has discovered new natural resources in its soil, or has found means for making better use of the productive powers already known to it, then its exports, and accordingly the whole of its foreign trade will increase, and this will undoubtedly be a sign of increased prosperity. There are cases, however, where growth of trade is a proof, not of increasing, but of declining prosperity; it may even happen that shrinkage of trade is a sign of increased prosperity. The import and export statistics by themselves can never serve as a measure of a country's prosperity; only when considered in conjunction with a variety of other data do they throw some light on the subject.

In order to prove this, we have, in the first place, to recall inequality in the ratio between wages and interest as a cause of trade. We have seen that this cause cannot be regarded as strong enough in itself to give rise to much trade, but that, in conjunction with other causes, it may help to do so; its removal, therefore, cannot be without effect. Now, suppose that wages are relatively high in a country, owing to capital being very plentiful there; financial mismanagement, or unfortunate speculation on the part of private individuals, however, causes much of this capital to be lost, so that a considerable rise takes place in the rate of interest and a considerable fall in the rate of wages, both rates being thus brought nearer to those prevailing in neighbouring countries. Trade will now decline, and its decline will be a sign of waning prosperity. But there was nothing to prevent our assuming that wages and interest had been the same at home as abroad, and then the loss of capital, instead of causing equality, would have produced inequality between the domestic and the foreign rates of wages and interest. In that case the inequality would have had the effect of stimulating trade, and the decline in prosperity would have manifested itself in an *increase* of exports.

In the second place, we have to remember the possession of a fertile soil as a cause of trade. The advantages arising out of this trade may be lost, or greatly reduced, by occur-

rences which must be regarded as adverse from the point of view of the nation which possesses such a soil. As examples of such occurrences we may mention the extension of transport facilities in distant countries, or the discovery of means whereby people in other countries are enabled to make use of goods which can be produced on less fertile soil. In that case, the decline in the international trade will coincide with a decline of the national prosperity. But even a very beneficent cause may ruin such a trade. Suppose that the nation of which we are speaking possesses little industrial capacity and little capital. The raw materials yielded by its fertile soil are exported, only to be returned in the form of manufactured articles needed for its own use. Now, when such a nation has advanced in culture and wealth, it will stop this trade in order to work up its own raw materials; surely this will be progress, since it will have come about spontaneously.

Lastly, we have to consider growth of capital and of population in a country where the best situated lands have already been brought into cultivation, where there is no room for extension of agriculture and stock-rearing, except on land of inferior quality and less favourable situation. In such a country, a decline in the labour price is inevitable, unless counteracting causes should prevent it; but this decline will bring about an increase of trade, for it cannot be supposed that it will make no change whatever in the cost prices of things (in money). When the effort of production becomes greater in regard to agricultural and stock raisers' produce, it does not necessarily do so in regard to all other goods; nor does it increase to the same extent for all produce of the first named kind. The condition will be something like this, for instance: fall in the labour price from 10 to 9; increases in the quantities of capital and labour required for the production (under the least favourable conditions)

Of article A . . . . .	from 9 to 10
" " B . . . . .	" 9 " 11
" " C . . . . .	" 9 " 9½

while no increase whatever is shown in the quantities of capital and labour required for the production of article D. Now, it is clear that the cost price in money will remain

unchanged for article A, that it will rise for article B, that it will fall for article C, and that it will fall still further for article D. The results of this will be (if freights permit) that article B will be imported, while articles C and D will be exported. And it is conceivable that the increase in trade, which now takes place, may become very great. This may happen if the new lands that have to be brought into cultivation differ very much in quality and situation from those previously in use. In that case it might be more advantageous not to bring any new land into cultivation for the time being, but to develop manufactures, and import what was required in order to meet the new demand for products of agriculture and stock-raising.

Further illustrations might be given, from each of which it would be seen that increase of trade is a very misleading standard for gauging the economic condition of a nation, seeing that it may be the result of harmful, as well as of beneficial changes. That no conclusions can be drawn from this as to the effects of free trade on the national welfare, needs no proof: when a nation, in order to mitigate the effects of an adverse occurrence, has recourse to the expedient of increasing its trade with the foreigner, this certainly indicates a decline in the wealth of that nation, but it is also a remedy against the decline. A man cannot be said to be wrong in using a remedy because, by using it, he shows that he is ill. The only reason why the conclusion here arrived at should be borne in mind, is, that it conveys a warning against the mistake, so easily made, of regarding trade interests and national interests as identical. Whenever loud complaints are raised as to decline of trade and shipping, people are prone to believe that the whole economic condition of the country is declining in consequence, and the commercial press usually does all it can in such cases to strengthen that belief. We do not deny that trade decline *may* be the accompaniment of national decline. In that case, however, a very careful inquiry is needed in order to prove it, for the trade decline by itself proves nothing.<sup>1</sup>

<sup>1</sup> Cf. P. LEROY-BEAULIEU'S true remarks on this subject (*Traité d'Economie Politique*, Part II. p. 503).

## CHAPTER V

### PRODUCTION AND THE TENURE OF LAND

#### § 1

#### Introduction

THE problems discussed in the last chapter are amongst those which have been thought about and written about ever since economic science has existed. The same cannot be said of the problems which we are now about to consider. These date little further back than the beginning of the nineteenth century. Agrarian difficulties have existed in all times, but it is only within the last hundred years that the questions regarding the tenure of land have become a subject of scientific thought. Whether we consult the whole of CUSTODI'S collection of some fifty volumes of the Italian economists of the sixteenth to the eighteenth century, or whether we follow ROSCHER through the older economic literature of Germany, or burrow among one of those rich collections of English or of Dutch pamphlets of the seventeenth century, which are to be found in a few public libraries, we shall find that practically all economic subjects have been dealt with except those which are now known to us under the name of agrarian questions.

That we, in these days, are keenly interested in those questions is primarily due to the French Revolution. Not only did the French Revolution free the peasantry of France from the grinding oppression of the *Ancien Régime*, but it also gave the impetus which led to a similar reform in other European countries where the feudal system of land tenure still prevailed—an impetus, of which the last effects were felt in Russia in 1861, when serfdom was abolished in that

country. As regards the manner and conditions of peasant emancipation, other countries were reluctant to follow the example set by France; there was a desire to show more fairness than had been shown in that country, and from this there arose the necessity for serious reflection and inquiry. That the reforms should have been effected step by step as in Prussia, or that they should have been delayed for forty or fifty years, as in Austria, was no gain to the peasantry; science, however, gained thereby, just as science now gains by the controversy which is being waged over the question of communal landownership in Russia, an institution which was left untouched by the legislation of 1861. In the field of practical affairs, the rapid solution of difficulties is a gain; but in the field of science, advantage accrues from a slower rate of progress.

There are other things, too, by which interest has been awakened. RICARDO and MALTHUS have reminded us that the land is limited in extent, and have pointed to the danger of a chronic famine in the distant future. Historical investigations have acquainted us with ancient forms of land-tenure, and have taught us to observe that, to a great extent, those forms still survive at the present day. When regulating the land-revenue system of British India, England experienced difficulties, which she could only solve by regulating the system of land-tenure. In Holland, too, an Indian agrarian problem—the controversy regarding communal land ownership in Java—has claimed much attention. Even in countries where it was believed that agrarian problems had been disposed of for good and all, those problems have presented themselves with fresh insistence; England is still confronted with an agrarian question in Ireland; Italy has to face a similar question in Sicily. Moreover, the decline in corn prices, whereby incomes derived from land have been greatly reduced, has caused many people to question the soundness of existing legislation, in so far as it governs the relations between landlord and tenant.

Among those who hold that there is need for reform, or at any rate improvement, in agrarian matters, we find four groups, which are not all hostile to each other. The first group is that identified with the name of HENRY GEORGE, the

well-known American writer. Those who belong to this group wish to see the land "nationalised," an expression which is not construed by all in the same sense, but which proclaims the desire for a condition of things in which rent shall no longer be exacted by private individuals. Directly confronting this group, we find those who demand that the class of peasant proprietors should be greatly strengthened, and who recommend and insist on the necessity of measures designed to save that class from extinction. Among such measures are included special laws regulating the inheritance of peasant properties. A third group, chiefly to be found in England, are those whose watchword is "Free Trade in Land," and who are opposed to all laws and usages which prevent the number of those who own land from increasing. They condemn every restriction which results in the total or partial inalienability of real estate. A fourth group, whose existence has already been hinted at above, is represented by those with whom the condition of the tenant-farmer is a matter of special concern. They consider it unfair that he should have to bear almost the whole of the risk involved in the business of agriculture; they deem it a special hardship that, at the expiration of his lease, he should not be entitled to claim the return of whatever he may have spent on the improvement of the land.

In this as in all other economic problems, two great interests are involved, that of abundant production and that of equal distribution. We must not neglect either of these interests in the course of our investigation. The land is one of the greatest instruments of production. The soil of Holland alone is worth £250,000,000. It is essential that this instrument of production should yield the richest produce which it is capable of yielding, and no system of tenure or management, under which this requirement is not fulfilled, has any claim to our support. But in systems of land-tenure or inheritance it must also be accounted a defect if they favour the accumulation of wealth in the hands of the few. If we are to accept them in spite of so serious a defect, it can only be on the ground that they possess great compensating advantages in other respects.

Let us first take a look at the past, in order to discover

the historical background of the problems which now claim our attention.

## § 2

### Land-tenure in the Middle Ages

Long before the Western Roman Empire had begun to approach its fall, the system of *latifundia*, or large landed estates, was already very prevalent in Italy. We cannot here review the causes which reduced the numbers of the small peasant proprietors in Italy.<sup>1</sup> Suffice it to say that in the time of Augustus, much land had already fallen into the possession of large capitalists, who entrusted its management to stewards. It became the custom to divide the land into two parts, of which one was cultivated for the profit of the owner, while the other was given in usufruct to the labourers, each of whom had his own dwelling on it, and had to make an annual payment to the owner in kind or in money.<sup>2</sup> Were these labourers all slaves, or were some of them in a different social condition? Or were they all slaves at first, and did the *latifundia* gradually become inhabited by people belonging to other grades of society, while the slaves, owing to the comparative independence which they were allowed to enjoy, rose to a higher grade? This much is certain, that, in the later days of the Empire, we find the large estates inhabited by people belonging to different classes, and who, though not all possessing the same rights, may, without great inaccuracy, be referred to by the general name of *Coloni*. They were attached to the soil, and were therefore not free to leave the estate on which they dwelt; the owner of the estate, on the other hand, was not at liberty to send them away, and a law of the year 325 A.D.<sup>3</sup> even forbade him to increase the dues

<sup>1</sup> For information on this subject see (*inter alia*) Dr. H. BUHL, *Die agrarische Frage im alten Rom*, 2nd edition, Heidelberg, 1878. In his *Histoire des institutions politiques de l'ancienne France, L'Alleu et le domaine rural* (pp. 22-27), FUSTEL DE COULANGES mentions some serious objections against the opinion that the small peasant holdings had disappeared.

<sup>2</sup> FUSTEL DE COULANGES, *Histoire des institutions politiques de l'ancienne France, Première Partie*, p. 216. See also pp. 80-87, forming part of chapter i. (headed "La Villa gallo-romaine") of the work first cited.

<sup>3</sup> ROBERTUS-JAGETZOW, "Zur Geschichte der agrarischen Entwicklung

which the *coloni* had to pay. Regarding the origin of the *coloni* there is much controversy,<sup>1</sup> but their condition is well known. VON SAVIGNY describes it as follows.<sup>2</sup> The *coloni* were by birth attached to the soil, not as day labourers, but as farmers, who cultivated a piece of land for their own profit and made a payment for it in produce or in money. It does not appear that they were at the same time obliged to perform services on the owner's estate.<sup>3</sup> They had no legal claim to the land; but since the State, for reasons of policy as well as of finance, insisted that they should remain on the land, and since their burdens could not be increased, their position was almost as secure as if they had such a claim. They were free to own property, but not to alienate it, although certain classes below them enjoyed freedom in the latter respect. Thus they were a class of semi-free people, occupying an intermediate position between the wholly free and the slaves.

Such was the position in Italy, and such, too, was the position in the principal provinces of the Empire. When the Franks conquered Gaul, they found the predominant system of land-tenure to be that of large estates. Most of the properties were in the hands of the State, of the Church, and of a small aristocracy; a great part of the small holdings had disappeared in the fourth and fifth centuries.<sup>4</sup> In this respect the Frankish dominion brought no change for the better; on the contrary, whatever still remained of small properties in Gaul itself, and more especially outside the borders of that country, now disappeared by degrees. The agrarian condition of Europe in the early centuries of the Frankish dominion must indeed have presented a variegated picture. Here were to be found *villas* after the Roman model, there independent holdings,<sup>5</sup> in another place village communities with widely

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Roms unter den Kaisern" (*Jahrbücher für National Ökonomie und Statistik*, Band ii. p. 243).

<sup>1</sup> A review of the theories on this point will be found in Dr. B. HEISTERBERGH, *Die Entstehung des Colonats*, Leipsic, 1876.

<sup>2</sup> *Über den römischen Colonat und die römische Steuerverfassung*, Stuttgart, 1835, p. 33.

<sup>3</sup> FUSTEL DE COULANGES (*L'Alleu et le domaine rural*, p. 86), however, thinks it probable that they were obliged to perform such services.

<sup>4</sup> H. BRUNNER, *Deutsche Rechtsgeschichte*, Leipsic, 1887, Part I. p. 199.

<sup>5</sup> K. TH. VON INAMA STERNEGG in *Untersuchungen über das Hofsystem im*

differing usages. In addition we find a number of rights, ill defined or just emerging, and, in many countries, the might of the strongest the paramount law.

Everything in those times favoured the growth of large estates, and, more than anything else, the fact that the small landowner needed protection. In choosing a superior lord and making his land over to that lord on the condition of receiving it back in usufruct,<sup>1</sup> the small man certainly lost his independence, and ceased to be the owner of his estate, but he gained what in those days must have been highly valued by him, namely, security against brutal raids, protection against arbitrary treatment. He now felt secure in the knowledge that there was a strong man who would defend him, and who, according to the notions of those times, was bound to do so. Left to himself, the small landowner was exposed to all kinds of oppression. Justice might be denied him. The burdens entailed by military service were such as might reduce him to beggary, for, in spite of the liberality of the rules laid down on this subject in the reign of Charlemagne, those burdens had become much heavier now that armies were no longer, as in the past, composed almost entirely of foot soldiers, but chiefly of mounted men. From the moment that he had chosen a lord, and transferred his land to the latter, his condition was changed. He became liable for certain services to that lord, but he gained a protector, so that the burdens did not outweigh the advantages. And the ravages of Dane, Northman, and Hun—as well as the pressure of the Church tithes—greatly impoverished many small landowners. Often there remained to them no choice but to forgo the possession of their estates. This was another cause which greatly reduced the class of free peasant proprietors.<sup>2</sup>

A further cause, which favoured the growth of large landed estates, was the reclamation of waste lands, of which

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*Mittelalter* (Innsbrück, 1872), has shown that these were very much more numerous than was for a long time believed.

[<sup>1</sup> *i.e.* Surrendering the *Dominium directum* of his "allodium" and receiving back its *Dominium utile*.—A. A. W.]

<sup>2</sup> See F. W. MAITLAND, *Domesday Book and Beyond; three Essays in the Early History of England* (Cambridge, 1897), pp. 69 *et. seq.*; also K. TH. VON INAMA STERNEGG, *Deutsche Wirthschaftsgeschichte bis zum Schluss der Karolingerperiode* (Leipsic, 1879), pp. 245-260.

there was an abundance in those times of scanty population. At no period, perhaps, has more land been reclaimed and colonised in Europe than in the eighth and ninth centuries, and in this work the monasteries took an active part. They left no means untried in order to secure labour for the purpose, the most usual means being to provide those who chose to place themselves under their protection with some land and a homestead. The temporal lords followed this example. Both in the highlands and along the banks of the Rhine, it was in districts which were uninhabited that they preferred to build their castles, and these became centres of land reclamation on a great scale. Force was sometimes employed in order to procure the requisite labour; the Frankish princes did not hesitate to draft conquered Saxons to different parts of the Empire.<sup>1</sup>

A third cause of the origin of great landed estates were the *beneficia*.<sup>2</sup> The Roman State had owned numerous crown-lands, and these had descended to its successors. The latter, by way of performing acts of piety, gave much of this land to the churches and monasteries. But the wars, in which the Frankish princes became involved, more especially with the Saracens, made it necessary for them to strengthen their military forces. Soldiers received no pay in those days. Those who were called up for military service had to provide their own equipments and to maintain themselves throughout the campaign. In order to enable as many as possible to do this, the Frankish princes gave land to others besides the churches—in fact they appropriated a part of the lands that had previously been given to the latter. And now the land was no longer conferred as an absolute gift, but as a fief, to be held subject to certain conditions. The effect of these conditions was that the holder of the *beneficium* became the king's vassal, that he entered into closer relations with his sovereign, that he even had to render him knight's service and, if the *beneficium* were large, to furnish him with a certain number of mounted men. The vassal, on his part, enjoyed great advantages. Crown-land had, from of old, been exempt from

<sup>1</sup> K. TH. VON INAMA STERNEGG, *op. cit.* pp. 207-225.

<sup>2</sup> See H. BRUNNER, *Deutsche Rechtsgeschichte*, vol. i. p. 209, and vol. ii. pp. 210-242 and 302.

various taxes, to which other estates were liable; it enjoyed what was called "immunity." An estate, when conferred in *beneficium*, retained this immunity; the whole of the revenue which it yielded, with the exception of a third or a fourth part, accrued to the holder of the fief. In this revenue were comprised the gains derived from the exercise of the lower judicial authority, for this authority was vested in the holder of the *beneficium*.<sup>1</sup> The influence which this gave him was considerable, and was destined to become greater in the future.

There were other *beneficia* besides those which had their origin in a warlike policy; frequently they were combined with the exercise of some office. GUIZOT rightly terms the *beneficium* a kind of money, by means of which princes not only endeavoured to attach to themselves vassals, but with which they also paid for most of the services which they needed.<sup>2</sup> The same medium of payment was employed by the holders of the *beneficia* themselves; the vassal in his turn became a liege lord.

Thus there arose a feudal land-tenure which, at first, was only conceded for a certain time, and was always revocable in name, but which (like many offices) gradually assumed a hereditary character. The feudal manors became, as it were, miniature states. It had never been in the mind of the princes to limit their own power in regard to the lords of "immunity" estates; in cases where they forbade their officers to enter the pale of such lords, the object was to limit, not their own power, but that of their officers. The weakening of the central authority, however, brought about what had never been contemplated. The fusion of political with purely economic relations became, as we know, one of the most characteristic features of the feudal agrarian system.

This fusion greatly affected the legal status of the rural population. That population, as we have already seen, had

<sup>1</sup> Such, at least, is the opinion accepted by the best writers. See H. BRUNNER, *op. cit.* vol. ii. p. 298, and F. W. MAITLAND, *Domesday Book and Beyond*, p. 297. The latter writer propounds a new theory as to the origin of the *beneficia*. He holds that it was not only, or even principally, crown-lands that were conferred in this way, but also other lands over which the sovereign or the State exercised no right of ownership. In such cases no rights were conferred beyond those which the sovereign himself possessed *qua* sovereign. Those rights grew in the course of time, however.

<sup>2</sup> *Essais sur l'histoire de France* (10th edition, Paris, 1860), p. 136.

previously consisted of three classes or grades, namely, the slaves, the semi-free, and the free; the last of these classes, though it did not disappear altogether, became greatly reduced in numbers, while the semi-free became assimilated to the slaves. After a few centuries had passed, only two classes of persons were to be found on most of the manorial estates—the serfs or villeins and the freemen, the latter being, however, by far the less numerous class. Since the relation in which both classes stood towards the lord of the manor was one of dependence, so the condition of both was one of *subjection*. Only the villeins, however, were *subject* in the true sense. There is convincing proof that many—and it is even probable that the great majority—of this class were descended from freemen. Meanwhile, we must not fail to note that the legal status of the villeins had gradually improved. The feudal system had forced the bulk of the agricultural population down to the lowest level, but that level was no longer so low as it had been.

It is no part of our plan to do more than mention all this; those who are minded to go more deeply into these interesting subjects, will find a copious literature at their disposal.<sup>1</sup> We shall endeavour, however, to give a short description of a manorial estate of the time when feudalism was at its zenith; of the duties and rights of the manorial population, and of the manner in which agriculture was prosecuted on such an estate. It will be possible to speak in very general terms, for the conditions were practically the same all over Western and Central Europe. Uniformity is said to be one of the characteristics of our age. This is certainly not true in regard to agrarian matters. In these there is far greater diversity now than at any time in the past.

As was the case in the Roman *latifundia*, the land—other than waste land—consisted of two parts, of which the one (demesne or *terra dominica*) was cultivated for the account of the lord, and the other (*terra tenentium*) by the tenantry for

<sup>1</sup> H. BRUNNER, in his *Deutsche Rechtsgeschichte*, gives this literature under each of its sub-heads. See also W. G. ASHLEY, *An Introduction into English Economic History and Theory*, vol. i., London, 1892; P. VINOGRADOFF, *Villainage in England*, Oxford, 1892; and, as regards the Netherlands, the particularly interesting essay entitled *Hoorigheid*, by Professor FOCKEMA ANDREAE, Haarlem, 1892.

their own account. It happened indeed occasionally that the lord let off some portions of his own land, but such leases were always regarded as something temporary. The fact that the organisation of the *latifundia* and that of the Mediæval estates were, in certain respects, alike, has induced some people to look for a historical connexion between the two,<sup>1</sup> a connexion which no doubt has existed in some cases. But, besides points of resemblance, there are points of great divergence. Presently, when we are showing how the land was apportioned between the *terra dominica* and the *terra tenentium*, we shall note conditions, of which no examples can be traced from the times of the Roman *latifundia*.

Something has already been said concerning the legal status of the population. The obligations of the freeman were less onerous than those of the villein. Such personal services as he owed were, as a rule, light. This difference gradually lost in importance, as the burden, which rested on the individual, passed in many cases to the holding, so that a freeman, on taking over a villein holding, became liable for such services as could be demanded of a villein. Thus we read of *mansi serviles* and *mansi ingenuiles*, of *mansi censuales*, *carroperarii* and *manoperarii*, according to the extent and nature of the respective obligations connected with the holding. In the Netherlands it was for a long time the rule that a holding, which carried with it the liability for certain services, could only be occupied by a person from whom such services might be required. This rule was abandoned, however. Thus, many obligations, which had previously been purely subjective, inasmuch as they were incidental to the class to which the individual belonged, gradually assumed an objective character.

It would make a long list were we to enumerate in detail the various burdens incidental to villeinage.<sup>2</sup> They consisted in the performance of labour, the furnishing of supplies, and the payment of money. As regards labour,—the lord's land had to be tilled and that, in the first place, was the duty of

<sup>1</sup> More especially has this been attempted by F. SEBOHM in his famous work, *The English Village Community* (London, 1883), pp. 252-335. See, however, what has been urged to the contrary by F. W. MAITLAND in *Domesday Book and Beyond* (Cambridge, 1897), pp. 327-356.

<sup>2</sup> This forms the subject of a brightly written chapter headed "Rural Work and Rents," in P. VINOGRADOFF'S *Villainage in England*, pp. 278-312.

his tenants. When harvest time came round, the crops had to be gathered in and subjected to such further labour processes as might be necessary. The lord had to be waited upon in his castle; for such services the children were requisitioned, and in return they received board and lodging together with a small wage;<sup>1</sup> but many were also required to be on duty at the castle at stated times for the purpose of keeping fires alight, baking bread, brewing beer, or performing various offices in the kitchen. Provision had to be made for the construction and repair of barns, dwellings, and the like; for attendance upon the lord when he went hunting or fishing, for housing him and his companions at night if occasion arose (right of lodgment). We only mention the principal duties. The services were not, however, equally onerous on all estates.

Besides labour, there were supplies to be furnished, articles of every description, sometimes connected with the work to be done, sometimes not: poultry and eggs, pigs, field produce, wax and honey, cheese, butter and milk; also domestic implements and furniture of all kinds, knives, shears, chairs, beds, towels, crockery, fishing-nets, horse-shoes, manure and implements for agriculture and gardening. Then again the lord was entitled to exact payments in a great variety of cases, and he might levy a tax. The payment of each person's share of the tax was recorded by cutting notches on a tally; the French word *taille* is derived from this practice. Besides ordinary, there were extraordinary taxes which were raised in the event of the lord having to be ransomed, or if he went on a pilgrimage, or when his son was knighted, or his daughter married.

A lord could, moreover, secure monopolies for himself; he could compel his tenants to have their corn ground in his mills, their bread baked in his ovens, to drink no beer other than of his brewing, no wine but that from his cellars.

One of the most important of his rights was that of heriot.

According to strict law, no villein had anything which he could really call his own, therefore he had nothing which he could bequeath. This law was not strictly enforced, however. On the death of a villein, his property did not revert to the

<sup>1</sup> In Bavaria the obligation to render this kind of service was not abolished until the year 1808.

lord, but the latter made a certain charge upon it. He took the best head of cattle, or the best horse, or a part of the household furniture. In doing so he asserted his right of heriot, a right which has survived many other feudal burdens. Long after villeinage had ceased to exist as an institution there still remained people who were subject to the right of heriot.<sup>1</sup>

It is not always easy to determine the origin of the various claims which it was in the power of the lord to assert. In part they arose out of the state of personal subjection of the villeins as a class; in part they were rights which the lord asserted in his capacity of landowner; to some extent, too, they were connected with the political authority which he exercised. It would need great historical knowledge to be able to distinguish correctly between the rights which he claimed on each of these grounds. Some of the burdens lost their original character and became, like everything else, simply "manorial"; even the taxes which had originally been most distinctly public in their character, ultimately ceased to be so.<sup>2</sup>

When we reflect upon the long list of services and dues for which the villein classes were liable, we cannot but conjure up a very gloomy picture of the condition in which they must have lived. We are reminded of the French expression *taillables et corvéables à merci*, which has been applied to them, and we wonder at the low level of welfare to which so oppressed a population must have been reduced. Nor do we wonder without good reason. The *Jacquerie* in France and Wat Tyler's insurrection in England, both in the fourteenth century, are evidences of the discontent to which the feudal system often gave rise.<sup>3</sup> We must not forget, however, that

<sup>1</sup> Like other feudal rights, that of heriot sometimes assumed an objective character. It has happened in England, even in the nineteenth century, that, on the death of a person whose estate included a holding subject to the right of heriot, the lord of the manor has seized a pedigree horse worth a thousand pounds, or a very valuable diamond. See H. DONIOL, *La Révolution Française et la féodalité* (3rd edition, Paris, 1883), p. 284.

<sup>2</sup> K. TH. VON INAMA STERNEGG, *Deutsche Wirtschaftsgeschichte*, vol. ii. p. 86. It seems, however, that this does not apply to all taxes levied under the name of *beden*. See e.g. K. LAMPRECHT, *Deutsches Wirtschaftsleben im Mittelalter* (Leipsic, 1886), vol. i. p. 301.

<sup>3</sup> As regards earlier times, see K. TH. VON INAMA STERNEGG, *op. cit.* vol. i. pp. 374-5

the power of the lords to lay burdens on their dependants was kept within certain limits by ancient custom. There were registers, in which record was kept of the nature and amount of what was owing by the proprietor of every manor, and although there was no power to prevent the feudal lord from increasing the burdens, we may take it that in most cases he allowed himself to be guided by ancient custom. He found it necessary to do so if only in order to avoid popular disturbances. Ancient custom also imposed certain duties upon the lord. If the labour performed for him by his dependants exceeded a certain number of days, he was expected to furnish food, sometimes clothes; in sickness or poverty he was expected to provide for his dependants. Moreover, as the towns grew in prosperity and were wholly or partially successful in throwing off the feudal yoke, the lords found it to their interest to prevent their dependants from leaving the estate. Owing to custom, again, many burdens were lightened in times of difficulty: sometimes the lord lived among his people; personal considerations must in many cases have mitigated the hardships of the system.<sup>1</sup> A very large part of the land was in the possession of the monasteries, and the abbots were noted for their liberality.

Probably conditions were not everywhere the same. There were lords, both kindly and wise, who treated their dependants with consideration and helped them to attain a certain measure of prosperity; there were others, again, who cared nothing for the interests of their people and taxed them to the utmost limits. Although services and dues came gradually to be determined by custom, we may question whether, in this matter, custom was always respected. Indeed we know with a fair amount of certainty that it was not, for the sole object of the peasant rising under Wat Tyler was to secure greater fixity regarding the dues and services to be rendered by the peasantry, and the recognition of the ancient rights of that class. There still exists an anonymous English law-book of the time of EDWARD I. which bears the title *Fleta*, and might have served as a kind of vade-mecum for the landowners of these times. We find there such information as a lord would

<sup>1</sup> Some striking examples of these are given by G. L. VON MAURER, *Geschichte der Fronhöfe*, vol. iii. pp. 267-269.

have been likely to require; with regard to the *custumarii* or ordinary dependants, for instance, the book specifies the figure up to which these might be taxed without being reduced to beggary! From the same book, however, we also learn that the rights of the lord were not the same in regard to all his dependants; before imposing a particular tax, he would have to ascertain which of those dependants, by reason of their birth, were liable, and which were not liable, to be subjected to such a tax.<sup>1</sup>

Nor was the process of evolution everywhere the same. In the one country, perhaps in the one district, we find the feudal burdens growing constantly lighter, or the peasantry being transformed into ordinary tenants, or acquiring certain recognised tenant rights. In other countries or districts we find the lords being forced by poverty to let off their estates as a whole or in parts to farmers, who, for the most part, acted on commercial principles, so that the burdens became very oppressive for the rural population. This was what happened in Germany, and was to some extent the cause of the peasant risings in that country in LUTHER'S time.

That the condition of the agricultural population in the Middle Ages was not one of great prosperity is quite certain. An acre of land in those times yielded only a quarter to a third the quantity of produce that it does now; many things which, in these days, are considered indispensable, were then very scarce, or not to be had at all—green vegetables were rarely procurable, potatoes were as yet unknown, fish was dear, wool equally dear; so high was the price of iron that it cost eighteen times what it does at the present day, if wheat be taken as the standard; salt, which, in England, was only obtainable by evaporation from sea-water, was of a particularly bad quality in that country at any rate; add to all this severe

<sup>1</sup> Cf. SEEBOHM, *The English Village Community*, p. 47. POLLOCK and MAITLAND, in *The History of English Law* (vol. i. p. 359), consider it very difficult "to fix in exact words the degree of binding force that the lords in their thoughts and in their deeds ascribed to the manorial custom." They are of opinion that, as far as England is concerned, there is "some evidence to show that mere reverence for custom as a custom grew weaker during the thirteenth century. . . . On the whole, however, the two clauses of the formula which is in after times to describe the copyholder, grew into definiteness side by side—the tenant in villeinage holds at the will of the lord, but according to the custom of the manor."

epidemic sicknesses, which were frequently recurring, and famines such as have not since been known in Europe for a long time. Under such conditions, the level of welfare cannot have been high, at least as measured by present-day requirements.<sup>1</sup> All this, however, has nothing in common with the system of land-tenure, and though that system undoubtedly had its gloomy side, we must not forget that it also had its bright side. We must not forget what the feudal system of land-tenure has done for Europe; what a powerful stimulus it has given to the improvement and extension of agriculture.

Special prominence is given to this by VON INAMA STERNEGG in two of the best chapters of that instructive treatise entitled *Deutsche Wirthschaftsgeschichte*, of which he produced the first volume in 1879, the second in 1891, and the last part in 1901.<sup>2</sup> Besides the many works of land reclamation mentioned above as having been carried out by the lords, he calls attention to the great improvements in the mode of cultivation, to the rounding-off of the properties, the better division of labour, the great variety of crops which they succeeded in bringing about. The excellent rules prescribed by CHARLEMAGNE with regard to his own numerous manors, served them as a model at the outset, and, by putting into practice what they had been taught by those rules, they set an example to their peasantry and gave a strong impulse to agriculture as a whole. Frequently they provided their people with the needful capital in the shape of cattle, seed, raw materials and implements, while the feudal castles became the centres of a not inconsiderable manufacturing industry. Metal working and weaving, more especially, achieved considerable

<sup>1</sup> Cf. J. E. THOROLD ROGERS, *The Economic Interpretation of History* (London, 1886), pp. 16, 49, 52, 57, and 286. ROGERS endeavours to give us a somewhat favourable impression of the conditions; but the facts which he cites do not confirm that impression.

<sup>2</sup> *Theil I. Buch II. Dritter Abschnitt, Die Ausbildung der grossen Grundherrschaften und ihrer Agrarverfassung* (pp. 278-346), and *Vierter Abschnitt, Die volkswirthschaftliche Wirksamkeit der grossen Grundherrschaften und das nationale Erwerbsleben* (pp. 346-427). Cf. *Theil II.* pp. 1-32 and pp. 177 *et seq.* See also THOROLD ROGERS, *The Industrial and Commercial History of England* (London, 1892), p. 251. "At two well-defined periods of English economical history," says this writer, "the great landowners conferred incalculable benefits on English industry. These periods are from about 1260 to 1350 and from 1730 to 1780."

growth under the direct influence of the feudal lords. The system of peasant proprietorship may possess great advantages and may be preferable in many respects to all other systems, from an economic as well as from a social and political standpoint, and yet, when we consider the little knowledge and enlightenment and the scanty resources usually at the disposal of peasant proprietors who engage in farming, we are bound to admit that those advantages are not altogether unmixed. It is not among the small farmer class that we expect, as a rule, to find most progress being made in agriculture and stock-rearing; the typical small farmer is noted for his tendency to cling to traditional notions and old customs. The feudal system was beneficial, in so far as the feudal lords themselves engaged in agriculture; it ceased to be beneficial when matters changed in this respect and the lords became mere receivers of rents. But where such a change did not come about—and fortunately it was not universal—the feudal system always retained its favourable aspect.

Lest our account of agrarian conditions in mediæval times should be too incomplete, we must pause for a moment to consider the distribution of the land. We know already that one portion of the land (the *terra dominica*) was cultivated for the account of the lord, while another portion (*terra tenentium*) was in the hereditary occupation of peasantry. We must not conceive of those two parts as being separate from each other. Fields belonging to the one category lay intermingled with fields belonging to the other. They consisted of long narrow strips of arable with strips of pasture in between, so that a person traversing a feudal estate would have found himself alternately on the lord's lands and on villein holdings. Even the holdings of one and the same villein lay, not all together, but very scattered, sometimes in twenty or thirty different patches.<sup>1</sup> This arose out of the social order under which the

<sup>1</sup> See the maps given by SEEBOM in *The English Village Community*. See also the important monograph by E. NASSE, *On the Agricultural Community of the Middle Ages and the Inclosures of the Sixteenth Century in England*, London, 1871. POLLOCK and MAITLAND mention a holding of 5 acres, which consisted of 14 scattered patches (*The History of English Law*, vol. i. p. 345). In the Mosel district in Germany, the strips were usually from 31 to 38 acres in extent, and their length was generally 6·4 times their width. See K. LAMPRECHT, *Deutsches Wirtschaftsleben im Mittelalter* (Leipzig, 1886), vol. i. p. 344.

majority of the peasantry lived in those days. As a rule, they formed a village community having its own governing body, and exercising special rights, and at the same time having special duties to fulfil in relation to its members. Later, when we are discussing communal landownership, such as still exists in Russia and elsewhere at the present day, we shall have more to say about this institution; for the present we need only observe that membership of a village community always entails a certain restriction of individual rights, as the individual must subordinate his conduct to the interests of the community. The mediæval husbandman, who belonged to a village community, was not free to sow and reap what and when he pleased, nor might he put a permanent fence round his fields; he was subject to what the Germans call *Flurzwang*. By a certain day his crops had to be got in; all the fences were then removed and the land became common pasturage. Once again, and for a more lengthy period, the land was turned into common pasturage during the time when it had to lie fallow, which, in those days, when the "three field system" was much in vogue, was once in three years. Examples of periodical redistribution of arable lands were extremely rare in Western Europe;<sup>1</sup> in England, however, the meadows (probably because of their scarcity) were redistributed once a year by lot among the owners of the arable.<sup>2</sup>

The existence and wide prevalence of the village community has by some been adduced as evidence in favour of the contention that in ancient times all land was held in common. But the institution of common land-holding in the village community was confined, in the main, to what we should now call the *common*; all other rights were individual, however restricted they may have been in the interests of the community.<sup>3</sup> The village community is certainly an ancient

<sup>1</sup> Those given by G. L. VON MAURER in *Einleitung zur Geschichte der Mark-, Hof-, Dorf-, und Stadtverfassung* (Munich, 1854), pp. 6 and 72, refer exclusively to what were called "*Gehöferschaften*," concerning which many details are to be found in K. LAMPRECHT, *Deutsches Wirtschaftsleben im Mittelalter* (Leipzig, 1886), vol. i. pp. 442-458.

<sup>2</sup> P. VINOGRADOFF, *Villainage in England*, p. 259, and F. W. MAITLAND, *Domesday Book and Beyond*, p. 348. See also K. LAMPRECHT, *op. cit.* vol. i. pp. 527, 531, on the subject of Wiesenbau.

<sup>3</sup> See K. TH. VON INAMA STERNÉGG, *Deutsche Wirthschaftsgeschichte*, vol. i. pp. 96-98.

institution, although, from the remotest times of which we have any record, the separate holding has always existed side by side with it. But it has never yet been confirmed by historical evidence that the village community is a survival of an earlier type of institution, in which the recognition of private rights of property in the land found no part.

The rights, which the members of the village community exercised in respect to the uncultivated land, consisted in the liberty to graze their cattle, to hunt and to collect firewood thereon, in so far as the doing of any of these things involved no violation of the claims of the superior lord. As regards the common, the rights were much less clearly defined and were therefore more likely not to be respected. These rights must be regarded as appurtenances of the holdings; their extent was determined by that of each particular holding.

### § 3

#### **The Transition from the Feudal to the Modern System of Land-Tenure**

How has our modern system of land-tenure grown out of the feudal system? Or, we might put the question in another way: How have the relations between the agrarian lords and the peasantry become so transformed, as gradually to have acquired an entirely economic character? Various causes have helped in bringing this about, and among them the decline of "Immunity," the growth of standing armies, and the commutation of various feudal burdens for money payments. One of the most potent causes, however, has been the strengthening of the authority of the sovereign. Every manor had, from of old, its own body of manorial law in accordance with the rules of which justice was administered by the members of the same class. But the public authority at first neither knew nor recognised this manorial law.<sup>1</sup> The important change which gradually came about in many places

<sup>1</sup> S. J. FOCKEMA ANDREAE, *Hoorigheid*, p. 67.

in the later Middle Ages consisted in the public authority intervening in the affairs of the manor, assuming the rôle of "guardian" of the dependants and conceding them all kinds of rights.<sup>1</sup> In this way villeinage was weakened to such an extent that it became at length impossible to define it with any degree of precision, and lawyers found it best to refrain from any attempts to do so. In the countries where the line of evolution followed this course, we find no traces of any law abolishing villeinage, nor was villeinage ever abolished in those countries; it simply became extinct by degrees.

So it was in England. A judgment (since become famous) which was pronounced in the reign of Henry IV. (1399-1413) decided that a peasant could not be removed from his holding except for a just cause (*ex justa causa*). The most privileged among them acquired a title to their land; they became *copyholders*, that is to say, they obtained a document consisting of an extract from the manorial register or Court-Roll, and once in possession of this, their tenancy was no longer wholly subject to the will of the lord.<sup>2</sup> Times of reaction followed, it is true. There were various ways in which a copyholder might forfeit his rights, and it was not always an easy matter for him to uphold them before a judge, even supposing that he could afford the costs of a lawsuit. BISHOP LATIMER in his "Sermon of the Plough" even accused the judges of frequently accepting bribes.<sup>3</sup> But although there can be no doubt that many individual rights were lost, the peasantry never again relapsed into a state of absolute villeinage, for copyhold tenure has survived.

Up to a few years ago copyholders were still fairly numerous, nor has this system of tenure disappeared altogether even at the present day. In character, moreover, it is the same now as it was four centuries ago: the copyholder has an inheritable estate in the land which he holds by copy of Court-Roll; an estate which he may sell, subject to the incidents of his tenure, namely, to render such services or pay such dues as the lord of the manor is entitled by law or by custom

<sup>1</sup> S. J. FOCKEMA ANDREAE, *Hoorigheid*, pp. 37 and 73.

<sup>2</sup> R. GNEIST, *Englische Verfassungsgeschichte*, p. 455.

<sup>3</sup> E. NASSE, *On the Agricultural Community of the Middle Ages*.

to claim of him. The incidents are various<sup>1</sup> and differ for different copyholders. The principal objection to this form of land-tenure lies, not so much in the weight as in the uncertainty of the burden; in the lack of any precise definition of the lord's rights, and in the disputes which are apt to arise in consequence.<sup>2</sup> Since the year 1841, when the law began to promote the redemption of copyhold and still more since the year 1858, when the law empowered either side to demand such redemption, this form of tenure has been rapidly disappearing. Between 1841 and 1870 no less than 1,250,000 acres of copyhold were redeemed, the effect of the redemption being to make the copyholders freeholders.

The greatest difficulties resulted from the open field system, which we have already described, and which was so common in mediæval times. Obviously the system could not last, as it was incompatible with the successful prosecution of agriculture according to modern notions. Think of the amount of land wasted in boundaries and field paths, the amount of time lost owing to the necessity of walking backwards and forwards in order to avoid crossing other people's fields, the difficulties of exercising proper supervision and of applying capital to the land on anything like a large scale. How burdensome, says ROSCHER (of whom such concrete remarks are characteristic), must the mere effort to exterminate mice and weeds have been, when a single farmer, if he happened to be indolent, might cause the labour of all the others to be wasted.<sup>3</sup> Think, more especially, of the stringent rules (the *Flurzwang*) to which all had to submit, rules which may have been useful in the case of the unskilled or the careless, but were an impediment to such as were in advance of their times, or were disposed to try experiments.

Already at the close of the fifteenth century the manorial lords began to show a disposition to break with this system.<sup>4</sup>

<sup>1</sup> An enumeration of them will be found in HENRI DONIOL, *La Révolution Française et la féodalité*, p. 283 *et seq.* Cf. H. SUMNER MAINE, *Dissertations on Early Law and Custom* (London, 1883), pp. 308 *et seq.*

<sup>2</sup> The question as to the nature of unfree tenure is discussed at some length by POLLOCK and MAITLAND. They consider the uncertainty of the services to be the chief characteristic. According to VINOGRADOFF, *Villainage in England*, it acquired this character of uncertainty by degrees (see p. 130).

<sup>3</sup> *Nationalökonomik des Ackerbaues*, § 76.

<sup>4</sup> Concerning the Enclosures of the fifteenth and sixteenth centuries, and what

The high prices of wool made large sheep-farms a profitable form of enterprise, for which, however, it was a necessary preliminary that the various fields should be joined and enclosed. To this the peasantry showed themselves strongly opposed, however; violent disturbances took place in the Eastern Counties in 1549, with the result that the enclosure movement was checked. So effectually indeed was it checked that, at the beginning of the eighteenth century, the open field still continued to be one of the most prevalent systems,<sup>1</sup> and between 1760 and 1849 no less than 7,350,577 acres (almost one-fifth of the area of England) were converted from that system.<sup>2</sup> It should be added, however, that these 7,350,577 acres did not consist exclusively of cultivated fields in scattered positions, but also included a good many common lands.

Now it was clear that the manorial lords should not be allowed to dispose of all these fields and commons in whatsoever way they thought fit, but that some agreement would have to be arrived at in each case between the parties concerned, failing which there remained no other means, whereby the majority could impose their will on the minority, save that of a special law—an Enclosure Act. Between 1710 and 1853 Parliament passed 4,000 Acts of this kind. These Acts were generally drawn up in the same form. They commenced with the recital that the fields lie dispersed in small pieces, intermingled with each other and inconveniently situated; that divers persons own parts of them and are entitled to rights of common in them, so that in their present state they are incapable of improvement, and that it is desired that they may be divided and enclosed. They then go on to provide for the appointment of Enclosure Commissioners, under whose supervision the balks between the fields shall be ploughed up, the fields themselves divided into blocks for the several owners, and the necessary hedges planted.<sup>3</sup> It is no exaggeration to say

led up to them, see (besides NASSE's work already cited) the very lucid review which W. CUNNINGHAM gives in *The Growth of English Industry and Commerce* (Cambridge, 1882), pp. 252-357. See also R. PAULI, *Drei volkswirtschaftliche Denkschriften aus der Zeit Heinrichs VIII. von England*, Göttingen, 1878.

<sup>1</sup> According to ROGERS, *The Economic Interpretation of History*, p. 178, and G. C. BRODRICK, *English Land and English Landlords* (London, 1881), p. 4.

<sup>2</sup> According to G. R. PORTER, *Progress of the Nation* (1854), p. 157, no less than 3,969,270 acres were enclosed between 1790 and 1820 alone.

<sup>3</sup> SEEBOHM, *op. cit.* pp. 13 and 14. In 1801 a general Enclosure Act was

that the whole face of the country was changed by these laws, and there is no doubt that in the main the change was one for the better.<sup>1</sup> Compared with what it was in the seventeenth century, the average yield per acre of land had increased by quite 80 per cent. in the eighteenth century, and this was in great measure due to the abolition of the open-field system. On the other hand, we must not forget that in the course of this change many people had to suffer hardship. The interests of the peasantry who used to graze their cattle on the common land (which included the strips separating the various fields), and who, as they were neither copyholders nor freeholders, were unable to furnish any documentary proof of their rights, received in many cases as little consideration as did the needs of adjacent towns for opportunities of open-air recreation. Until 1845 nothing was done to improve this state of things. A further measure of improvement was introduced in 1876, when it was provided that no enclosure should be granted unless it could be shown that the interests of the whole of the inhabitants—and not merely of those who had rights in the land—would thereby be served. In this way the progress of the evil was arrested, it is true, but the past was not undone.

We shall return to England presently; but the student will now be able to see how land-tenure and agriculture in that country have come to acquire the forms which are now peculiar to them. The large landed estates of the Middle Ages have remained, they have even increased in size. In an essay prepared by CHARLES DAVENANT in 1699,<sup>2</sup> that writer introduces a calculation made by GREGORY KING with regard to the income of the nation, from which it appears that the four highest classes of society, consisting of 4,586 families, had at that time an income of £2,839,800. In another place,<sup>3</sup> the same writer maintains that, in his time, rents did not, on the average, exceed 6s. 2d. per acre. Even if we suppose, therefore, that

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passed. This was amended in 1845 (after a Parliamentary Inquiry, the report of which appeared in 1844 and is very well worth reading), and replaced by a new Act in 1876.

<sup>1</sup> See SPENCER WALPOLE, *A History of England from the Conclusion of the Great War in 1815*, London, 1890, vol. i. p. 145.

<sup>2</sup> *An Essay on the Probable Methods of making a People Gainers in the Balance of Trade*. Works, ed. 1771, vol. ii. p. 114.

<sup>3</sup> *Op. cit.* vol. ii. p. 216.

the whole of the £2,839,800 consisted of rent, 4,586 families cannot have owned more than 9,210,000 acres between them, while according to a statistical statement relating to the present day (which we propose to give *in extenso* further on), a total of 18,545,899 acres are in the possession of 4,217 families. A considerable increase, it will be seen. But this increase represents neither the only, nor the most important change. The principal change consists in this, that each of the estates now forms a compact whole; that almost the whole of them are let off to farmers who live on their farms; that furthermore, except in case of the few remaining copyholds, inheritable rights of use in the land no longer exist, while, on the other hand, manorial rights are no longer claimed. All relations between landlord and peasant are determined by contract.

In France, the evolutionary process was not so gradual as in England, and to a great extent this must be ascribed to a cause which, in itself, cannot be termed unfavourable. For a long time it was supposed that peasant proprietorship in France only dated from, and was a result of, the Revolution. This is not so, however; the system was very prevalent before the Revolution, and it was just this that occasioned the bitter resentment against feudal rights, which found such violent expression in 1789 and subsequent years. The English nobility were rich, and increased in wealth from day to day. They did not flock round the Court and abandon rural life, but lived on their estates and, therefore, in the midst of the rural population. And although from the end of the fourteenth century they ceased to take part in agricultural concerns themselves, although the institution of the *terra dominica* gradually faded out of existence, the nobility continued to take an interest in agriculture; they improved the land and brought agriculture to a higher level. In France it was altogether different. As early as the second half of the thirteenth century we find manorial estates becoming the property of *vilains*, the name given to the *adscripti glebæ*, from the *villa* which they occupied. Even merchants acquired land;<sup>1</sup> in

<sup>1</sup> The brothers BONIS, for example, merchants of Montauban in the second half of the fourteenth century, had let off a large amount of land to *métayers*

the sixteenth century more especially, large areas of land were acquired by *roturiers*, i.e. commoners.<sup>1</sup> About the year 1760 something like one-fourth of the land had become the property of peasants, owing to nobles having had to sell their estates by reason of poverty, due in great measure to extravagant living at Court.

We should be mistaken, however, if we represented the peasant proprietors of those days as owing no duties whatever to the manorial lords. In common with the rest of the rural population, the peasant proprietors were still subject to many burdens. In selling their estates the lords appear, in most cases, to have reserved to themselves certain rights, and these rights remained as a burden on the land, even if they were no longer claimed by the lords themselves. For often they had transferred these rights<sup>2</sup> to others, feudal rights being in very many cases sold to people who bought them simply as an investment. Into what, therefore, had the French *Seigneurie* developed? The answer which HENRI DONIOL has supplied to this question is as terse as it is accurate when he says that it had developed into *une collection de redevances*.<sup>3</sup> The *seigneur* was no longer the chief of his people; he was no longer their protector, their guide, the representative of the public authority amongst them, acquainted with their circumstances, concerned for their interests; nor was he an ordinary country gentleman as in England; he was simply a person having claims; one who was there to take from the peasantry so much of their harvest; who, if they sold their land, claimed so much of what they got for it; one who compelled them to have their corn ground in certain mills and their bread baked in certain ovens. Such, at least, was the condition in very many cases. The system became disjointed instead of being, as in England,

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on conditions which differ very little from those which obtain at the present day. See Mrs. JAMES DARMESTER'S interesting article, "Rural Life in France in the Fourteenth Century," in the *Fortnightly Review* for November 1890, pp. 738-752.

<sup>1</sup> DONIOL, *Histoire des classes rurales*, pp. 245-248 and 306. Cf. DARESTE DE LA CHAVANNE, *Histoire des classes agricoles*, pp. 281 *et seq.*

<sup>2</sup> There were so many different feudal rights—three hundred have been counted—that we cannot enumerate them here.

<sup>3</sup> *La Révolution Française et la féodalité*, p. 2. For particulars as to the *droits féodaux* cf. G. D'AVENEL, *Histoire économique de la propriété*, etc., Paris, 1894, pp. 223-236.

gradually superseded by one which was economically superior. The *Seigneurie* survived only in those of its features which rendered it detested by the whole of the peasant classes.

No sooner, therefore, did the people get the power into their own hands, than the *Seigneurie* was doomed. By a Decree of the National Assembly dated August 4th, 1789, it was resolved to abolish feudal burdens. There still remained, however, the question as to the manner of giving effect to the Decree, and on this very much depended. Should those who were deprived of their rights be compensated, or should they not? In March and May 1790 it was decided that a distinction should be made between two kinds of burdens—between those which must be regarded in the light of a price paid for the ownership of the land, and those which must be regarded as having their origin in relations of personal servitude, or in the public authority formerly exercised by the lords; the former were to be compounded for, the latter simply to become extinct. Among the latter were the tithes, which were thus abolished without compensation.

This arrangement pleased nobody. The lords were dissatisfied because they deemed it too vague, and the peasantry because it did not give them all they wanted. It did not place upon the lord the onus of proving his right to claim what he had been accustomed to claim of the peasantry; what the enactment provided was just the reverse; if the peasant refused to admit the legality of a burden, which was redeemable under the new arrangement, the onus of proving its illegality lay with him. The process of redemption, moreover, was made difficult and costly. From the foregoing it will be seen how conservative the National Assembly was, notwithstanding its radical decree of August 4th, 1789. The explanation is not far to seek: the Assembly numbered among its members many who had personal interests to serve.

After the dissolution of this body matters were advanced much further. The onus of proof was shifted; instead of the peasant being required to prove that the lord's claim was illegal, the lord was now required to prove the legality of his own claim and to do so by documentary evidence. This put an end to all feudal rights.

To write the agrarian history of the Netherlands is

difficult, owing to the lack of sources;<sup>1</sup> especially for the period which we should best like to be able to study, namely, that of the transition from mediæval to modern forms of landownership. It is noteworthy at how early a period this transition was effected outside Gelderland and Overijssel, with which we propose to deal separately further on. The moneys derived from the right of heriot still continued to form an important source of income for the Counts of Holland in the fourteenth and fifteenth centuries; special officers—"heriot keepers," as VAN MIERIS calls them—were charged with the collection of these dues. Cases of redemption, however, became so frequent that, by the sixteenth century, so far as we know, liability for the payment of heriot no longer existed anywhere in the Western part of the country.<sup>2</sup> Large landed estates still remained in the hands of nobles in those parts for a long time, it is true;<sup>3</sup> but the people living on those estates had long been absolutely free, though subject to the jurisdiction of their lords. In the Western part of the Netherlands also, there existed no common lands even in the fourteenth century, so far as we know; with the exception of districts where the sand dunes are situated the whole of the land was private property.<sup>4</sup> The fields were disposed, for the most part, in long strips; but if this was a survival of the open-field system—and it cannot be proved that that system ever prevailed in that part of the country<sup>5</sup>—it was all that was left to recall it. Down to the seventeenth century there were still to be found, in certain parts of the country, a right

<sup>1</sup> Dr. H. J. KOENEN, *De Nederlandsche boerenstand historisch beschreven* (Haarlem, 1858), may, however, still be said to be well worth reading.

<sup>2</sup> See Dr. P. W. A. CORT VAN DER LINDEN'S article on the subject in the *Handwörterbuch der Staatswissenschaften*, vol. i. pp. 212-215. See also A. KLUIT, *Historie der Hollandsche Staatsregeling*, Amsterdam, 1804, iv. p. 81, and v. pp. 95 and 108; also Dr. P. I. BLOK, *Geschiedenis van het Nederlandsche Volk*, vol. ii. p. 516.

<sup>3</sup> A. KLUIT, *Primæ lineæ collegii diplomatico-historico-politici*, Leyden, 1790, p. 147.

<sup>4</sup> See Dr. H. A. K. VAN BERCKMEL'S interesting study, *Een Hollandsch dorp in de vierthende eeuw. Dietsche Warande van 1855*, vol. i. pp. 305-326 and 551-574, vol. ii. pp. 97-122, 325-344, and 511-537.

<sup>5</sup> So far as I am aware, this point has never been investigated. Now that we know the open-field system to have been very prevalent in England, as also in Germany; since, moreover, F. SEEBOHM has discovered very clear traces of its existence in France as well (as would appear from his article in the *Economic*

of pre-emption and a right of appropriation. Whosoever wished to sell his land was required to announce his intention in public on three successive Sundays. His nearest relation then had the option of purchasing the property.<sup>1</sup>

Not all holdings, however, became allodial property; feudal tenure continued to exist till the end of the 18th century. There were two kinds of fiefs, the one being in perpetuity and the other terminable. Of the terminable fiefs, one kind was known as "good," and another as "bad," the latter being so termed, says BORT,<sup>2</sup> because, seeing that they could not be inherited by women, nor by ascendants or collaterals of the last holder, they were very likely to revert to the feudal lord. A distinction was also made between "large," "medium," and "small" fiefs. To the first class belonged all fiefs, the possession of which carried with it a lordship, and the income from which exceeded 300 carolus guilders. There was scarcely any difference, however, between feudal and allodial property. The only difference lay in the fact that feudal property was for the most part indivisible and, therefore, exempt from the usual law as to inheritance; as a rule, it passed on the eldest male heir (and failing such heir a woman might succeed, but only if the fief were "in perpetuity"). There were cases, it is true, where allodial was converted into feudal property for the purpose of conferring a right of inheritance on the eldest son.<sup>3</sup> Both kinds of property, however, were subject to taxation on the same terms; immunity from taxation, which the nobility originally enjoyed by reason of their rendering military service,<sup>4</sup> had been abolished in the Netherlands from an early date, as the result of an enactment which provided that taxable land must remain so, and that who-

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*Journal* of 1891, pp. 59-72, on "French Peasant Proprietorship under the Open Field System of Husbandry"), it is somewhat difficult to believe that it should never have been applied in the Western parts of the Netherlands. If, nevertheless, it should be true that the system never was in vogue there, the fact would seem to need explanation.

<sup>1</sup> Dr. PIETER BORT, *Hollands Leenrecht*, *Kompleete Werken*, 2nd edition, Leyden, 1702, p. 226.

<sup>2</sup> Cf. BORT, *op. cit.* p. 17.

<sup>3</sup> Cf. BORT, *op. cit.* p. 9.

<sup>4</sup> "Qui militiam debebant, tributum non pendebant. Pendebant tantum ii qui non militabant. Militabant autem omnes præter servos, sive proprios homines, qui agris colendis, iique soli erant intenti." KLUIT, *Primæ Lineæ*, p. 127.

soever claimed to be exempt from taxation must produce documentary evidence in support of his claim.<sup>1</sup> Owing to these provisions, the privileges fell into desuetude, and in the reign of the Emperor CHARLES V. few of them still remained.<sup>2</sup>

How are we to explain so favourable a course of things? Probably it was due in some measure to the example of the neighbouring Friesland, where feudalism had never taken firm root, but villeinage had existed (though abolished in very early times); for, as far back as the thirteenth century, the peasantry in certain districts of Holland rose in great force against the nobles, and many manors and castles were destroyed on that occasion. The Counts' domains, moreover, in the Western part of the country were numerous, and the Counts themselves, as a rule, well disposed towards the peasantry. The rise of towns also helped to improve the condition of the latter. Among the burgesses of towns were to be found many who were engaged in agricultural operations, and in different towns these burgesses obtained permission to spend the sowing and harvesting seasons on their farms without forfeiting thereby their rights of citizenship.<sup>3</sup> Thus urban law, which, on the whole,<sup>4</sup> was favourable to liberty, gradually spread to the rural districts. Then again we have to bear in mind the numerous sales of endowed and monastic property which took place after the Reformation, and the no less frequent alienations of the Counts' domains owing to lack of money at the time of the insurrection against Spain;<sup>5</sup> all these things were instrumental in bringing much of the land into the possession of the peasantry. Be the causes what they may, however, Holland has reason to congratulate herself on the rare advantage which she enjoyed in having as it were imperceptibly outgrown the feudal system of land-tenure. The old system vanished; its place was taken by the new, and nobody could fix the year or even the century in which the change took place.

<sup>1</sup> KLUIT, *op. cit.* p. 133.

<sup>2</sup> KLUIT, *op. cit.* pp. 146, 147.

<sup>3</sup> An instance of this is given by KOENEN, *op. cit.* p. 40.

<sup>4</sup> "On the whole" cf. S. J. FOCKEMA ANDREAE, *Hoorigheid*, pp. 53-59.

<sup>5</sup> See the Resolutions of the States of Holland on the subject, dating from the year 1550 to 1583.

By the Constitution of 1798 it was provided that all rights, such as tithes and the like, which had their origin in the feudal system should be regarded as abolished for all time, except in so far as they might be the result of a mutual, voluntary contract. The tendency of this provision was certainly no less radical than that of the Decrees which, only a few years previously, had been promulgated in France; but between France and the Netherlands there existed this important difference, that what was widely prevalent in the former country was quite exceptional in the latter.

When we turn our attention to Germany, a totally different picture unfolds itself to our view. At the beginning of the nineteenth century the condition of the peasantry in that country was deplorable in every respect. Villeinage still existed in all parts of the Empire, and not a kind of villeinage in which material advantages amply compensated for lack of liberty; a heavy burden rested upon the whole population, a burden heavier than that which they had to bear in the Middle Ages.

Most of the landed estates in Prussia—to which part of the Empire we purpose to confine ourselves—were the property of nobles or of monasteries and other corporations, to which the peasantry stood in a relation of vassalage (“*Unterthänigkeit*”). The landlords regarded themselves as the King’s vassals and were, in fact, so termed; the peasants were subject to them, just as they themselves were subject to the King. This was not the condition prevailing everywhere, it is true, since all landed estates were not in the hands of nobles or corporations, and only these could have “vassals.” But the estates which were owned by others were not the most numerous, so that vassalage was the rule. And what it implied was no small matter. The peasant owed obedience to his lord, he could not learn a trade or marry without his lord’s consent, he might not refuse to allow his children to serve in the lord’s house, nor was he free to leave the estate. He was, moreover, required to render certain services and dues. In return, he possessed certain rights, it is true, but

these were not the same for all, and for very many of the peasantry they amounted to little more than a right to the use of the land, which was not inheritable.

All this vividly recalls mediæval agrarian conditions; with this difference, however, that the class of those who had a hereditary right to the use of the land was much more numerous in the Middle Ages, and furthermore, that the service owed by the peasantry had grown considerably heavier in consequence of the increased areas which the lords were having farmed for their own account. The German laws of the seventeenth and eighteenth centuries contained stringent provisions for preventing peasants from leaving their lands; such provisions had become necessary, now that the burdens imposed on the peasantry had increased very much. In Pomerania the services had become so arduous that the peasants had no time to attend to their own land during the day, and had to do so at night. And wages stood at the lowest conceivable level; many of the women servants had to be content with 3 thalers and 8 groschen (less than ten shillings) per year and their board.

Reform had long been sorely needed when, in 1799, a serious attempt was made to bring it about.<sup>1</sup> The first measures adopted were in the interests of the peasantry on the Crown domains. These domains were farmed out to middlemen, who stood to the peasantry in about the same relation as the landlords on other estates stood to their retainers. As a result of strong efforts on the part of the minister VON SCHROETTER, the obligations to provide horses and carts and the manual services were then generally abolished to a large extent, the middlemen farmers receiving a certain sum by way of compensation, the money for which was raised by means of a contribution levied from the peasants under the name of service money. But it was not enough that the peasant should be relieved of oppressive burdens, it was also necessary that he should acquire an interest in the improvement of husbandry. On the initiative of the minister WLOEMER, supported by VON SCHROETTER, and

<sup>1</sup> A brief review of the events which preceded this reform will be found in the *Handwörterbuch der Staatswissenschaften*, 2nd edition, vol. ii. p. 345. (Article *Bauernbefreiung*.)

more especially by VON STEIN, it was enacted that peasants should be allowed to become owners if they would renounce their rights of use in the State forests and their claims to certain grants of relief. In this way 30,000 peasants in East and West Prussia and Lithuania became proprietors of their holdings. The next step was to provide for the villein peasantry on private lands. By an Edict dated October 9th, 1807, and signed by VON STEIN and VON SCHROETTER, the institution known as *Erbunterthänigkeit* (or hereditary vassalage) was abolished throughout the whole monarchy, the abolition to take effect forthwith in the case of those who had rights of ownership, acquired by inheritance or otherwise, and for all others after the expiration of three years. And this Edict was followed by a series of ordinances all having the same object in view, namely, the social and economic advancement of the peasantry.

These ordinances were not perfect; in the apportionment of the land between the peasants and themselves, and in the framing of the rules as to the commutation of services, the landlords used all their influence to ensure results most favourable to themselves, and in this they were only too successful.<sup>1</sup> It soon became evident, therefore, that the work was not even half finished, and that fresh legislation was needed in order to complete the work of reform inaugurated at the beginning of the century. It was the minister VON MANTEUFFEL who at length satisfied this pressing need. The Law of March 2nd, 1850, proposed by him, included provisions which may be summarised as follows. In the first place, twenty-four different kinds of feudal rights, mostly survivals of early vassalage, were abolished without indemnity.<sup>2</sup>

<sup>1</sup> With regard to this see G. F. KNAPP's exhaustive work, *Die Bauernbefreiung und der Ursprung der Landarbeiter in den älteren Theilen Preussens*, in two volumes (Leipsic, 1881), of which I gave a short summary in *De Economist* of 1887, pp. 335-346. According to Professor F. J. NEUMANN, who discusses the matter in one of his articles (*Zur Lehre von den Lohngesetzen*), it was more especially in the Eastern parts of the kingdom that the evil effects were felt of those "Manorial-peasant regulations of the so-called Stein-Hardenberg period of reform, as to which the opinion has too long prevailed that they proved an immediate boon to the population." CONRAD'S *Jahrbücher für Nationalökonomie und Statistik*, vol. 60 [1893] p. 629. He expresses himself even more emphatically on p. 641.

<sup>2</sup> An enumeration of these rights is to be found in A. BUCHENBERGER, *Agrarwesen und Agrarpolitik*, Leipsic, 1892, vol. i. p. 107.

In the second place, all who had inheritable rights of use in land were made absolute owners of such land,<sup>1</sup> and the conversion of other rights into owner's rights was facilitated. In the third place, the commutation of carriage duties and manual services which still remained was made easier and less expensive. Finally, another law of the same date prescribed the establishment of *Rentenbanken* or rent-charge banks.

The peasants had already been accorded liberty to redeem the rent-charges on their holdings by a capital payment representing eighteen times the annual sum due. As the majority were not in a position to avail themselves of this liberty, other means were found whereby they might do so. Under the new plan the peasants for a certain number of years paid the rent-charges into a *Rentenbank* or Landbank; which institution then gave to the lord of the manor a bond for the value of the capitalised charges. Since the interest which the bank had to pay on these bonds amounted to less than the sums which it received from the peasants, it had regularly to set apart a certain sum, which was used for the redemption of the bonds. Once these were redeemed the peasants ceased to be liable for any further payments to the bank.

These enactments operated favourably. Before 1830 only 171,350 peasants had commuted their services; between that year and 1865 no fewer than 624,914 did so, and between 1850 and October 1st, 1890, bonds were issued by the rent-charge banks for no less a sum than £22,750,000. The law was not so favourable in its operation, however, as it might have been had it been administered with a strong and impartial hand. Nor was anything done to safeguard those who had hereditary or other rights of use in the land against deception; the consequence was, that many of them became ordinary tenant-farmers. But, however imperfect may have been the whole series of enactments begun in 1799, they have nevertheless borne good fruit, inasmuch as they have effected a great improvement in the condition of the peasantry and a great extension of small peasant landownership. Prior to the year 1866 there were in Prussia 1,111,117 proprietors as against 60,739 tenant-farmers; there were only 800

<sup>1</sup> [The nearest English analogy would be the conversion of all copyholds into freeholds.—A. A. W.]

properties measuring 988 acres and upwards as against 1,087,081 properties measuring 3·7 acres and 649,828 measuring between 3·7 and 20 acres.<sup>1</sup>

Meanwhile, certain measures have been taken with a view to facilitating the repartition of the common mark lands, and the consolidation of such holdings as, from the nature of the open-field system, consisted of a number of scattered plots.

The first of these objects was dealt with by a law of June 7th, 1821, and the second by one of the two laws of March 2nd, 1850, to which reference has just been made; the latter occasion also served for the purpose of promoting still further the repartition of the common mark lands and the commutation of pasturage and other servitudes. How necessary this was, and how widely the open-field system prevailed in Prussia, may be gathered from the fact that, of the total area of Prussia before the war of 1866, namely, 68,569,000 acres, no fewer than 37,697,000 acres belonging to 1,600,510 persons had undergone the process of repartition and consolidation.<sup>2</sup> Of these laws the same thing may be said as has already been said of similar laws enacted in England, namely, that they completely altered the face of the country.

<sup>1</sup> Later statistics, in which the new provinces are included, show that in 1882 there were in Prussia 1,232,168 agricultural "Hauptbetriebe," that is to say, holdings on which the principal industry carried on was agriculture. Of these, 813,942 included no rented land whatever, while of the remaining 418,266, only 75,166 consisted exclusively of rented land. Or, if we take the total area of the 1,232,168 agricultural holdings, we find that 87·83 per cent. of that area was being farmed by the owners themselves and 12·17 per cent. by tenants.

The following figures also are interesting :—For every 100 hectares (1 hectare = 2·47 acres) of land there were on an average—

1·52 *Parzellenbetriebe* (2 hectares and less).

5·87 *Kleinwirthschaften* (2·5 hectares).

22·73 *Bäuerliche Wirthschaften* (5·20 hectares).

34·15 *Grossbauerwirthschaften* (20·100 hectares).

35·57 *Grosswirthschaften* (100 hectares and upwards).

Cf. *Zeitschrift des Kon. Preussischen Statistischen Bureaus*, Hefte iii.-iv. p. 42 of the *Statistische Correspondenz*. Figures relating to the whole of Germany are given in the *Handwörterbuch der Staatswissenschaften*, vol. iv. 2nd edition, pp. 849-855, *Statistik des Grundbesitzes*.

<sup>2</sup> G. SCHÖNBERG, *Handbuch der politischen Oekonomie*, Tübingen, 1882, pp. 694-695 (Article by A. MEITZEN, Regarding Prussian agrarian legislation and its results). The student might also consult the English bluebook: *Reports from H.M. Representatives respecting the Tenure of Land in the several Countries of Europe*, London, 1870, vol. i. pp. 237 et seq.

What happened in Prussia, happened sooner or later in the various other States of the Empire; we cannot deal with these here, and will conclude our summary with a few words regarding Austria, which did not enter on the path of land reform until the year 1848. Agrarian conditions in Austria were still very mediæval at that time. The right of absolute ownership of land belonged to the nobility alone; for the rest of the population there existed rights of use only. The peasant's lot was a very hard one; in Galicia, for instance, he owed his lord the labour of two men and six oxen for 156 days of each year. By a law of September 7th, 1848, to which effect was given by a series of subsequent enactments, all this was changed. Villeinage was abolished, and freedom to purchase land was accorded to all. Peasant holders with inheritable rights of use were made absolute owners of their holdings; they were at the same time freed from all services and dues, some without any indemnity to their lord and others on the following terms:—The monetary value of the various burdens was estimated by a Commission, on which all the great landowners were represented. One-third of that value was cancelled; the balance was given to the landowners in the form of bonds bearing interest at 5 per cent., and gradually redeemable in a period of 40 years; of the money needed for the payment of the interest and gradual redemption, half was to be found by the Provinces and half to be raised by means of a special tax payable by the liberated peasants.<sup>1</sup> The arrangement, it will be seen, was one which greatly benefited the peasantry, but caused great dissatisfaction to the former lords. Austria waited a long time before abolishing villeinage, but having once determined to do so, she did not stop at half measures.<sup>2</sup>

#### § 4

### The Nationalisation of the Land

However incomplete the foregoing historical sketches may have been, they will have sufficed, we hope, to give the reader

<sup>1</sup> *Reports respecting the Tenure of Land*, vol. ii. p. 9.

<sup>2</sup> Cf. also VON CZOERNIG, *Oesterreichs Neugestaltung*, Stuttgart, 1858, pp. 486-539.

some idea of agrarian conditions in the past, and of the manner in which present-day landownership has been evolved from those conditions. We now pass to our main subject, to which the foregoing is merely intended as a historical introduction. Let us recall which are the most important problems that arise in relation to the land, and if we cannot find their solution, we shall at least try to discover the point of view from which they ought to be considered.

The following are the most important problems; for the sake of clearness we put them in the form of questions:—

1. Is it desirable that the land should become the property of the State, or, to employ the usual expression, that it should be nationalised?

2. Is it desirable that, with respect to the land, there should be a special law of inheritance; and if so what should that special law be?

3. What line of conduct ought the State to pursue in regard to common ownership of the land?

4. Ought the State to interfere in the relations between landowners and tenants?

None of these questions, as we have once before remarked, is purely economic, but in each there is an economic element.

1. Is it desirable that the land should become the property of the State? In its economic aspect, this means: Would the land be better cultivated if it were owned by the State than it is when owned by private individuals? Would what the land produces be distributed more equally among the members of the community if the State were the only landowner? Besides the material advantages just mentioned, are there, perhaps, others which might be obtained by nationalising the land?

Neither the first nor the third of these three points need be discussed at length. On the first there is little to be said because nobody has yet contended that the nationalisation of the land would bring about any improvement in the working of the land.

The State, it is true, has abundant resources; it can borrow at a low rate of interest. But then in any country with a well-managed mortgage system, private landowners can borrow at a low rate of interest: where a landowner fails to improve his land, it must be either because he cannot see

any advantage in doing so, or because he does not realise where his advantage lies; it is only in special cases that failure to improve the land is due to difficulty in obtaining capital on reasonable terms. These special cases often arise, it is true: the land may be already so heavily encumbered, that the owner cannot raise any more money on it. On the other hand, it must be remembered that, if the land belonged to the State, its management would have to be left to a Government Department, that the Ministers and officials, charged with the control of that Department, would feel their responsibility and so be loth to incur heavy expenses, unless they were absolutely certain of such a return as would more than repay those expenses; it must be remembered, too, that without the consent of Parliament, no money could be spent. It is most likely that a sum would be set apart in the Budget each year for the improvement of the land, and that the Department of Agriculture would have to determine how that money should be used. Will any one believe that under such a system all reasonable wants would be satisfied, more fully satisfied than they are now, when every landowner is free to do as he thinks best?

Perhaps some will be disposed to reply that there is an alternative plan: the State might grant leases for 75 or 100 years, leaving it entirely to the leaseholders to improve the land. Concerning such a plan we would ask, in what way it would increase the probability of the land being improved. A leaseholder, surely, is not more interested in improving the land than an owner: on the contrary, is he not less interested in doing so? And should it happen, as no doubt it frequently would, that the leaseholders sublet the land to ordinary tenant-farmers, a far worse state of things would ensue. Between the owners and the users of the land a new class would have been interposed, a class amongst whom the stimulus to spend much money for the benefit of the land would be comparatively weak, weaker at any rate than it usually is among the landlord class at the present day.

If the State should deem it to be its business—and there may be cases where it really is the business of the State—to provide capital for the purpose of increasing the yield of the land, this would be no reason why it should necessarily nationalise the land. It could achieve its object much better

by granting loans to landowners at a moderate interest, or by executing irrigation or similar works, from which the whole of a given district would derive benefit.

We can only conceive of a single case in which, out of regard for the public welfare, it might be necessary to resort, not indeed to a general scheme of land nationalisation, but to the expropriation of a part of the land. Suppose that in an extensive district—say a province—the whole of the land is owned by a very small number of persons. These persons are very rich, so rich in fact that they are not in the least concerned about increasing their incomes, but are all the more intent upon enjoying unlimited opportunities for hunting and similar amusements. They therefore keep large areas of fertile land uncultivated and thinly peopled. Here we should have a case in which there might be reason for the State to interfere. The State would be justified in refusing to tolerate such an abuse of the rights of property. We have strong doubts, however, whether conditions such as we have just described could ever arise in a country where *fideicommissa*, entails, and the like are unknown; at any rate it is to be doubted whether in such a country they could ever become so prevalent as to prove an obstruction. In countries where the French law of inheritance has been adopted very large landed estates are never numerous.

The third point calls for just as little consideration. The question which it involved was, whether any other material advantages besides better production and more equal distribution of the product would result from the nationalisation of the land. Some, as we know, would answer the question in the affirmative. If FLÜRSCHHEIM and his followers are to be believed, the nationalisation of the land would prove a means of doing away with interest, since great capitalists would not know what to do with their capital, if they could not invest it in land. And, if we were to reply that the abolition of interest would put a stop to all saving, we should be met with the retort that saving is a great evil, since it occasions disproportion between production and consumption, in other words, over-production, that great cause of the stoppage of industry, and impoverishment of the lower classes of the population. It needs but little reflection to see that all this

rests upon a gross misapprehension. The fact that nobody could purchase land would have no effect whatever on interest ; it would neither cause the demand for capital to decline, nor the supply of capital to increase. A owns land, and B owns capital. If an exchange takes place between these two, then B will not offer his capital in the money-market ; but A will do so ; that will be the only difference. Now suppose that A is the State, and that the State has decided not to sell any land. It will then be impossible for B to become a land-owner, and he will have to put out his capital at interest. But what difference can it make in the rate of interest whether the capital is being offered by one person or by another ? As regards the contention that saving causes over-production, we have already had occasion to speak. If a country, which has been accustomed to consume a quantity which we will call 100, and to save a quantity which we will call 50, suddenly takes to consuming 80 and saving 70, a certain dislocation will undoubtedly ensue ; many products will cease to find purchasers in that country. But precisely the same thing will happen if, instead of rising to 70, savings should fall to 20 : any sudden change in the direction of demand operates disadvantageously for a while. To demonstrate at large that "capitalising" is not the reverse of purchasing products, would entail excessive repetition ; the person who saves, buys, and the person who spends, buys ; but the things bought by the former are different from those bought by the latter ; they consist of machinery, productive services, and the like. They may also consist of securities, it is true, but in that case the seller of the securities simply takes the place of the buyer. The fact that saving is extensively practised in a country does not cause less goods to be sold there than elsewhere, but the articles produced in such a country differ to some extent in kind from those produced in other countries.

The nationalisation of the land, therefore, if it is to be defended at all, can only be defended as a measure for promoting a more equal distribution of what is produced by the land. And, regarded in that light, it merits more attention than it usually receives. We draw a sharp line of distinction between land nationalisation as an ideal and the arguments advanced by most of the advocates of that ideal. The former

is worthy of serious consideration ; the latter are generally defective. Let those who wish to plead for the nationalisation of the land, borrow their arguments from JOHN STUART MILL ; that is to say, let them appeal to the limited amount of land available, the growth of the population, and the consequent probability that the rent of the land must ultimately rise. The limits of that probability have already been discussed in a previous chapter.<sup>1</sup> We are now passing through a period in which prices are complained of as being rather too low than too high. Russia, North and South America, British India and even Australia are sending us wheat, and our own farmers are having a hard struggle. But if the population of Europe, which more than doubled itself in the course of the nineteenth century, should increase in the same proportion during the twentieth, then—the average *per capita* consumption of wheat and rye as articles of human food being about 6·87 bushels per annum—the amount of wheat and rye required as food in Europe alone will be about 2,475,000,000 bushels greater at the end of the twentieth century than it is now. We can form some idea of what that figure means if we consider that the total wheat crop of the United States now amounts to some 500,000,000 bushels. Then think of how many other products are used by mankind besides wheat !

But why should we further dilate on what has already been stated or pointed out in our chapters on the rent of land and the theory of population ? It is not possible, of course, to speak with absolute certainty, for nobody can tell what new foods may be discovered. But unless great surprises are in store for mankind, we are bound to infer that, as regards the food supply, the condition of things will be entirely different at the end of the twentieth century from what it is now. Falls in agricultural rents have always been succeeded by more than corresponding rises. It is by no means inconceivable that what has happened in this respect in the past may also happen in the future.

Beyond the foregoing there is nothing to be said in defence of “the nationalisation of the land.” The fact that the State owned the land would not, indeed, prevent the rise in rent, but that rise would no longer be a source of advantage to the

<sup>1</sup> Vol. I. p. 123.

few: we should no longer have one class of society being enriched by that which, for the great majority of mankind, was a cause of impoverishment. The nationalisation of the land would not avert the evil which we shall probably have to face, but it would prevent that evil from being twofold. That the means of subsistence should become dear would be bad enough, so one might argue, but that this dearness should be the means of greatly increasing the incomes of a small minority of the population would be still worse. If the rent of the land must rise, let the gain at least accrue to the National Exchequer; it will then be possible to effect a considerable reduction in taxation, and this will, in a measure, compensate for the resulting hardship.

What are the objections to this argument? The main objection is, that by constituting the State the owner of its land, a nation would make a heavy financial sacrifice to begin with. Let us assume for a moment that the loan which would have to be raised in order to indemnify the owners did not entail the payment of more in the shape of interest than was received annually by the State in the shape of rent. We assume this, although it is by no means a safe assumption, since, in order to be complete, the compensation made to the landowners would have to consist in money and not in bonds; the State would have to raise a very large loan, and it is not always possible to place large loans on favourable terms. There is room for difference of opinion on this point, however, so we will let it pass, and will assume that there would be no loss on this head. But it would in any case be necessary to appoint a host of able and absolutely trustworthy officials to supervise the farmers, and see that they did not exhaust the soil; this would entail no small cost. Some will perhaps say that this cost might be obviated by granting a hundred years' leases of the land. The plan would certainly be a wise one, but the financial sacrifice would in truth be none the smaller even then. For, after the recent experience as regards the course of prices, it is unlikely that there would be any demand for such leases among farmers of any standing, except at rents far lower than those which are now being paid for most lands: what man, who has anything to lose, will bind himself and his heirs for a hundred years, except on terms which make

full allowance for the risks which he runs? In order to be able to rely absolutely on the leaseholders being interested in the proper working of their holdings, the State would have to be careful to enter into contracts only with people who were both honest and of good standing. It would have to be very discriminating in respect to persons, and yet not exacting in the matter of rent. Then how about covering the loss arising out of the difference between the net income derived from the land and the interest payable on the loan? The only way in which it could be covered would be by increased taxation.

Thus, as an inevitable consequence of the "nationalisation" we should have, to begin with, a considerable increase of taxation.

It will be said, perhaps, that this disadvantage would be transient. Not so transient, we should say, but that it would prove prejudicial to the interests of two or perhaps three generations. Considered in this light "nationalisation of the land" can never be regarded as a measure from which any advantage could be derived by those who are now living; on us and on our children and grandchildren it would entail a sacrifice for the benefit of posterity. Can such a sacrifice be fairly demanded of us? Should we be justified in making it? Even though we could answer both of these questions in the affirmative, there would still remain a third question, namely, whether, once prepared to make a considerable sacrifice for the benefit of a remote posterity, we could not choose some better way in which to carry out that idea. Why not rather redeem the national debt in the course of a few years, or employ the money obtained from taxation in defraying the cost of public works, or accumulate a great treasure and invest it in sound securities? This would be preferable to nationalising the land.

And why? Because, after all, it is by no means quite certain that the rent of land will rise. That it will do so, is probable, in fact highly probable; but that is the most that can be said about it. The condition precedent to the rise is that the population shall grow, moreover that it shall grow at such a rate as to outstrip the increase of production, and we have the example of France to show us that the growth of the population cannot be reckoned on with certainty; failing such growth the rent of the land would not rise, rather would

it fall. Strange as it may appear, it is nevertheless true, that there is just as good ground for the assertion that the land has a natural tendency to become dear, as there is for the assertion that it has a natural tendency to become cheap. The former presupposes a population which is increasing in number, and therefore requiring more and more land; while the latter presupposes a population, which is not increasing in number, but is advancing in skill and knowledge, which enables it to obtain more and more abundant crops from a given area of land. We dare not foster the hope that the second of these hypotheses will ever be realised; still, it belongs to the possibilities; and were it at any time to be realised, or were scientific discoveries to be made, by which it became possible to increase the yield of the land to a degree as yet undreamt of, then posterity would have little reason to thank us for taking over the land at its present price. For they would have to pay the interest on a heavy debt, which we had contracted in order to obtain property which yielded far less than that interest.

It cannot be denied, then, that land nationalisation has its objectionable features. So far-reaching a measure, however, as that of imposing heavy burdens on the living generation for the benefit of posterity, should be free from all serious objection. Before adopting such a measure, we should need to have it established beyond all doubt that posterity would really derive great advantages from it; in no single respect should there be anything problematical about those advantages. We therefore adhere to what we have just said. If it is really believed that posterity will live under unfavourable conditions owing to scarcity of land, and if it be regarded as a public duty to do something towards mitigating that evil, then let us have recourse to means, of the efficacy of which there is no doubt. One such means would be to redeem all State, Provincial, and Municipal indebtedness. Should it afterwards appear that the precaution was unnecessary, nothing would have been lost. No sacrifices will have been incurred in order to obtain what may prove a loss rather than a gain.

In this demonstration we have started from the idea that

no other form of land nationalisation is contemplated than that of expropriation on terms involving full compensation to the present owners. We must not forget, however, that another form has been advocated. HENRY GEORGE, the well-known American writer, whom we mentioned in the first volume of this treatise, and to whom we have since had occasion to refer more than once, has invented a plan, the object of which is not so much to make the land the property of the State as to make it common property: something which shall be at the free disposal of all. This plan consists in imposing on the land a tax equivalent to the full net rent. Land which is incapable of yielding any rent has no purchase value; but neither would land have any purchase value if it were subject to a tax equivalent to the full rent. HENRY GEORGE'S plan, therefore, is very effective. If it were adopted, no single landowner would care any longer to remain the owner of his property any more than a capitalist would care about keeping a bond, of which he knew for certain that it would never yield any interest. Such, at any rate, is the ultimate aim of HENRY GEORGE. In the meantime he would be content with raising the tax on land to the point at which it would yield an amount sufficient to meet all the expenditure of the State; he candidly admits, however, that once things have progressed so far the rest will follow. "When the hare is once caught and killed, cooking will follow as a matter of course."<sup>1</sup>

Of all forms of nationalisation this would certainly be the most unwise. Simple confiscation would be far preferable. The latter measure, no doubt, would be a shameful injustice, a denial of the rights of property in one particular sphere, a proceeding which would be subversive of the whole institution of private property; but, economically, it would do less harm than might be expected to result from HENRY GEORGE'S plan. We have only to consider the way in which it is customary to treat useless articles if we wish to form an idea of what would happen to the land if it were subjected to a tax equivalent to the full amount of the rent. Everybody who had the use of any land would draw all he could out of it, and no proprietor would have any interest in restraining

<sup>1</sup> *Progress and Poverty*, p. 365.

him. We wonder whether HENRY GEORGE can ever have considered what a tenant-farmer is usually bound to do or to abstain from doing, and the utility of such stipulations. He certainly has failed to take into account how important it is that the land should be the object of the most scrupulous care.<sup>1</sup>

We now propose to take leave of the subject of land nationalisation schemes. Such schemes may afford material for further speculations, whether of an economic nature or not, but as yet such speculations can have no practical bearing. Since confiscation is out of the question, and taxation, as proposed by HENRY GEORGE, is an absurdity, there only remains the purchase of the land by the State. It would not be easy, however, to find a Minister of Finance who would submit a Bill involving so huge a speculation, nor would it be easy to find a Parliament which, if asked to consider such a proposal, would approve of it. There are questions of a more urgent nature which await our consideration, and first among these is that of the law of inheritance in relation to the land.

## § 5

### The Land and the Law of Inheritance

Is it desirable that, with respect to the land, there should be a special law of inheritance, and if so, what should that law be? It might consist in provisions having for their object the formation or preservation of large landed estates, or it might consist in provisions intended for the protection of peasant ownership. We take the former first, and naturally we begin with a survey of England, Ireland, and Germany.

Take, first of all, England, where landownership is more concentrated than in any other country. The following figures will give some idea of this. They have been prepared by BRODRICK<sup>2</sup> from a register of all landed estates, and their owners in England and Wales compiled in accordance with a Resolution of Parliament passed in 1872 :—

<sup>1</sup> See Vol. I. p. 108.

<sup>2</sup> *English Land and English Landlords*, p. 187.

400 Peers and Peeresses owned a total of	5,728,999 acres.
1288 Great Landowners	8,497,699 "
2529 Squires	4,319,271 "
9585 Greater Yeomen	4,782,627 "
24,412 Lesser Yeomen	4,144,272 "
217,049 Small Proprietors	3,931,806 "
703,289 Cottagers	151,148 "
14,459 Public Bodies	1,443,548 " <sup>1</sup>
Waste	1,524,624 "
	<hr/>
	34,523,974 acres.

From the above figures it will be seen that landownership on a small scale is not altogether lacking in England: we find there, for instance, 33,997 yeomen<sup>2</sup> owning a total of 8,926,899 acres of land, beside 217,049 "small proprietors" (most of them probably capitalists living in the towns, and having the whole or part of their property invested in land) possessed of a total of 3,931,806 acres. This makes a total of 12,858,715 acres, or more than one-third of the whole. The large landed estates, however, preponderate strongly: we find 4,217 persons in possession of 18,544,949 acres, or more than twice as much land as is owned by the 33,997 yeomen, and those 18½ million acres represent more than 53 per cent. of the total area of the country.<sup>3</sup>

This great concentration of landownership is mainly the result of laws relating to inheritance.<sup>4</sup> In the absence of a will, the whole of the real property goes to the eldest son, and custom has made this an invariable rule, especially among

<sup>1</sup> Including crown-lands.

<sup>2</sup> GREGORY KING put the number of "freeholders" at 160,000, namely, 40,000 "of the better sort" and 120,000 "of the lesser sort." If these were all yeomen (which it is not possible to gather from KING'S statement), then this class of proprietors has greatly declined in number, as it would seem.

<sup>3</sup> BUCHENBERGER (*Agrarwesen und Agrarpolitik*, vol. i. pp. 427-428) gives other figures. According to that writer, there are in England and Wales 874 owners of properties of 5,000 acres and upwards, making a total of 9,367,032 acres, or over 28 per cent. of the total area of the country; in Scotland 580, with an aggregate of 14,298,956 acres, or over 79 per cent. of the total area of the country; in Ireland 744, with an aggregate of 9,612,723 acres, or over 47 per cent. of the total area of the country. England has 1, Scotland 24, and Ireland 3 owners of estates exceeding 100,000 acres in extent. These 28 persons own between them 5,510,580 acres of land.

<sup>4</sup> The other causes which have contributed to this are mentioned by G. SHAW LÉFÈVRE in *Agrarian Tenures*, London, 1893, pp. 7 *et seq.*

the families of the nobility. There are districts in England where it would be impossible for any one to buy the smallest piece of land, simply because the whole of the land is in the hands of very rich people, who, though anxious enough to enlarge and round off their estates, do not want to part with any of their property. And in most cases it would be impossible for them to do so, even if they were so disposed, owing to the System of Settlements. According to the law, the owner of an estate may devise the same to a particular person (or to the survivor among a number of persons) subject to the condition that the heir shall not alienate the property, but shall, at his death, pass it on to some other person, who need not even have been born at the time of making of the will. A father, for instance, can bequeath his property to his son, subject to the condition that the property shall descend undiminished to his grandson. Then, when the father dies, the son succeeds him, but only as a limited owner of the estate; he is not free to do as he likes with the inheritance, for, even if he should be as yet without a son, there is still the possibility of a son being born to him. And, in fact, the possibility of there being no male issue is usually provided for; in that case the property passes to some other member of the family. Thus there is always a real or a possible claimant (remainderman). It is the custom to replace the one settlement by another. So soon as the person who is to inherit, and become the absolute owner of the estate, has attained his majority, the owner for the time being, by making him an allowance, induces him to join in a "family settlement," whereby he cuts down his estate of inheritance. By such a settlement charges are imposed, powers conferred or restricted, payments contracted for; in short, the estate is subjected to a variety of stipulations.<sup>1</sup>

Settlements may be regarded as a kind of limited *Fideicommissa*. Perpetual *Fideicommissa* are not allowed by English law, nor can land be devised beyond the second generation. Owing, however, to the arrangements which we have been describing, and which are intended for the purpose of evading this prohibition, the system works as if the land were tied for

<sup>1</sup> A clear and very full account of this system will be found in *English Land and English Landlords*, by G. C. BRODRICK, pp. 129, 151.

all time. In conjunction with the law of primogeniture, the settlements have produced a condition of things in which the landed estates of the great families tend rather to increase than to decline in size, so that no room is left for the development of a class of small landed proprietors. A further cause operating in the same direction is to be found in the heavy expenses usually connected with the purchase of land and the difficulty of acquiring an absolutely certain title.<sup>1</sup>

The purchaser of a property in England can never acquire absolute certainty as to its being free from all encumbrances, and as to the vendor's right to make over the ownership; he has always to be satisfied with something short of certainty, and as a rule it takes twelve months or longer to procure even this defective title. As this constitutes a far more serious obstacle for the small capitalist than for the rich landlord, who finds it no hardship either to pay the cost or to await the result of a protracted investigation of titles, the effect is to help still further in bringing such land as happens to become free into the hands of those who already own much land. The numerous conversions of copyhold tenures, and the sales of small plots of land which have occasionally taken place in connexion with the apportionment and consolidation of common land, have, however, in recent times brought about some increase here and there in the number of small landowners.

The first impression, which we get from taking cognizance of these things, is, in truth, not favourable. And yet it is remarkable that the majority of the English people would be reluctant to abandon their land system. The franchise has been greatly extended; the House of Commons, formerly no less representative of the nobility than was the Upper House itself, has gradually come to be truly representative of the people; the tide of democracy which has made itself felt throughout almost the whole of Europe has swept over England with especial force. Nor have primogeniture and the system of settlements been exempt from criticism; it would be impossible to say harder things of them than have been said in England.

<sup>1</sup> This has for long been a subject of complaint. In the *Political Arithmetick*, published in 1691, SIR WILLIAM PETTY writes (p. 27): "Although land and houses may be called *terra firma* and *res immobilis*, yet the title unto them is no more certain than it pleases the lawyers and authority to make them."

And yet this system has remained intact. Its superstructure has been improved and toned down, but its foundation has been left undisturbed. In fact, the hostility which it excites in certain circles appears to be subsiding rather than increasing; at any rate, this hostility is far less pronounced now than it was fifteen or twenty years ago.

To some extent the explanation is to be sought in the fact that such experience as the English people themselves have had with regard to peasant proprietorship cannot be said to be entirely favourable. The nation is proud of the industry of its peasant proprietors, but not of the way in which they pursue their calling in other respects. In the South-Western Counties, where the mild climate favours horticulture and fruit-growing, better conditions prevail, but in the North, where field crops are for the most part cultivated, the farming must be greatly lacking in variety, and affords but little evidence of ability; the farmers, meanwhile, are often burdened with debts, and consider themselves fortunate if a wealthy neighbour purchases their land of them.<sup>1</sup> This experience, however, lies too far outside the reach of the majority to constitute the chief reason for the partiality of the English nation for their own system of land-tenure. The chief reason is to be found in the way in which the system operates in regard to production, the interests of the farmers, and the interests of the farm-labourers.

And first as to production. The English landlord, as a rule, does not confine himself to receiving the income which his land procures for him; it is not his custom to regard his property as if it were a share certificate, or a bond, from which he has but to clip the coupons. He realises that it is his duty to improve the estate, and also that it is to his interest to do so. He and his tenants are co-partners, as it were; they have between them a "joint business," to use the words of one of the witnesses before the English Agricultural Commission of 1879.<sup>2</sup> A landlord, for instance, wishes to turn his arable land into meadow, as is being done very

<sup>1</sup> See the exemplary monograph by E. NASSE in No. 27 of the *Schriften des Vereins für Socialpolitik*, entitled *Agrarische und landwirtschaftliche Zustände in England*, pp. 135-136, and p. 203, note 10.

<sup>2</sup> NASSE, *op. cit.* p. 138.

extensively, and at a cost of from £3 to £5 per acre. In such a case he will pay the cost of clearing and draining, supply the grass seed, ask for no rent for the first two years, and after that be content for some time with a small rent. Many landlords devote themselves primarily to the business of their estates and are liberal in supplying money for costly experiments; the majority of them, moreover, have land agents who have a reputation for ability. The result of all this is that crops are produced in England such as few other countries can rival, and that the average yield per acre in England is high. In proof of the latter point we give the following table:—<sup>1</sup>

	AVERAGE YIELD PER ACRE (IN BUSHELS).		
	Wheat.	Barley.	Oats.
England . . . 1894-1903	28	33	41
Prussia . . . 1889-1903	21	20 <sup>2</sup>	19
German Empire . 1889-1903	20	20 <sup>2</sup>	19
France . . . 1886-1895	17	20	25
Netherlands . . 1896-1900	29	{ 37 <sup>2</sup> } { 46 <sup>3</sup> }	49

It will be seen that England, for the most part, holds the first place; and even though this should be due to the fertility of her soil, we have to remember how much that fertility has gained by what the landowners have done to improve the land.<sup>4</sup>

After the interests of production, which are the interests of the nation, we mentioned those of the farmers. Long leases for terms of 15 and 19 years (still very usual in

<sup>1</sup> See *Journal of the Royal Statistical Society*, 1904, p. 682; *Statistisches Jahrbuch für das Deutsche Reich*, Jahrgang 1896, p. 14, and 1905, p. 27; *Jaarcijfers van het Centraal Bureau voor de Statistiek in Nederland*, 1905, p. 158, etc.

<sup>2</sup> Summer barley.

<sup>3</sup> Winter barley.

<sup>4</sup> Meanwhile, we must not forget what the State has done by means of the Land Improvements and Drainage Act of 1846, whereby a sum of £2,000,000 was granted for drainage in England and Scotland alone. The money was granted in the form of loans to be extinguished by annuities of 6½ per cent.

Scotland<sup>1</sup>) are seldom to be met with in England; the conditions on which most lands are rented, leave it open to either party to terminate the contract after giving the other party six or twelve months' notice,<sup>2</sup> failing which, the contract continues by tacit agreement. The tenant-farmers, therefore, in the event of any decline in the annual value of the land, are in a position to bring about quickly a corresponding reduction in the actual rents. Moreover, the English landlord, as a rule, is liberal. To have a prosperous peasantry on his land is with him a matter of importance. He holds it to be, not only beneath his dignity, but also contrary to his interests, to exact too high a rent—a rack-rent. In cases of unexpected misfortune he remits a portion of the rent; competent authorities assert that, in the bad years 1879-81, scarcely one-third of the amount due to the landlords for rent was actually paid, the rest being remitted.<sup>3</sup> We must not forget this in summing up the causes which explain the great concentration of landownership in England; in most cases the farmer is more fortunate there as a tenant than as an owner. As an owner he has all the chances of success, but he must also take all the chances of failure, and if he wants his land improved, he must improve it at his own cost. As the tenant of a wealthy nobleman, on the other hand, he can count upon being well treated, upon his rent being partly remitted in bad years and reduced in the event of a decline in the prices of agricultural produce;<sup>4</sup> at the same time he will find his landlord willing, in most cases, to lay out capital, if such outlay can be shown to be likely to prove advantageous to both.

<sup>1</sup> See Dr. F. PH. KOENIG, *Die Lage der englischen Landwirtschaft*, Jena, 1896, p. 236. Even in England, long-term leases were still very much in vogue in the 18th century. See G. SHAW LEFEVRE, *Agrarian Tenures* (p. 48), where the causes of the changes are set out.

<sup>2</sup> Unless otherwise agreed, the term of notice, according to Section 33 of the Agricultural Holdings Act of 1883, is always twelve months. Formerly it used to be six months.

<sup>3</sup> NASSE, *op. cit.* p. 152.

<sup>4</sup> That English farmers, notwithstanding this, sometimes suffer heavy losses, is shown by the statement which Dr. F. PH. KOENIG gives regarding a farm of 827 acres in Wiltshire, in *Die Lage der englischen Wirtschaft* (p. 57). In the period 1868-1893, eleven years resulted in a loss of £520,915, and a profit of £6,498. The expenses include interest at 5 per cent. on the working capital (of £7,000).

The average size of the farms is about 60 acres; but two-fifths of the land under cultivation consists of farms of 100 to 300 acres; the small farms, that is to say those of 50 acres and under, represent as yet only about one-seventh of the land. Formerly they were more numerous, but the landowners held large farms to be more profitable, and although many of them have, in recent times, abandoned this opinion, it would now be both difficult and costly to alter the existing state of things. The amount of working capital needed by a farmer is estimated at from £8 to £10 per acre for arable land, and £10 to £12 per acre for meadow land. A part of this capital is borrowed from the banks, who are always ready to advance money to farmers of good standing.

A word in conclusion as to the labourers on the large estates. In England these labourers cannot, as a rule, like similar labourers in other countries, become the owners of little plots of land; and the large farms require so much capital as to make it impossible for a labourer to raise himself to the rank of a farmer, a circumstance which gives rise to discontent especially among the younger generation; for the rest, however, their condition is comparatively not bad. It is true that, owing to the decline of agriculture and the growth of manufactures, between 1871 and 1891 the number of farm labourers in England and Scotland fell from 1,161,738 to 919,682, and that their money wages too have declined somewhat;<sup>1</sup> this decline, however, has been more than offset by a reduction in the principal items of the cost of living. We do not contend that the farm labourers of England have attained a particularly high standard of welfare, only that they would not have reached a higher standard under any other system of land-tenure.

All this helps us to understand how it is that the English land system, in spite of the strong opposition with which it meets, still retains the sympathy of the majority of the

<sup>1</sup> Mr. A. L. BOWLEY, in the *Journal of the Royal Statistical Society* (1895, p. 252), calculated that, if the wages of agricultural labourers in 1860 be represented by the figure 100, then in 1870 they were 107; in 1877, 132; in 1880, 122; in 1886, 111; in 1891, 118. Dr. KOENIG's book contains many data regarding wages, in some cases with comparative figures for early years. See, e.g., pp. 169, 207, etc.

English people; but it does not help us to understand that opposition itself. Are there no reasonable grounds for it? Is it altogether unjustified? Quite the contrary; and having shown the bright side of the system, we must now point to its gloomy side. Not every landowner is considerate and wise. It is incredible what sums tenant-farmers often spend on their holdings in the firm conviction that the landlord or his agent will leave them in undisturbed possession; but this conviction is sometimes falsified. There are cases where a new agent or owner causes the rent of the whole of the land to be raised without asking at whose expense the land has been improved, and who charges each tenant a rent corresponding to the quality of land in his holding. This was the subject of loud complaint on the part of tenant-farmers some years ago, and the Commission of Inquiry appointed in 1879 declared the complaint well founded.

The settlements, too, afford grounds for objection. They often bring land into the hands of persons who are either too apathetic or too poor to spend much money on it, so that in some cases they operate as a check on improvements. That such cases are very numerous may be doubted, although the opponents of the system contend that they are;<sup>1</sup> this contention is irreconcilable with the high position which English agriculture still continues to hold, in spite of its decline under the stress of circumstances. Nevertheless, such cases do occur, nor can it be denied that, owing to settlements, many a property, the sale of which would be desirable in the interests of all parties, remains unsold. We spoke further back of agreements—family re-settlements—whereby settlements are prolonged and whereby various charges are then imposed. Under these the owner of an estate is sometimes obliged to pay such a number of allowances to members of the family that his own personal interest in the estate comes to be considerably smaller than the combined interests of the various persons to whom he has to pay a portion of its revenues, and who, in spite of the preponderance of their interests, can exercise no influence in the management of the estate. Speaking at an Economic Congress at Aberdeen

<sup>1</sup> See JOSEPH KAY, *Free Trade in Land* (London, 1879), and ARTHUR ARNOLD, *Free Land* (London, 1880).

in 1877, Mr. J. CAIRD, one of the greatest authorities on agriculture, said: "The evil that exists in the present land system is, not that we have great proprietors amongst us—for, as a rule, their estates are the most liberally managed. But it is because of the too common existence of the possession of land by persons so heavily encumbered by settlements and debt that they are incapable of doing justice either to their property or to themselves."<sup>1</sup>

But it is precisely this concentration of much land in the hands of a few people that is regarded by others as the chief evil. The whole system has led to the erection of impassable barriers between owner, tenant-farmer, and labourer, and this they regard as its worst feature. We find SHAW LEFEVRE, for instance, expressing himself in this sense in his *Agrarian Tenures*.<sup>2</sup>

Now, the attitude which the Government and Parliament (irrespective of the party in power) have always assumed with regard to this attack on the land system is remarkable. It has never been their intention to yield on any essential point. They have endeavoured, however, to remedy defects in the existing system, so that it might no longer afford ground for legitimate complaints.

One great cause of objection against the system of settlements was that the person in possession of a settled estate could not let even a part of it for a term exceeding that of his own life; since 1856 he may grant a lease for twenty-one years, except where he is expressly debarred from doing so. Another cause of objection was that a settled estate might not be mortgaged; since 1864 it is permitted under certain conditions to mortgage such an estate if the money is being raised for the purpose of carrying out improvements. A third ground of objection lay in the difficulties and expense involved in transfers of real estate; three laws, one enacted in 1875 and two in 1881, have provided some relief in this respect. A fourth objection had reference to the impossibility of sale; the Settled Land Act, 1882, now permits the sale of settled land provided the

<sup>1</sup> JOSEPH KAY, *Free Trade in Land*, p. 51. See also Dr. E. PH. KOENIG, *op. cit.* pp. 28 *et seq.*

<sup>2</sup> Pp. 33-34.

house and home park be not included in such sale,<sup>1</sup> and provided the proceeds be either employed for the benefit of the unsold portion of the estate, or invested in certain specified securities under the management of trustees. Nor have the tenant-farmers been forgotten. The Ground-Game Act, 1880, accords them the inalienable right to kill ground game on their land; the Agricultural Holdings Act, 1883 (of which more hereafter), grants them, under certain conditions, a right to compensation for improvements; and the Tithe Act, 1891, places the burden of all tithes on the owner notwithstanding any agreement to the contrary. Then there has been legislation in the interests of the labourers, as a result of the strong and widespread agitation carried on during the general election of 1885 with its catchword "Three acres and a cow!" The Allotment Act of 1887 gives power to urban as well as rural Sanitary Authorities to purchase or hire land, and to let the same to labourers in allotments not exceeding one acre at such rents as shall cover the cost. Should nobody be found willing to part with land for this purpose, expropriation may be resorted to with the co-operation of the County Administration. Another Act—the Small Holdings Act, 1892—aims at promoting peasant proprietorship. The County Council is empowered to purchase land and, by building cottages, making roads and similar means, to render such land suitable for cultivation by small farmers. The land is then sold to the peasantry on conditions which require them to deposit only a relatively small amount of ready money; but for a period of twenty years they are bound by a variety of restrictions. The same Act also authorises a County Council to advance to any person who is renting a farm not exceeding 50 acres, at an annual rent not exceeding £50, four-fifths of the sum required to enable such person to purchase the land should the owner be willing to sell it to him.

This long series of Acts (varying greatly in subject-matter) enables one to see clearly what the majority of the people of England think of their system of land-tenure. They admit its imperfections, but are convinced that in its broad principles it is useful. There is nothing to warrant the assumption

<sup>1</sup> For the sale of the house and park it is necessary to obtain the consent of the trustees or of the High Court of Justice.

that this conviction will change in the near future. Let but the great landowners continue to realise the responsibility of their calling by interesting themselves in agriculture and the welfare of their tenantry, let but the Legislature at the same time keep on improving the system in the points in which it needs improvement, and there is no reason why that system should not survive in spite of the criticism which it excites; nay, perhaps indeed by reason of that very criticism which calls attention to defects that can be remedied. Besides, the English land system is identical with the entire structure of English society. For the esteem in which they are held the English nobility are in a great measure indebted to their wealth. An Earl of Derby from whom one ordered one's daily supplies, or a Duke of Bedford as manager of a small manufacturing concern, would not command the same influence and esteem that are enjoyed by the actual holders of these titles. It would be impossible to maintain the aristocracy of England in their rank without permitting some departure from the ordinary rules of the law of inheritance in respect of the kind of property of which their fortunes usually consist. And the nobility of England, in spite of the faults of many of its members, and the democratic spirit which is beginning to prevail even in that country, still commands too much of the sympathy of the nation to allow room for any desire to sever the thread of its existence. England, in short, dislikes the idea of becoming americanised. She has no desire that her society should lose the picturesque exterior which it now possesses, or the distinction which is in many respects peculiar to it—a distinction that radiates from her aristocracy. This sentiment finds expression in the Settled Land Act—let everything come under the hammer if need be, but not the castle, and not the home park.

Ought we, in deference to some economic doctrine, disapprove of this sentiment? It might be said that laws and institutions which promote inequality of fortunes and incomes are contrary to the public interest, and that they ought not to be retained unless they confer advantages which compensate for this disadvantage. But there is reason to believe that compensating advantages are, in fact, obtained under the English land system. It may be that the settlements

are responsible for land falling into unsuitable hands in some cases; but that they do not operate in this way as a rule is quite certain, unless the sources on which most people prefer to rely for information concerning agrarian conditions in England are for once to be doubted. And would the abolition of settlements prove a complete remedy for the evil in so far as it may exist? Surely it will not be contended that owners who are incapable of managing their land properly are not to be found in countries that possess other systems of land-tenure!

Besides, it cannot be said of the English system that it promotes inequality in *all* respects. It would appear that most of the lands owned by the great landlords are let at rents that are below—often far below—the true economic rent.<sup>1</sup> If this be so—and it is supported by statements from various quarters—then the system is one that operates very much in favour of the peasantry, and one is entitled to ask whether the well-to-do farmer would still be the type of a numerous class of English society—as he undoubtedly is—if real property were subject to the same rules as personal property in respect to the law of inheritance. Suppose for a moment that in future land had to be equally divided among the children, so that in the course of a century or two the 18½ million acres now owned by some 4,200 individuals came to be owned by forty or fifty thousand individuals; but suppose also that these forty or fifty thousand persons demanded much higher rents than are now asked by the 4,200 owners,—surely this would not be in all respects a gain for the principle of equal distribution of incomes? There would be gain on one side, loss on the other; and if at the same time a great falling off were to have taken place in the application of capital to improvements, it is very doubtful if the public welfare would have been advanced as a result.<sup>2</sup>

<sup>1</sup> See the DUKE OF ARGYLE'S *Essay on the Commercial Principles applicable to Contracts for the Hire of Land*, issued in 1877 by the Cobden Club, pp. 46-49.

<sup>2</sup> "In Ireland," writes Professor NICHOLSON, "the greatest outcry was against the new commercial proprietors, who, after the Act of 1840 bought land to make as large a profit as possible" (*Principles of Political Economy*, London, 1893, p. 312). SHAW LEFEVRE says: "There are very many large estates where the rents, reduced as they have been in consequence of the agricultural depression of the last twelve years, are little more than a fair rate of interest on the expenditure in improvements effected during the last thirty or forty years, and where the true economic rent apart from such interest, has wholly disappeared" (*Agrarian*

Settlements do indeed promote inequality, but only among a certain class. If a father has four sons of whom only one can inherit the real estate, this is certainly not to the interest of the other three; but it has no effect on the level of wages or on the profits of merchants, manufacturers, shopkeepers. It is not conducive to poverty, nor does it send up the rate of interest. There are many causes of inequality of welfare, which affect only the interests of particular classes of society, the classes which are not the most numerous. These are not the most harmful causes. The most harmful are those that reduce the wages of labour, such as growth of population and destruction of capital, and settlements by no means operate in this direction.

We may point out in conclusion that many younger sons of landowners, thanks to their good upbringing and the necessity that impels them to make up for what has been withheld from them by the law of inheritance, belong to the most energetic section of the population. Though frequently attracted to the church and the army, they often adopt commercial careers, in which they contribute to the prosperity of the country. This, too, is a compensating advantage. Thus, all things considered, one may well doubt whether the English land system merits all the blame that has from time to time been imputed to it, and whether the English nation is making a very serious mistake in adhering to it.<sup>1</sup>

Were the not altogether unsatisfactory working of the English real property law, however, to create in anybody an inclination to recommend that law as suitable for adoption in all countries, a passing glance at Ireland would suffice to destroy such inclination. Ireland has the English system, but in that country it is stripped of all those characteristics that render it acceptable. The landlord is different from his tenants in nationality and in religion; he does not live amongst them, and is devoid of all sympathy with them. The shameful misgovernment of which England has been

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*Tenures*, p. 27). See also what he adds with reference to landowners whose means are restricted.

<sup>1</sup> Certainly one of its less pleasing features is that so much building land should be in the hands of a few persons. The Duke of Westminster and the Duke of Bedford own whole quarters in London. On this point see F. POLLOCK *The Land Laws*, London, 1883, p. 153.

guilty for centuries in Ireland has aroused in the Irish nation an irrepressible feeling of bitterness, a feeling which the landlords have taken too little pains to remove. Just like the French *Seigneur* of the eighteenth century, who was little more than a rent receiver, so also have been the majority of the Irish landlords. And as with the French *Seigneur*, so with the Irish landlord, there came at last a time when the people refused to pay. We know what was the watchword of PARNELL'S Land League—"No rent!"

The Irish land question is not purely economic; it is impossible, moreover, to understand it without a wide historical background.<sup>1</sup> All that need be mentioned here is, that in Ireland the system of large landed estates has failed in the completest sense. Whether the *latifundia* did actually bring about the ruin of Rome and her provinces may be questioned—as a matter of fact the Roman Empire lasted for four centuries after that assertion was made—but there can be no doubt that both economically and politically the large landed estates have proved ruinous to Ireland. There the Legislative has been obliged, however reluctantly and haltingly, to interfere in the relations between landlords and peasantry in a manner for which there has been no parallel elsewhere in our day.

The main provision of the Land Act of 1881 is, that, with certain exceptions, any yearly tenant shall be entitled to have his farm registered as a "tenancy under statutory conditions." Should he do so, the consequences are as follows, neither more nor less: (1) The rent, when it cannot be fixed by agreement or by arbitrators, is determined by a judge; (2) for a period of 15 years the rent cannot be raised, and at the end of that time it is determined afresh for a further period of equal duration; (3) so long as the tenant fulfils his obligations he cannot be evicted from the farm during those

<sup>1</sup> The author of the present work has endeavoured to supply this in his article entitled *De Iersche Landwet* (the Irish Land Act), in *De Gids* of 1882, Part III. pp. 385-448. A bibliography of the principal literature on this subject will also be found there. Among the more recent works the following are the best:—F. DE PRESSENSÉ, *L'Irlande et l'Angleterre depuis l'Acte d'Union jusqu'à nos jours*, Paris, 1889 (although the author of that book deals mainly with political events); then there is the carefully written academic thesis of J. G. J. TOUTENHOOFD, *De Iersche Landwetten*, Leyden, 1893; while a great part of G. SHAW LEFÈVRE'S *Agrarian Tenures* (London, 1893) is devoted to Ireland.

15 years, except in special cases, and then only subject to compensation; (4) the tenant may sell his tenant-right to whomsoever he pleases, nor may his landlord refuse to accept the new tenant except on such grounds as shall be deemed reasonable by a judge.

These provisions were modified in certain respects at a later date, but on the whole not to the advantage of the landlords. It was not long before an unexpected fall in the prices of farm produce made it evident that, however fairly they had been fixed, the rents were too high in many cases and that it would be necessary to revise them. At the same time the Land Act of 1881, at first limited to yearly tenants, was extended to leaseholders—an important extension, since the leaseholders numbered 150,000.

All these things constituted—as everybody will admit—an invasion of the property rights of the Irish landlords. They were deprived of the right to let their land on such terms as consideration for their personal interests might suggest: the law required them to comply with certain rules in the matter of letting their land, without leaving them free in the matter that was of most importance to them, namely, the fixing of the rent. It has been observed with truth that the Irish Land Act of 1881 created a “dual ownership” of the land. It was impossible to confer a measure of rights on the tenant without depriving the landlord of rights in an exactly equal measure, and this was done in the most unequivocal manner.

The Irish land question, which is comprised of a variety of factors, cannot be dealt with adequately in these pages, but the very existence of the question, the fact, which nobody denies, that Ireland's social condition is lamentable and that this lamentable condition is closely connected with the land system,—all this proves that the working of the system of large landed estates is determined by the conduct of the owners of such estates, by the degree in which they succeed in earning the sympathy of the people. More truly may it be said of this than of any other agrarian system, that its working depends upon the manner in which it is applied. The personal qualities of the landlord, whether he is tactful or not in his intercourse with his dependents, whether he is

willing or not to assist in developing the productive powers of the land,—these are here the paramount considerations. And this is true not only on general social and political grounds, it is also true on purely economic grounds. Great landlords, who do nothing in the interests of production, who give no encouragement to their tenants to raise the value of the land, who perhaps—as is the case in many parts of Scotland—allow whole country-sides to remain uncultivated for the sake of sport,<sup>1</sup> are, from their very existence, an economic obstacle; the wealth that they accumulate, however legitimately acquired, compels no respect. And the sooner the Legislature, with due respect for the reasonable claims of all parties, can contrive measures under which such landlords shall give place to peasant proprietors, the better will it be, even though the latter should possess neither the knowledge nor the capital which great landlords usually have at their command. The peasant proprietor will at least take an interest in his land, and will spare neither care nor pains in improving it.

This is the direction in which the solution of the Irish Land question is more and more being sought. As long ago as 1870, on the proposal of JOHN BRIGHT, powers were given to the Government to grant to any farmer who had agreed with his landlord for the purchase of the farm, an advance of two-thirds of the requisite sum, the same to be repaid in 35 annuities of 5 per cent. Subsequently the proportion of two-thirds was increased to three-fourths, and when even this was found to be insufficient, provision was made for the advance of the whole of the purchase money, while the terms of repayment were altered to 49 annuities of 4 per cent. One of the most important of the laws enacted in this connexion was BALFOUR'S Act of 1891.<sup>2</sup> In connexion with a general revision of the Irish Land laws, undertaken in 1896 and completed on the 15th August of that year, the

<sup>1</sup> See Professor W. J. D'AULNIS DE BOURQUILL, in *Transactions of the Netherlands Society of Jurists (Handelingen der Ned. Juristenvereniging)*, 1884, Part II. pp. 34 *et seq.* In Scotland, too, the Legislature has had to intervene, e.g., in relation to the Crofters. Concerning the Crofters Act of 1886 see G. SHAW LEFEVRE, *op. cit.* pp. 181-216.

<sup>2</sup> This Act is fully explained in the works of SHAW LEFEVRE and TOUTENHOOFD mentioned above.

Government was able to announce that advances amounting to £12,000,000 had been granted to 25,000 persons, and that the amount of arrears was so small (about £4,000) as to make it possible to dispense with various provisions that had hitherto impeded sales. In 1896 a change was made as regards the annuities, whereby these became smaller every ten years; for the first ten years the purchasers pay ten per cent. on the whole sum, after that they pay the same percentage on the balance remaining due after repayment of ten annuities of the original debt, and so on, from period to period. This change is generally recognised as a great improvement. It will be seen how seriously the Legislature is bent on substituting for dual ownership a better system, under which Irish farmers are to become landowners. It is to be hoped that this object will be achieved.<sup>1</sup>

Conditions similar to those that existed in Ireland are still to be seen in Sicily.<sup>2</sup> There the feudal system was abolished in 1812, but without any rights of property in the land being conceded to the population. The repeal of the law of primogeniture six years later aggravated the evil, as the landlords for the most part kept their estates undivided and let them to middlemen, *gabelloti*. These middlemen, as a rule, are a class of men deficient in culture and kindness, whose sole consideration is their own advantage. On none of the large estates are there any villages. The peasantry live in the nearest inhabited centres; where these are far off, they come at the beginning of the week to work on whatever land they have hired, and do not return to their homes until the end of the week. They are constantly in debt to the *gabelloti*, and they are charged very high rents. Such are the conditions in Sicily, except in the wine and market gardening districts.

Thus, in that country as in Ireland, the system of large landed estates has worked very badly. But while in Ireland an effort has been made to improve agrarian conditions by means of laws that breathe a generous spirit, nothing has

<sup>1</sup> A lucid exposition of the Law of 1896 is contained in the MARQUIS OF LANSDOWNE'S speech, July 31st, 1895, in the House of Lords. See Parliamentary Debates, vol. xliii. pp. 1146-1159.

<sup>2</sup> See my article headed *Sicilianische toestanden*, in *De Economist* of 1895, pp. 473-531.

been done to improve those conditions in Sicily. A Bill for the promotion of small-scale farming, and evidently framed with the object of converting the peasantry on the large estates into hereditary leaseholders, was brought in on July 11th, 1894, but was never debated.

## § 6

### The Land and the Law of Inheritance—*Continued*

We will now turn our attention to Germany. Although no less entitled than France to be called a country of peasant proprietors, Germany has not, like France, abandoned settlements, so that the system of large landed estates still flourishes in the former country side by side with that of peasant ownership. In a previous page we gave some figures concerning the greatest of the German States—Prussia. These figures showed that, on the average for the whole of that State, 35·79 acres in every 100 belonged to what are called *Grosswirtschaften*, that is, estates of more than 100 hectares (247 acres). But while the corresponding proportions in Hanover, Westphalia, and the Rhineland are as low as 6·47, 5·72, and 2·94 acres respectively, we find such high proportions as 51·41 acres per 100 in West Prussia, 61·22 in Posen, and 64·76 in Pomerania. In Silesia there are estates of 18,500 acres. And outside the boundaries of Prussia, especially in Mecklenburg, we find the large estates to be relatively still more strongly represented. This form of ownership is found more frequently in Northern Germany, in the districts in which colonisation is of most recent date, and where the organisation of society has always been of an aristocratic character.<sup>1</sup>

About the middle of the nineteenth century there came a time when it seemed as if the *fideicommissa* were about to be abolished; a resolution to that effect was adopted by the National Assembly at Frankfort on December 21st, 1848. Little came of this, however, beyond certain reforms or

<sup>1</sup> See Dr. J. CONRAD'S Series of Articles on the seven Eastern Provinces of Prussia in *Jahrbücher für Nationalökonomie und Statistik*, vol. lvii. (1891) *et seq.*

improvements. The regulations are now not everywhere the same, but, generally speaking, for the establishment of a *fideicommissum* the sanction of the Government—in Austria an Act of Parliament—is necessary, and, as a rule, such sanction is not given unless the applicants fulfil certain conditions—*e.g.*, possess a certain minimum income or belong to the nobility. In some cases debts may be contracted on the security of the estate, as, for instance, in Prussia, where this is permitted subject to the approval of a family council; the rule, however, is that the estate must not be encumbered in any way. For any deviation from this rule most of the laws require the sanction of the Government, while all the laws without exception require the debts to be redeemed by periodical payments. The laws of Prussia, Baden, and Bavaria also permit hypothecation of the revenues of an estate; in such cases the property, in the event of failure to repay, is not sold; it is sequestrated.<sup>1</sup> In the eight old provinces of Prussia 6·45 in every 100 acres of cultivable land, exclusive of land belonging to the Royal Family, fall under *fideicommissa*. This proportion, however, rises to 11 in Silesia and to 15·1 in Pomerania. Thus, in Germany, even in those parts where their development has been greatest, the *fideicommissa* are not nearly so general as in England and Scotland.<sup>2</sup> The perpetual *fideicommissa* permitted under German law are, however, unknown in England and Scotland. We have seen, however, that this makes little difference, because in England the one settlement is replaced by another.

The principal difference between Great Britain and Germany as regards the great landed estates is that the British landlord for the most part lets his land. In Germany there are instances of land being let—with State domains letting is, indeed, the rule—but seldom by private landowners. As a rule the owner manages his estates himself, or employs

<sup>1</sup> Further particulars on all these matters will be found in Dr. A. von MIASKOWSKI, *Das Erbrecht und die Grundigentumsvertheilung im Deutschen Reiche*, Part II., Leipsic, 1884, pp. 1-96; and in Dr. J. CONRAD, *Jahrbücher für Nationalökonomie und Statistik*, vol. li. pp. 835-839.

<sup>2</sup> According to a statement published in *L'Économiste européen* of February 9th, 1895, the area of the estates included in *fideicommissa* in the whole of Prussia is 4,529,409 acres. The total area of Prussia is 86,041,758 acres.

some one to manage them for him. This has many advantages. The owner is in a position to employ costly machinery; he can regulate the work according to his requirements; he can organise special branches for the cultivation of different kinds of crops; he can establish distilleries, breweries, beet sugar factories, cheese and butter making factories; in short, he can combine with agriculture and stock-rearing the manufacturing industries to which they are related; he can also execute important works for the improvement of the land. The disadvantage, however, is that on estates that are managed in this way, there is no room for an intermediate class like that of the farmers in England. Thus there is formed no class that unites the rich with the poor. Where the great landlords own the whole of the land, the small man has no chance of rising; he remains a day-labourer all his life, or, at any rate, so long as he does not choose some other occupation. It has frequently been noticed that of all emigrants from Prussia the largest contingents, in proportion to population, come from the provinces in which landownership is most concentrated. In 1895, for example, the proportion per 1,000 inhabitants of Prussia who emigrated by way of German, Belgian, and Dutch seaports was 0.65. But for Pomerania alone the proportion was 1.03, for Posen 1.36, and for West Prussia 1.30. That there is some relation of cause and effect between these two things is not improbable.

With the object of establishing a class of peasant proprietors in those parts in which the system of large landed estates was predominant, the Prussian Legislature has in recent years adopted certain measures which we must now mention.<sup>1</sup> The first step—taken on April 26th, 1886—was to assign £5,000,000 for the colonisation of West Prussia and Posen with German peasants. With that money the State was to purchase land, erect buildings, and grant loans to the new inhabitants, who were to be given possession of the properties in return for a fixed rent-charge, which was to be

<sup>1</sup> On this subject see PAUL WAHLDECKER, *Die Preussischen Rentenguts-gesetze nach Theorie und Praxis*, Berlin, 1894. As a member of the General Commission of Bromberg that writer was responsible for the carrying out of those measures. See also Professor L. BRENTANO's article in *Die Nation* of March 13th, 20th, and 27th, and April 3rd, 1897,—also published in the *Economic Journal* of 1897,—where the laws are subjected to a severe criticism.

redeemable to the extent of nine-tenths; the remaining tenth could not be redeemed without the consent of the Treasury. This last provision constituted a departure from what was prescribed by the law of March 2nd, 1850, under which, when real estate was transferred in return for a money rent-charge, the right of redemption could not be restricted for a period exceeding thirty years. The result of this provision in the law of 1850 was, that the constitution of what are called *Rentengüter* had altogether ceased. Under the operation of the law of 1886 the constitution of such properties was again resumed. But, as we have stated already, that law applied to two provinces only, and none but the State could levy a perpetual rent-charge.

The law of June 27th, 1890, went much further. It applied to the whole of Prussia, and permits property in land to be transferred in return for a fixed money rent-charge, the redemption of which requires the consent of both parties. It was hoped by this means to induce owners of large estates to part with portions of their property. For, dues and services might be substituted for the rent-charge; the owner could reserve to himself the right of pre-emption at the estimated value for the whole of the duration of the rent-charge; he could restrict the partition of the property during the same period, and, owing to the repeal of the provision in the law of 1850, mentioned above, he could make that period as long as he chose. In short, he would be in a position to revive semi-feudal agrarian conditions; it seemed not unreasonable to expect that members of the great landed nobility would see many attractions in all this. Fortunately the attractions did not prove sufficiently great to induce the owners to create *Rentengüter*. A few months sufficed to convince the Government that a stronger inducement would be needed.

Recourse was once more had to the Rent-charge Banks.<sup>1</sup> Commissions were appointed (*General-Kommissionen*) with extensive powers. With the consent of these commissions the Rent-charge Banks can promote the formation of *Rentengüter*. The Rent-charge Bank pays over to the vendors three-fourths of the capital value of the rent-charge in the form of  $3\frac{1}{2}$  or

<sup>1</sup> See p. 251, *ante*.

4 per cent. bonds,<sup>1</sup> in exchange for which the vendor makes over to the Bank a corresponding portion of the rent-charge, which portion, however, must then be redeemable. The purchaser of the property pays the Bank one-half per cent. in excess of what the latter pays to the bond-holders, by means of which extra payment his debt to the Bank is extinguished either in  $60\frac{1}{2}$  or in  $56\frac{1}{2}$  years, according as the interest on the bonds is  $3\frac{1}{2}$  or 4 per cent. Of one-fourth of the rent-charge the vendor of the property is free to dispose in any way he thinks fit. This part is called the *Privatrente*. He is free to convert it into a perpetual rent-charge; he may require that it be paid to him in services or in kind; he may stipulate for a right of pre-emption, and he may do this on terms under which the liability for the services shall always pass to the new owner. So far, however, nobody has been found willing to accept the last-named condition; in practice it is always provided that the *Privatrente* be redeemed within a comparatively short period. And the law of 1891 favours this practice by providing that so soon as a person shall have paid off a sufficient portion of his debt in the form of annuities, the Rent-charge Bank may assist him in redeeming the *Privatrente* still remaining due. Thus the danger entailed by the law of 1890 has been practically got rid of by the law of 1891.<sup>2</sup>

The intervention of the Commissions, too, is of great value in these matters. Their assistance is only to be obtained where the applicant for a *Rentengut* is suitable, and not altogether without means; nor can the indispensable assistance of the Rent-charge Bank be obtained where the price agreed upon is too high. The Commissions also require that the vendors shall comply with certain conditions. Thus the land, at the time of its transfer, must be fit for occupation in the matter of roads and drainage, and the first occupiers must be afforded facilities for obtaining building materials and land for the erection of schools. It may also be mentioned that the Commissions are empowered to authorise loans to

<sup>1</sup> The capital value is either 27 or  $23\frac{3}{4}$  years' purchase of the rent-charge according as the bonds bear interest at  $3\frac{1}{2}$  per cent. or at 4 per cent.

<sup>2</sup> BRENTANO, in his series of articles mentioned above, has not emphasised this sufficiently.

peasants for the erection of dwellings and other buildings, and that these loans, which are also redeemable by annuities, are advanced by the Rent-charge Banks, so that they engender no financial relations between the landlord and the agricultural population.

The legislation of 1890 and 1891 is not perfect. Had it been realised from the first that the object in view was not to be attained unless substantial assistance were provided in the way of credit, it is probable that the system of *Rentengüter*, a system which, it seems to us, occasions nothing but trouble,<sup>1</sup> would never have been chosen. It must nevertheless be admitted that, in spite of its defects, this legislation has proved of very great use. Great numbers have availed themselves of the facilities which it affords. Already in 1894 it was found that the Commissions could hardly cope with the work that had devolved upon them, so numerous were the applications with which they had to deal.<sup>2</sup> Under the operation of these laws there is in course of formation in the Eastern provinces a peasant-farmer class which had previously scarcely existed in those parts, and since it was the purpose of those laws to fill up this social gap, they may with truth be said to be achieving their purpose.

The Prussian Legislature has been solicitous, not only for the formation, but also for the perpetuation of a class of peasant-farmers. For this purpose it has had recourse to the institution known as the *Anerbenrecht*, of which we must now speak. The *Anerbenrecht* is an old German institution which has in recent years been transformed and altered to fit modern requirements. Like the *fideicommissa* it created a special law of inheritance, but not for the same class of the population, nor in the same way.

<sup>1</sup> "In practice," says WAHLDECKER (*op. cit.* p. 130), "the purchase price agreed upon is, in the first instance, discussed in terms, not of 'rent-charge' but of 'capital.' Only in exceptional cases, *e.g.* when workplaces are being established, do the parties discuss and agree as to what the 'rent-charge' shall be. . . . What the laws relating to *Rentengüter* contemplate in the first instance is rent-charge, consequently the General Commissions, in making their calculations and preparing the contracts, must always work back to this."

<sup>2</sup> VON DER GOLTZ, *Die agrarischen Aufgaben der Gegenwart*, p. 160. Cf. *Handwörterbuch der Staatswissenschaften*, Erster Supplementband, p. 584a.

As the reader knows, all laws that are based on the principle of the *pars legitima* admit the right of parents to dispose by will of a certain part of their property in whatever manner they think fit; by none of these laws is it required that all the children should receive equal shares. This devisable part represents so large a proportion of the whole estate that, when combined with the legal share of any one child, it may raise that child's inheritance to half, or little short of half, of the whole estate. A simple calculation will show that this is true even in France and Holland where the *pars legitima* amounts to  $\frac{3}{4}$  of the estate if there be more than two children.<sup>1</sup> Suppose, for example, there are six children; then each child has a legal right to  $\frac{1}{6}$  of  $\frac{3}{4}$ , that is to say,  $\frac{1}{8}$ , which, added to the devisable  $\frac{1}{4}$ , makes  $\frac{3}{8}$ . If there are three children, each child is legally entitled to  $\frac{3}{12}$ , which, added to  $\frac{1}{4}$ , gives exactly  $\frac{1}{2}$ . Thus, if both parents had estates of the same value, it would be possible for one of the children to inherit as much as either of the parents alone possessed. We are not now concerned with the question as to whether parents avail themselves to any great extent of this right of over-endowing certain of their children; we only wish to point out that nowhere does any legal obligation exist whereby all the children must inherit equally. Where the parents think it desirable that their children should not all inherit equally, the law leaves such parents free to provide accordingly within certain limits.

The advocates of the *Anerbenrecht*, however, do not consider this enough; they hold that greater power should be conceded to the parents. What those greater powers are will best be seen from a short review of the Prussian Law of June 3rd, 1874 (amended in 1880 and again in 1884), entitled *Gesetz betreffend das Höferecht in der Provinz Hannover*, a law which has put into practice the principles of which we are now speaking. This is not the only law of the kind; similar laws have been enacted for Schaumburg-Lippe (1870), Oldenburg (1873), Brunswick (1874), Bremen (1876), West-

<sup>1</sup> In Prussia it is  $\frac{1}{3}$  where there are not more than 2 children,  $\frac{1}{4}$  when there are either 3 children or 4, and  $\frac{1}{5}$  when there are 5 or more children. In Austria it is  $\frac{1}{4}$  irrespectively of the number of children. In France and Holland, where there is only 1 child the proportion is  $\frac{1}{2}$ , where there are 2, it is  $\frac{2}{3}$ , and when there are 3 or more it is  $\frac{3}{4}$ .

phalia (1882), Brandenburg (1883), and Silesia (1884); while the *Anerbenrecht* has also been introduced into Austria-Hungary by a law, dated April 1st, 1889. It would take too long to describe all these laws, which are not similar in all respects. An account of the act relating to Hanover will suffice to show the principle on which they are based, and the purpose which they are intended to achieve.<sup>1</sup>

Under that law a Register is provided—a *Höferolle* as it is called—in which any farm may be registered on application being made by the owner. Nobody is obliged to register, and a registered farm can at any time be removed from the Register at the owner's request. So long as it remains on the Register, however, it is subject, not to the ordinary law of inheritance but to the special law of inheritance called the *Anerbenrecht*. If the owner of a registered farm should leave several heirs, the farm descends only to such one of them as the owner shall have designated. In the event of nobody being designated then the eldest son inherits, and should there be no sons then the law appoints what shall be done. There is always only one heir; the farm is never divided.

But the heir-in-chief—the *Anerbe*, as he is called—is not in so privileged a position as he would be under a *fideicommissum*. He does inherit the farm, it is true, but a part of its value is included with the estate of the deceased. That part is calculated in the following manner:—To twenty times the annual net yield of the farm is added the value of the stock, and from this sum are deducted any mortgage or other debts for which the farm is liable, in so far as they cannot be discharged out of any other property left by the deceased. Of the sum thus obtained,  $\frac{2}{3}$  go into the general estate, of which all the survivors take equal shares under the ordinary law of inheritance.<sup>2</sup>

<sup>1</sup> Dr. A. VON MIASKOWSKI, in his work cited above, proves himself a most ardent advocate of the *Anerbenrecht*. Whether one agrees with the author or not, one cannot but marvel at the wide knowledge and conscientiousness which he displays. See also his *Agrarpolitische Zeit- und Streitfragen*, Leipzig, 1889, especially pp. 169-191.

<sup>2</sup> For example:—The farm yields a net income of £300 per annum; the stock is worth £600; there is £2,500 in cash, securities, etc., but there are debts amounting to £2,800. The estate of the deceased is then reckoned to be made up as follows:—

The result of this is that the heir-in-chief (*Anerbe*) is always in the position of having to make some sort of provision for his co-heirs. His monetary advantage, compared with what might have been secured to him under the ordinary law of inheritance—in no case less than  $\frac{1}{3}$  in Prussia—therefore, lies almost wholly in the fact that he acquires the farm at a moderate price, for the co-heirs may neither insist on valuation nor on sale. We are bound, however, to observe that this is true only where the testator has not secured the advantage of the heir-in-chief in some other way, and in this respect he is free to act as he pleases. For instance, there is nothing to prevent the testator bequeathing to the heir-in-chief that part (*i.e.*  $\frac{1}{3}$ ) of the estate which does not fall within the *pars legitima* and then dividing in the manner just described. Or again, he may determine that the heir-in-chief shall not be required to pay over to his brothers and sisters any part of the estate until they shall have come of age, respectively, provided he shall have supported them fittingly in the interval, and if necessary on the farm itself.

Thus the *Anerbenrecht* leaves the testator a very free hand. But nobody is obliged to have recourse to it; and any one who does is free to change his mind, or so to arrange his will that the *Anerbe* may have no appreciable advantage over the other children.<sup>1</sup> When the subject came up for

£300 × 20 . . . . .	£6,000
The farm stock . . . . .	600
	£6,600
Deduct debts resting on the farm and not payable out of other effects of deceased, £2,800 - £2,500 . . . . .	300
	£6,300
	$\frac{2}{3}$ of this = £4,200

If there are 6 children, then each gets £700, but the heir (*Anerbe*) gets, in addition, the difference between £6,300 and £4,200 = £2,100, thus £2,800 in all, apart from what the stock may be worth in excess of £600.

<sup>1</sup> To this an exception has in recent times been provided by a law of 8th June 1896, according to which the properties spoken of above as *Rentengüter*, as also properties of the kind known by the name of *Ansiedlungsgüter* (law of 1886), may be required by the authorities to be brought under the *Anerbenrecht*. BRENTANO, in his series of articles, mentioned above, speaks of this as a great mistake. He thinks that the effect will be greatly to impede the working of the laws of 1890 and 1891. See also what he says in his latest work, *Agrarpolitik: Theoretische Einleitung*, Stuttgart, 1897, p. 135. The law of 8th June 1896 is

discussion on the 6th October 1884 at the general meeting of the *Verein für Socialpolitik*, all the speakers were unanimous in declaring that the voluntary character of the law must be retained; the only dissentient voice was that of Professor CONRAD, and the only change he would suggest was that the registration of farms should be encouraged by a bounty consisting in the remission of one-tenth of the land tax.<sup>1</sup> The Austro-Hungarian law, too, maintains the principle of freedom for farmers to dispose of their property according to the ordinary rules of succession.<sup>2</sup> From this it may be inferred that, in a country where the people are wedded to the principle of equal division among children, and where they regard any departure from that principle as unfair, an enactment on the lines of the Hanoverian law would prove a dead letter. The advocates of the *Anerbenrecht* admit this. VON MIASKOWSKI himself informs us that, although in Hanover some 60 per cent. of the farms are registered in the *Höferolle*, the proportion in Lauenburg is only 11 per cent., while in Westphalia, after the law had been in force for a year, no more than 213 farms had been inscribed in the Register. A widespread disposition to take advantage of the new law is only to be found in countries where the principle of that law is in conformity with existing usages, and where, therefore, it may be said that no new legal principle is really being introduced. The advocates of the *Anerbenrecht* do not, however, allow themselves to be discouraged by this fact. They consider how the national sense of equity may be influenced by the law, and hope that a change will be wrought in popular conceptions—a hope that is not altogether groundless. If, for example, the optional *Anerbenrecht* were to be introduced in Holland, where equal division has been the custom for centuries, some years would probably elapse before the effects of the law began to be felt to any great

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given *in extenso* in *Jahrbücher für Nationalökonomie und Statistik*, vol. lxvii. pp. 709-720.

<sup>1</sup> *Schriften des Vereins für Socialpolitik*, xxviii. pp. 18 and 74.

<sup>2</sup> Art. 1 par. 3 of the law declares that "No owner of a farm coming under the provisions of the law is subjected thereby to any restriction of his or her right of disposing of that property or of any part thereof either by gift or sale during his or her lifetime, or by testamentary provision to take effect after his or her death."

extent. But there are no grounds on which we could venture to deny that in course of time new rules for the inheritance of farm property might not come into vogue under the operation of the law.

Would this be a good thing? Much zeal has been displayed by men of ability in endeavouring to prove that it would, but we are unable to agree with them.

Is it really the fact that, in countries where the principle of equal division obtains, there is excessive subdivision of the land? Not, if we are to believe the statistics. These show that there are in France:—

5,211,456 Hectares	comprised in properties of	0 to	2 Hectares.
7,543,347	" " "	2 "	6 "
19,217,902	" " "	6 "	50 "
9,398,057	" " "	50 "	200 "
8,017,542	" " "	200 or more	" "

These figures present the condition in France in far too unfavourable a light, for, when a property is situated partly in one and partly in a neighbouring parish—as is very often the case—it is counted as two properties.<sup>1</sup>

Concerning Holland, we find that in 1894 owners and tenant-farmers respectively were occupying the following areas of land:—

	Owners.	Tenant-Farmers.
1-5 Hectares . . .	44,972	33,269
5-10 " . . .	20,991	13,288
10-15 " . . .	10,835	7,091
15-20 " . . .	6,929	5,223
20-30 " . . .	6,364	5,442
30-40 " . . .	3,073	3,413
40-50 " . . .	1,617	1,898
50-75 " . . .	1,247	1,637
75-100 " . . .	224	224
Over 100 " . . .	109	82
	96,361	71,567 <sup>2</sup>

<sup>1</sup> A. DE FOVILLE, *Le Morcellement*, Paris, 1885, pp. 91-92.

<sup>2</sup> *Jaarcijfers der Centrale Commissie voor de Statistiek*, 1895, pp. 104-105.

These figures show that small farms are very numerous in Holland; and, surely, nobody will deplore this. Their numbers are, in fact, increasing very much; in 1885 there were 41,972 owners and 28,134 tenant-farmers occupying farms of 1-5 hectares, while in 1894 the corresponding figures were 44,972 and 32,269 respectively. This increase, however, was not accompanied by a decline in the number of medium-sized farms; only in the case of farms of 75 hectares or over was there a decline. In 1885 there were 341 owners and 376 tenants in occupation of such farms, and in 1894 only 333 owners and 306 tenants. It may be that a few medium-sized holdings were broken up, but in that case the gap was filled up by subdivision of larger holdings.

And now as to Germany, the country in which the *Anerbenrecht* has already obtained a footing. It has already been shown<sup>1</sup> that in Prussia only 1·52 of every 100 hectares form part of holdings of 2 hectares or less; in the case of holdings of 2 to 5 hectares the corresponding proportion is only 5·81 per cent. On the other hand, holdings of 5 to 20 hectares occupy 22·73 per cent., and those of 20 to 100 hectares 34·15 per cent., of the total area. These figures relate to the year 1882, and to the whole of Prussia, so that they cover Hanover, Westphalia, Brandenburg, and Silesia, all of which are provinces in which the *Anerbenrecht* has been introduced. It will be admitted that the figures afford no evidence of excessive subdivision of property in land. What Prussia is suffering from as regards her agrarian system is not excessive subdivision of landed property, but rather excessive concentration of such property in certain districts.

Advocates of the *Anerbenrecht* acknowledge the truth of this observation. VON MIASKOWSKI states expressly that, apart from a few districts, the distribution of landed property in Germany is "healthy and normal," but he adds that "there are no adequate safeguards for ensuring that this state of things shall last."<sup>2</sup> And, speaking of Westphalia, he admits that the statistics afford no indication of a movement in the

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According to the same source, the total area of land (arable and grass) in the occupation of persons farming more than one hectare (2·47 acres) was, in the year 1889, 1,023,600 hectares in the case of owners, and 825,900 in the case of tenant-farmers.

<sup>1</sup> Cf. p. 252, *ante*.

<sup>2</sup> *Op. cit.* Part I. p. 126.

direction of heavy indebtedness and excessive subdivision of landed property, "but," he adds, "this should not prevent timely measures being adopted to counteract these unhealthy tendencies that are only just beginning to be developed."<sup>1</sup> It certainly is the duty of the legislator to adopt preventive measures, especially if he can do so without prejudicing the interests or violating the rights of any one. It can hardly be said, however, that the *Anerbenrecht* does neither of these things, for it places the brothers and sisters of the privileged child at a disadvantage. In Holland a young man who marries a rich farmer's daughter obtains, on the death of his father-in-law, a substantial legacy with which he can extend or develop his business. The legislator would do well to pause and reflect carefully before introducing a measure calculated to benefit one child at the expense of all the others. The necessity for such a measure would have to be established beyond all question. We may be permitted to doubt whether such a necessity can be held to be established where no harmful effects that are capable of being expressed in figures have yet been observed; where all that can be observed is "tendencies that are only just beginning to be developed."

But can it even be said with truth that these tendencies are observable? Dr. A. MEITZEN, one of the foremost authorities on agrarian conditions in Germany, informs us that "concerning peasant landownership in Prussia, it is quite untrue to say either that in general it is minutely subdivided, or that it is increasing to any appreciable extent."<sup>2</sup> And at the meeting of the *Verein für Socialpolitik* he made the same statement with regard to other parts of Germany. He found, for example, by means of an exact investigation, that in the Grand Duchy of Hesse the land was more minutely subdivided in the year 1760 than at the present time.<sup>3</sup>

<sup>1</sup> *Op. cit.* Part II. p. 345.

<sup>2</sup> G. SCHÖNBERG, *Handbuch der Pol. Oekonomie*, Tübingen, 1882, Part I. p. 706. He gives the following figures:—

Proportion per 1000 Hectares comprised in :	1816.	1859.
(a) Manorial Estates . . . .	576·2—	597·3
(b) Large Peasant Holdings . . . .	373·9—	352·0
(c) Small „ „ . . . .	49·9—	50·7

<sup>3</sup> *Schriften des Vereins für Socialpolitik*, xxviii. pp. 66-67. Yet MEITZEN,

There are, it is true, parts of Germany to which the foregoing observations do not apply. In part of Bavaria (Lower Franconia), in Wurtemberg, Baden, Alsace-Lorraine—in short, in South-Western Germany the minute subdivision of landownership is very marked. This part of the Empire has been called the *Zwergwirtschaftswinkel Deutschlands*, and rightly so; holdings of  $\frac{1}{40}$  of a hectare (say  $\frac{1}{16}$  of an acre) are not uncommon there. The following figures, borrowed from VON MIASKOWSKI,<sup>1</sup> relate to the year 1873, but the conditions are said not to have altered much since that time:—

PROPORTION OF TOTAL AREA UNDER CULTIVATION IN BADEN  
COMPRISED IN HOLDINGS OF THE UNDERMENTIONED SIZES.

Hectare = 2·47 acres.

Size of Holding.	Proportion per cent. of Total Area.
Less than 1·8 hectares . . . . .	10·7
From 1·8 to 3·6 hectares . . . . .	17·1
„ 3·6 „ 7·2 „ . . . . .	25·0
„ 7·2 „ 18·0 „ . . . . .	24·3
„ 18·0 „ 36·0 „ . . . . .	11·3
„ 36·0 „ and upwards . . . . .	9·0
Not accounted for . . . . .	2·6
	100·0

Thus, holdings of 7·2 hectares (say, 18 acres) or less occupy 52·8 per cent. of the total area under cultivation. The total number of holdings is 222,746, covering a total area of 797,600 hectares. Of these 222,746 holdings 72 per cent. occupy an area of no more than 227·313 hectares in all, an average of less than  $1\frac{1}{2}$  hectares each!

This is certainly not a satisfactory state of things,<sup>2</sup> but it

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strange to say, did not oppose the *Anerbenrecht*. He says that further consolidation is urgently needed. Nothing in what he has written supports this view, however.

<sup>1</sup> Part I. p. 287.

<sup>2</sup> One cannot help expressing cordial agreement with FRIEDRICH LIST, when he says: "Cultivation on the allotment scale is useful only as a supplement or stand-by to an industrial occupation, for purposes of market gardening, or vine growing in the neighbourhood of cities or market hamlets, or for helping to maintain the position of the day-labourer, for whom it serves at once as a savings bank and as a means of usefully employing his own spare time and that of the members of his family. If in any country it should go further than this, or perchance become the most usual form of cultivation, then it constitutes the most

is the result of a well-known cause. In the districts which we are now discussing the people do not live among their plots of land; they live grouped together in villages. Even the small holdings are still, to a great extent, made up of scattered patches. In Wurtemberg are to be found properties made up of 20 or 30 scattered patches, the combined area of which does not exceed one hectare (2·47 acres); in Baden there is a district of some 1,700 to 1,800 hectares divided into about 13,000 small fields. Is this not strongly reminiscent of the "open-field system," and is there not good ground for the presumption that the peculiar form in which small ownership presents itself in South-Western Germany at the present day may be traceable to a definitive distribution of mark or common lands? FRIEDRICH LIST himself, who spoke from personal observation, felt that this must be so. Of the system of minute subdivision of ownership (*Zwergwirtschaft*) he says<sup>1</sup> that it is "a daughter of the open-field system of cultivation by the village community"; and he would look for a remedy, not in the alteration of the law of inheritance, but in the consolidation, that is to say the rearrangement, of the scattered patches so as to form compact farms.<sup>2</sup> This seems to us to be the correct view, although it would be no easy matter to carry out LIST's idea.

In conclusion, we would add the following. A charge brought against the existing law of inheritance is, that in connexion with the liquidation of estates of deceased persons, it creates an inducement to mortgage the land. The *Anerbenrecht* creates this inducement to a far greater extent. The existing law certainly does not compel any of the heirs to take over the farm—it does not even invite them to do so; but the *Anerbenrecht* does. At the meeting of the *Verein für Socialpolitik* attention was directed to this point with a certain amount of insistence (by BUCHENBERGER), and the meeting was assured that the evidence of all investigations

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serious defect in the agrarian system of that country." See his article entitled *Die Ackerfassung, die Zwergwirtschaft und die Auswanderung* (1842), in Part II. of his *Gesammelte Schriften*, ed. 1850, p. 162. We think, however, that the expression "most serious" ought perhaps to be queried.

<sup>1</sup> *Die Zwergwirtschaft ist eine Tochter der Gütergemeng- und Dorf-Verfassung* (A. A. W.).

<sup>2</sup> *Op. cit.* pp. 157-158 and 170.

into the question had shown that the parishes in which farmers were most encumbered with debt were just those in which the *Anerbenrecht* was in operation.<sup>1</sup>

The subject abounds in material for discussion and cannot be exhausted in a work like this, where there is no room for a monographical dissertation on every point. We think, however, that we have said enough to warrant doubts as to the *Anerbenrecht* being productive of useful results. So far it has met with but little sympathy in Holland, and its introduction into Austria was not effected without strong opposition. This opposition is not difficult to explain. Unless the new law should remain a dead letter, it must seriously prejudice the interests of many people, and we are of opinion that its advocates have so far failed to make out a case sufficiently strong to justify ignoring this evil—for nobody can deny that it is an evil.

There are fears that, as the population increases, the average size of agricultural holdings must decline. Were this really the case, it would be an additional reason for denouncing increase of population as a bad thing, but not for altering the law of inheritance in the sense indicated above. Growth of population also exercises an adverse effect upon the level of

<sup>1</sup> *Schriften des Vereins für Socialpolitik*, No. xxviii. pp. 32-33. The following further sources of information on the subject of the *Anerbenrecht* may be mentioned:—(a) Dr. C. PYNACHER's paper read before the Dutch Law Society on the question, "Ought the Law of Inheritance to be amended? If so, in what respect?" (*Proceedings* of the year 1884); (b) Articles by W. J. N. LANDRÉ entitled "The Farmers' Law of Inheritance," and "A New Law of Inheritance for Farmers in Austria," both published in *De Economist*, the former in 1888 (pp. 217-233) and the latter in 1889 (pp. 562-583); (c) The report of the meeting of the Dutch Statistical Society of the 2nd July 1887, published in *Bijdragen van het Statistisch Instituut*, 1887; (d) Four articles by J. P. MOLTZER in *Sociaal Weekblad* of 1887, Nos. 30-33, on "The Law of Inheritance and Agriculture." Dr. TH. FREIHERR VON DER GOLTZ's remarks in *Die agrarischen Aufgaben der Gegenwart* (pp. 152-158) are also well worth reading; his conclusion is, that there are very great disadvantages connected with the *Anerbenrecht*, but that its application would be desirable in particular countries "for which it is peculiarly adapted." L. BRENTANO's opinion is still less favourable [*Agrarpolitik: Theoretische Einleitung* (pp. 112-128)]. He holds that the effect of the *Anerbenrecht* must be bad as regards the improvement of the land, inasmuch as it must cause the father of a family to hesitate about employing his capital for that purpose, lest by doing so he should still further prejudice the interests of the unprivileged children. The subject was also discussed at the 23rd Congress of German Jurists. See *Jahrbücher für Nationalökonomie und Statistik*, vol. lxxv. (1875) pp. 764-767.

wages; does that establish the necessity for a law under which an adequate wage shall be assured to some people at the cost of a corresponding reduction in the wages of all the others? The *Anerbenrecht* does just that and nothing more; it enriches one of the heirs at the cost of the others.

It has already been stated<sup>1</sup> that in every country with a rapidly increasing population a constant migration from the country to the towns is proceeding automatically. It may be that this migration is a necessary corrective against excessive subdivision of agricultural undertakings; it is a regrettable corrective for all that—every one knows the evil that attends this concentration of great masses of humanity in towns. What good can result from strengthening this movement? The welfare of particular localities is advanced in this way; but is that the only question? To avert the harmful effects of growth of population in a particular district by means of a law relating to the inheritance or the distribution of property may be desirable for that district itself, and may enable it to preserve an appearance of prosperity; we must not, however, limit our outlook to the particular district, and when we look beyond it we notice evils which the advocates of such legislation generally neglect to point out, although they are evils highly deserving of attention.

Nor is it borne sufficiently in mind that there are social forces at work counteracting the tendency towards subdivision of industries.<sup>2</sup> How is it that small factories are frequently supplanted by big ones, and that vessels of a capacity of five or six thousand tons, or even more, are launched? How is it that huge shops and stores are being erected and are making it impossible for the more modest class of establishments to exist? But, on the other hand, how is it that in numbers of trades the small works, the small shop not only continues to hold its ground, but, for the present, has nothing whatever to fear from large aggregations of capital? The answer is to be found in the law of the survival of the fittest. Competition tends to bring about such a grouping of capital and labour as shall enable the best results to be achieved at the smallest cost.

<sup>1</sup> P. 166, *ante*. Footnote 1.

<sup>2</sup> See BUCHENBERGER, *Agrarwesen und Agrarpolitik*, Part I. p. 435.

We know very well that this, like every other law, only indicates a direction—a tendency. Competition does, in truth, lead to the achievement of the object stated; but think of the obstacles which it has to encounter on the way, especially in the domain of agriculture! Capital on a large scale, for example, would probably find an advantage in buying out, one by one, the small proprietors in the south-west of Germany, of whom we spoke above; but only if it could be done at reasonable prices. So long as many of these people, because they retain an exaggerated attachment to their holdings, and overestimate their value, refuse to part with them at any price, so long will it be impossible to obtain any ring-fence lands in these parts, and the large capitalist will hold aloof. But similar or other impeding causes are operating in all directions; a perfect grouping of labour and capital is nowhere attained. Nevertheless it is undeniable that a force is operating to bring about such a grouping, and, in the domain of agriculture, that force does not fail to assert itself. We admit that years may have to elapse before it succeeds in improving a defective state of things; it finds it much easier, however, to keep a healthy state of things healthy, and this is all that is required of it in most of the countries of Europe. If an acre of land was more valuable as part of a twenty-acre farm than as part of a three-acre farm, it might be a long time before three-acre farms grew in size to twenty acres; but that acre, once it actually forms part of a farm of twenty acres, is very likely to remain so. The reader is already acquainted with our views as to the part that self-interest plays in production; to rely entirely on the play of self-interest is an absurdity. But it is quite as absurd to argue as if self-interest did not operate at all, or as if it were always blind. The school of *laissez faire* have shamefully misused arguments of the kind that we have been using here, and so have brought those arguments into discredit. But the school that now rules in Germany have fallen into the opposite error; they have lost all faith in the beneficial effects that frequently flow from the free play of demand and supply; therefore it is that we see them busy in so many departments with legislative measures, regulating, altering, and preventing to an extent that far exceeds what is necessary or even useful. We should be

careful to steer clear of the one error as well as of the other. We must avoid the superstition that all ills cure themselves; but we must be equally on our guard against the fallacy that no ill can be prevented without the intervention of State as physician.

On due consideration, therefore, of all the matters discussed in this and the previous section, the question whether, in the matter of land-tenure, it is desirable on economic grounds that a special law of inheritance should be substituted for the ordinary law, must be answered in the negative. In saying this we do not mean to suggest that, as regards landed property, any law of inheritance other than the ordinary law must operate harmfully; it would not be permissible, for instance, to say that the economic effects of the English system were wholly bad even for England. It has been shown, however, that that system is capable of yielding beneficial results only on condition that it brings the land into the hands of persons of a kind such as that to which, by good fortune, the majority of English landlords do belong; but we have also shown from the examples of Ireland, and partly of Scotland, that there is nothing to guarantee this fortunate condition for the working of the system. And as regards peasant holdings, we showed that a departure from the ordinary law of inheritance was in no way necessary or even desirable. In countries where all property is divided equally among the surviving children, this rule is found, on the whole, to give satisfaction; so far as we are able to discover, it constitutes no hindrance to production. And until the converse shall have been clearly proved to be true, there is no reason for advocating any other rule for the division of estates.

## § 7

### **Communal Land-tenure**

Our third problem relates to the attitude which the State should adopt towards the system of communal land-tenure. This system is still very general in many countries, especially Russia and various parts of Asia. There are, as we know, some people (SIR HENRY SUMNER MAINE and EMILE DE

LAVELEYE, are foremost amongst the number) who maintain that this is the oldest form of land-tenure, that from which all the other forms have been gradually evolved. According to others—including ROSS, SEEBOHM, INAMA-STERNEGG, FUSTEL DE COULANGES<sup>1</sup>—this is an error, or in any case a proposition still awaiting proof. This historical question is very important, but there is another question of far greater importance from the point of view of practical economics, namely, what are the changes which communal land-tenure has undergone? Have the rights of individuals grown stronger, or have they grown weaker, as against the rights of the commune? Have periodical re-distributions of the land, where practised at all, become more frequent, or have they become less frequent? Did the members of the commune originally possess rights in the whole of the land (*i.e.* was there communal landownership in the stricter sense?), and did this afterwards change; or was the possession by individuals of rights in the whole of the land a later development? The reader will see how instructive it is to examine these points and to trace the causes of such changes.

For Russia, to which country we shall in the main confine ourselves, there exists a splendid monograph. JOH. VON KEUSSLER'S exhaustive work<sup>2</sup> completely eclipses anything previously written concerning communal land-tenure in Russia; the chapters devoted to this subject by A. LEROY-BEAULIEU in his study entitled *L'Empire des Tsars et les Russes*<sup>3</sup> are, however, well worth reading, even after acquaintance with VON KEUSSLER'S work.<sup>4</sup>

Prior to the abolition of serfdom, the rights in the land

<sup>1</sup> See *L'Alleu et le domaine rural* [strongly controverted by E. GLASSON in *Les Communaux et le domaine rural à l'époque franque* (Paris, 1890)]; also the second of his *Questions historiques* (Paris, 1893), entitled *Le Problème des origines de la propriété foncière*.

<sup>2</sup> *Zur Geschichte und Kritik des bäuerlichen Gemeindebesitzes in Russland*, in three volumes, of which the first appeared in 1876 and the third in 1887.

<sup>3</sup> Part I. Livre VII. and VIII., and Part II. Livre II.

<sup>4</sup> For later literature the student will find it well worth his while to consult VON KEUSSLER'S two articles on Russia in the *Handwörterbuch der Staatswissenschaften*, vol. ii. pp. 226-247, and vol. iv. pp. 1185-1195. Also the articles by Dr. G. JOLLOS and M. VON SOBELEFF in *Jahrbücher für Nationalökonomie und Statistik*, vol. lvi. (1891) pp. 107-115; vol. lxxv. (1895) pp. 535-540, and vol. lxxvii. (1896) pp. 709-711.

which the peasants exercised were, from the nature of the case, only such rights of use as were conceded them by the lords.

After serfdom had been abolished by general law of 19th February 1861 (to which were added various special laws) those rights were formally recognised and defined, but they still remained, at first, rights of use only. To each community of liberated serfs was assigned a particular area of land for which the peasants were to pay rent to the owner, except in those cases where labour took the place of rent. The peasant might, it is true, purchase the farm together with its appurtenances, even against the will of the owner; but purchase of the rest of the land was possible only by free agreement between the two parties, or at the request of the lord, in either of which cases the State assisted in finding the purchase money. Not until twenty years afterwards did the Government realise that it was desirable to convert the rights of use into rights of ownership. The means by which this was effected consisted in the State paying the landlords the capitalised rent in the form of bonds, and making the peasants the owners subject to the condition of their redeeming their debt by forty-nine yearly payments. Shortly afterwards the same benefit was accorded to the "crown peasants." For both classes of peasants the duration of the annuities has been so fixed that the last of them shall become payable in the year 1931.

"Crown peasants" was the name given to the peasants on State domains. They were as numerous as those on private estates—some 22 million persons, male and female; their number has been greatly reduced through State domains being given away. A third class was that of the "Apanage peasants" residing on land belonging to the Imperial family. These had already been granted personal freedom two or three years before the laws of 1861, and under those same laws they acquired rights of ownership on conditions practically the same as those on which such rights were acquired by the other peasants in the years 1883 and 1887. They numbered about two million persons. All three classes of peasants were now placed on the same footing as regards their rights, but not as regards their economic condition. The conditions under which land could be acquired were more favourable for the

crown peasants than for either of the other two classes. On the State domains the State had no landowners to deal with.

After this brief statement of what was done for the peasant population of Russia in the years 1861 to 1887, we enter upon our subject—the system of communal land-tenure. This system is very widely applied amongst the Russian peasantry. It exists in all parts of Great-Russia. In that extensive tract of country, which comprises 18 of the 48 governments of European Russia, individual landowners represent scarcely 1 to 2 per cent. of the whole. Private landownership, on the other hand, exists in Lithuania and the three Baltic Provinces, also in the South and in what is called "Little-Russia," although here private ownership is mixed with other kinds, since in this part of Russia the commune as a rule exercises certain rights over the land. The law of 1861 contemplated only two forms of land-tenure, individual and communal; all intermediate forms it ignored. Moreover, it made the commune as a whole responsible for the fulfilment of all obligations towards the State. These two things had the effect of drawing the members of the commune into much closer bonds of union, and even of causing the system of periodical redistribution of the land to be revived in places where it had long fallen into desuetude. Communal land-tenure is more widely prevalent now than it was before; even in the parts where it seems not to exist, it does exist in reality. In the district of Kursk, for example, in the government that bears the same name, 48 per cent. of the landowners are described as "individual landowners." But if we look closely into their rights we soon discover that fundamentally the land system of the district is that of communal land-tenure pure and simple. For that in which the individual exercises his right of ownership does not consist of particular fields, but only of shares in particular areas of land, and these shares may at one time consist of one group of fields and at another time of another, according as may be determined by drawing of lots. This is certainly not individual ownership according to the usually accepted meaning of the expression.

Let us now enter a village of Great-Russia in order that we may learn something of its system of regulating land-tenure. At the very first glance the mediæval conditions of

Western Europe are vividly recalled to our minds.<sup>1</sup> We see before us that "open-field system" of which England and other countries found it so difficult to rid themselves, with its patchwork of fields, its rigid rules of husbandry, its triennial fallow, its common grazing lands, with peasantry living, not in the midst of their fields, but close together as they do in those South German villages spoken of in the last section. The land of a Russian village commune, whenever it reaches a certain area, is always divided into large sections, and the fields of any given section are assigned to a particular group of members of the commune; when the population of the village increases, it is usual to increase the number of sections. The allotment of the fields of a section among the members of the group is settled either by drawing of lots or by mutual arrangement, and each group is ruled by a headman chosen by its members. When the commune is so large that the services of a single shepherd would not suffice, each group has its own shepherd. The group, with its section of land, is, as it were, a commune within the commune. Note, however, that within the boundaries of the section the several fields assigned to a given member are never contiguous. Just as in the mediæval village—and probably owing to the same considerations of fairness, there being local variations of fertility—each section is divided into a number of subsections in which each peasant's fields lie scattered about.

There is periodical re-distribution of fields, but we have to distinguish between different kinds of re-distribution. Thus, there may be re-distribution among all the members of the commune, or among the members of a particular group only. There may be a re-distribution of the whole of the land, or the process may be confined to the fallow, that is to say to one-third of the tillage lands. (Wherever yearly re-distributions take place they are always confined to the fallow land.) Finally, the re-distribution may be such as to result in every field acquiring a new shape, or it may be such as will allow the fields to remain as they are, so that each patch retains its

<sup>1</sup> Prof. VINOGRADOFF of Moscow [now of Oxford], too, has been struck with this resemblance (*Villainage in England*, p. 236). It must not be forgotten, however, that in mediæval villages such a thing as periodical re-distribution of the fields was, as a rule, unknown. Communal land-tenure was, for the most part, confined to the waste lands. See p. 286, *ante*.

shape and merely passes into other hands. The more thorough the re-distribution that is needed, the greater the tendency to defer it, and to make shift with a partial re-distribution. When partial re-distributions are frequent, however, they are productive of inconvenience, in so far as they tend to increase the extent to which any individual's holding consists of scattered patches. It is found, for instance, that one peasant, A, ought to have more land than heretofore, and that another, B, ought to have less. But if to A there be given a portion of the allotment hitherto held by B, the probability is that that portion will not border upon one of A's fields, so that A's holding will be even more scattered than before. After frequent partial re-distributions, a general, radical re-distribution becomes absolutely unavoidable.

As regards the frequency of their general re-distributions, there is great diversity amongst the Russian communes. VON KEUSSLER gives us the following table<sup>1</sup> showing, with reference to 4,449 communes in the Government of Moscow, how many general re-distributions took place in the twenty years 1858-78 :—

Once in 1655 communes or 37·2 per cent.	
Twice in 1879	42·3
3 times in 395	8·9
4 times in 110	2·4
5 times in 72	1·6
6 times in 338	7·6

Frequent general re-distributions are the exception in the case of tillage lands—for pasture land the rules are different ; indeed, there are districts where general re-distribution hardly ever takes place now, where reserve lands have been constituted so that it may be possible to satisfy the wants of newcomers, or of persons needing larger holdings, without having to disturb the others. There are, however, as the table shows, communes to which all this does not apply.

What is the explanation of this important difference ? Why is not the same principle applied in all communes ? Local customs do not furnish an adequate explanation ; the cause lies deeper. In order to be able to indicate it we must explain two

<sup>1</sup> *Op. cit.* Part II. 2nd half, p. 143.

things—one is the principle, or standard applied in making the distribution; the other is the inequality of the gains that accrue from the possession of a given share of the land. The two things are related.

The standard of distribution may be either “per mouth,” that is, according to the number of persons to be fed, or “per brother,” that is, according to the number of labourers in each family; the most usual mode of reckoning, however, is “per soul.” In the Russian commune the “soul” is the reckoning unit. It has become so under the operation of the poll-tax which Peter the Great introduced, and which was abolished<sup>1</sup> as from January 1st, 1886 (in the case of crown peasants a year earlier), under circumstances of national rejoicing.

Certainly no people have ever been subjected to a tax that showed less regard for individual ability to pay. That principle was, in fact, wholly ignored. Whatever the number of persons, old and young, that lived in a commune, for that number the commune was assessed at the rate of  $1\frac{1}{5}$  roubles per head for the burghers and  $\frac{4}{5}$  of a rouble per head for the peasants.<sup>2</sup> For purposes of this tax, a census was taken in the years 1718-1722, and on nine subsequent occasions—the last in 1858. The number of “souls” in a commune might increase or it might decrease; the sum for which that commune was liable remained the same until the next enumeration (or “Revision,” as it was called) had taken place. Payment was exacted according to the number of “souls” on the Register, and the longer a new census was deferred the greater the number of disparities to which that system gave rise. In prosperous communes the increase of population is naturally greatest; decline of population, as a rule, connotes decline of wealth. When, therefore, many years were allowed to pass without a new census, the burden became heaviest in those places where the individual ability to bear it was relatively smallest.

The poll-tax has helped much towards the development of the system of communal land-tenure; indeed, that system has acquired one of its leading characteristics from this tax. Previously the commune possessed, it is true, a certain amount

<sup>1</sup> Except in Siberia. There the poll-tax is still in operation.

<sup>2</sup> There were numerous exceptions in the case of members of the nobility, university graduates, etc.

of power in matters relating to the land ; it had control over the undivided land and the vacant farms ; it determined boundary disputes, performed the technical work in connexion with the periodical re-distributions, and fixed rules as to the mode of cultivation. It had, however, no proprietary rights in the land : in these, each member of the commune had, in virtue of his membership, a share. The feudal system, which, as we know, was not introduced into Russia before the end of the sixteenth century, increased the power of the communes, but otherwise left matters in the condition just described. It was through the operation of the poll-tax that a change was first brought about, since the commune as a whole was made responsible for that tax, such responsibility being to the Government in the case of crown peasants, and, on private land, to the lord of the manor, who stood surety to the Government for the amount of the tax being duly forthcoming. In these circumstances it became necessary to make sure of the tax being paid by every person, and the most effective means to this end was for all to be accorded equal rights in the land. VON KEUSSLER considers it capable of demonstration that the Russian system of communal land-tenure, in the form in which we know it, originated in this way.

It will be observed that the law of 1861, radical though it was in many respects, followed historical lines in one very important respect : it made the Commune as a whole responsible for the fulfilment of the obligations of each of its members towards the State. And for that very reason its influence in promoting communal land-tenure was as great as that of the poll-tax. A Government that taxes the Commune, and not the individuals of which the Commune is composed, is not likely to look with disfavour upon communal land-tenure if it happens to be the system in operation amongst those individuals.

Thus it was that among the Russian peasantry the "soul" has come to be the accepted reckoning unit for the purposes of land re-distribution ; advantages and burdens must go hand in hand. But does this mean that a family consisting of six persons always gets three times as much land, and has to pay three times as much taxes, as a family of two persons ? Many people have thought that the system worked out in this way, but that is because they have confused the reckoning unit

with the standard of distribution. It is true that the Russian peasants reckon per "soul," but some are deemed to represent more, and others less than "one soul"; some, indeed, do not rank as "souls" at all, by which, of course, is meant that they are not entitled to any land, and consequently have to pay no taxes. Due regard is had to the circumstances of each family, to the ages of its members, their physical powers, their means of production—in short, to their ability to labour. It has to be remembered, too, that the number of "souls" on the Register is not the real number. LEROY-BEAULIEU gives an example of a commune composed of 493 inhabitants, of whom only 212 were on the Register.<sup>1</sup>

There is great disparity among the communes of Russia as regards the relative advantages and burdens. In this respect some improvement was effected by the abolition of the poll-tax, but not enough, since that tax was not the sole cause of the disparity. Great mistakes were made at the time of the liberation of the serfs, both by the Government and by the peasants themselves.

As regards the Government, the mistakes consisted in not assigning enough land to the peasants and in laying excessive burdens upon them. The country, in so far as it was inhabited by serfs, was divided into 29 districts, for each of which there was fixed a maximum area of land which the peasants were to be allowed, and a minimum area which they were to be required, to take. These areas were, however, for the most part too small: far smaller than had been desired by the best advocates of the peasants' interests, especially as regards grazing land; nor did the areas comprise any forests; the land, moreover, was somewhat poor in quality in parts. Then as to the burdens. The redemption sums consisted of  $\frac{4}{5}$  of the rent capitalised at 6 per cent.<sup>2</sup> and divided into 49 annuities; but that rent was in most cases fixed at far too high a figure, with the result that the annuities also were far too high.<sup>3</sup> The peasants, too, made mistakes. The

<sup>1</sup> See his description of the economy of the commune of Arachine in *L'Empire des Tsars et les Russes*, Part I. pp. 534-537.

<sup>2</sup> Where the peasant himself applied for redemption, the full capitalised rent had to be paid.

<sup>3</sup> The payments due from the peasants were, however, reduced by 12 million roubles at the cost of the State, under the law of December 28th, 1881,

law had provided that an owner might rid himself of all his obligations towards his peasants by making over to them as a gift one-fourth of the maximum area of land which they were entitled to demand. In various districts the peasants allowed themselves to be persuaded to accept this arrangement, with the result that they obtained even less land than those in other districts.

We now return to the question as to how it is that re-distributions of the land are more frequent in some communes than in others. The answer is contained in what has just been said: the principal reason is, that the measures taken in pursuance of the Emancipation Law proved less favourable to the peasantry in some places than in others. With his share in the land the peasant assumes responsibility for a proportionate share in the taxes and redemption annuities, all payments due from him being consolidated into a single sum. Now the gains derived from the occupation of a holding may be so great as to cause the burdens that accompany such occupation to be relatively insignificant; but the converse is also possible, and is, in fact, very frequently true. In the former case occupiers will not be anxious for a re-distribution, since, owing to the growth of the population, their holdings would be sure to be reduced. If they are no longer able to work, or if they find the holding too large to be worked by the family, they either sublet some portions of it, or else they employ day-labourers; they are reluctant to part with any portion of what they hold. In the second case, however, they press for a re-distribution at the earliest possible opportunity; for the one thing they desire is a reduction in the size of the holding that determines the amount for which they are liable in respect of taxes and annuities. They would like best of all to leave the Commune for good. A peasant can only obtain permission to do this, however, on the condition that he pays to the State in a lump sum one-half of the debt attached to his holding, and that the Commune accepts liability for the payment of the other half. For a peasant to abscond secretly is difficult, since in that case he would have no passport.

The reader will probably by now have noticed the points which we have been most concerned to elucidate; they are those from which one can see what are the causes that help to perpetuate communal land-tenure in the more restricted sense, and what are the causes that tend to transform it gradually into private land-tenure. Among the former are heavy burdens and communal solidarity; among the latter, whatever makes for the prosperity of the population. Experience has proved this clearly in Russia in the past, and still continues to do so, day by day. There are districts where communal land-tenure scarcely exists except in name; where, at any rate, it has lost the character which it acquired through the introduction of the poll-tax;<sup>1</sup> there are the districts where the interests that are antagonistic to periodical re-distribution of the land are growing stronger day by day. There are other districts where communal tenure shows none of the signs of decay. Much has been written concerning the influence of communal land-tenure on welfare; the influence of welfare on communal land-tenure offers an equally interesting field for investigation, and one in which the truth is much more quickly ascertainable. This form of land-tenure may lead to impoverishment, or it may not; but that poverty perpetuates it is quite certain. And even then the system is useful up to a certain point. VON KEUSSLER puts the question: "Without the support of the communal life, how could the poor Russian peasants have maintained their existence under the heavy burden of poll-tax and annuities which has been weighing upon them ever since they obtained their dearly-bought freedom? Would not most of them have sold their land for next to nothing, simply in order to be rid of this heavy burden?" The question admits of only one answer; an answer that proves nothing in favour of communal land-tenure as such, but only shows that under abnormal circumstances that system may serve a really useful purpose.

When all these things are considered, the question as to what attitude the State should take up in regard to the system of communal land-tenure almost ceases to appear as a problem. A nation in course of vigorous development

<sup>1</sup> Cf. *inter alia*, VON KEUSSLER's observations in the *Handwörterbuch der Staatswissenschaften*, Part IV. pp. 1189 *et seq.*

spontaneously outgrows that system. The periodical redistribution of the land then falls into desuetude; there are evolved rights in the land which every one respects, and these rights acquire a purchase-value, so that ultimately they need but another name in order to be rights of ownership in all respects. The question as to whether the possession of the land by the people in common checks the improvement of the land, and for that reason operates to the detriment of production, has to be viewed in the same light. For the improvement of agriculture three things are needful: the people must be convinced of the desirability of such improvement; they must have both the determination and the knowledge how to act up to this conviction; and they must not be cut off from the material resources for enabling them so to act. If these three things, or indeed any of them, be lacking, there will be no improvement, no matter what the system of land-tenure may be. Where, on the other hand, these conditions are present, everything that stands in the way of improvement soon becomes an obstruction which the people will no longer tolerate. Peasants who are keen, skilful, and possessed of capital, whose habit it is to treat their land as it ought to be treated, will no longer tolerate a system under which they may at any time be required to vacate it for other land that has, perhaps, been cultivated according to wholly erroneous principles. They agitate for a lengthening of the periods of tenure; ultimately, however, no mere extension of the period of tenure contents them, and the acquisition of individual rights of ownership becomes the goal towards which they strive.

We do not contend that in all this the State can afford to remain passive. There are various features characteristic of communal land-tenure (such as the lack of contiguity of the fields that constitute a given holding) which give rise to difficulties that can only be removed by legislative measures, and the State must not fail to have recourse to such measures so soon as they become necessary. The English Enclosure Acts, especially the last General Act, alluded to above, as well as the corresponding German laws would serve as models. It will be necessary to see that majorities be not obstructed by minorities; but care will also have to be taken lest the latter

be oppressed or prejudiced in their interests by the former. We only wished to show that, as regards communal land-tenure, the State can adopt a waiting attitude. If it abstains from doing anything to foster the system, either by imposing excessive taxes, or by making the Commune as a whole responsible for the taxes; if, at the same time, it promotes the material welfare of the people, so far as it can, and exerts itself in developing their intelligence, then it will already be helping to bring about the transformation of communal into private landownership. The moment at which it behoves the State to go a step further will declare itself in due time. All that the State has to do is to note the signs and, when the right moment has arrived, to act with discretion.

In expressing these views we have the support not only of the history of communal land-tenure in Russia, but also of that of the same institution in Java. For that colony we possess a source of information in no way inferior to VON KEUSSLER'S monograph in point of wealth and trustworthiness, namely, the Final Summary of the Inquiry undertaken by order of the Government, dated June 10th, 1867, into the rights of natives to the land in Java and Madura. This summary, which was published in Batavia (Part I. in 1876, and Part II. in 1880), was prepared by Dr. W. B. BERGSMAN, then chief of the Division of Statistics. To any one consulting this work nothing appears so striking as the similarity of the results produced by similar causes in Russia and in Java. The pressure of the burdens laid upon the people of that island by the Dutch Administration at the time of the "Cultivation"<sup>1</sup> System (and not due to that system alone, but also to the many feudal services that were exacted) is, unhappily, a matter of common knowledge. Now, under the operation of this pressure, communal land-tenure spread very much; it extended even to districts in which it had not previously existed. We know, of course, that in some measure this was due to direct intervention on the part of officials who, for the purpose of regulating the cultivation of certain kinds of crops, found it convenient that there should be periodical redistribution as a means of rendering the Cultivation System less burdensome for the people. But this was not the only cause.

<sup>1</sup> [See Notes at end of this volume.—A. A. W.]

"In addition," we are told in this document,<sup>1</sup> "the forced services, rendered so much more arduous by the necessity of labouring both in field and factory, fostered a strong desire for equal distribution of advantages and burdens; a desire which the farmers, who themselves owed such services, therefore translated into demands in certain districts (*desás*)."<sup>2</sup> The people "knew of no other means of equalising the burdens of the constantly increasing services." Of the Banyumas Residency it is reported that "those services were at first so regulated that the extent of each person's liability was in proportion to the area of his holding, but seeing that the services proved too heavy for those who had many rice-fields, these people themselves asked for equal distribution."<sup>2</sup> And since the burden has been reduced, a movement in favour of individual ownership has become manifest in places where previously it was lacking. Concerning the Residency of Bagelèn we read: "It must be admitted that among the native community there are signs of a desire to advance in a direction leading ultimately to individual ownership of land. Although the conversion of communal into private ownership has not yet been sanctioned in any part of Bagelèn, the beginnings of such conversion are already discoverable in those districts where a share in the communal fields goes with the possession of an hereditary estate, and where it is just as little liable to change of ownership as is the latter. Thus, although private ownership of the tillage lands has as yet no legal existence, it is slowly acquiring all the appearance of formal legality."<sup>3</sup> And concerning the Residencies of Rembang and Pelealongan we are told that: "When the circumstances that had given rise to the existence of communal land-tenure ceased to occur, the old *adat*<sup>4</sup> was once more revived, so that not only did no new re-distribution take place, but the newly reclaimed lands were allowed to remain the private property of those who first held them, instead of passing into public ownership after having been privately occupied for a few years, as was the case in other places where communal ownership had been introduced.

<sup>1</sup> Part I. p. 303.

<sup>2</sup> P. 205; cf. pp. 78, 125, 143 *et seq.*

<sup>3</sup> P. 139.

<sup>4</sup> [A Malay word, meaning customary law.—A. A. W.]

And things seem to have followed a similar course elsewhere in many places; for example, in the Tegal Residency."<sup>1</sup>

There are two things that one has to keep clearly in view in reading these passages. The first is, that in Java the burden of taxation is still heavy owing to the large expenditure for the army and for public works in recent years. The second thing is, that throughout the greater part of Java the system of assessing the village as a whole for the land tax is still in operation; individual assessment obtains only in the Preang Residencies. Can it then be said that there are no grounds for believing that if a change were to be made in these two respects: if the taxes were to be reduced, and assessment per individual—or better still, we think, per field—were to be substituted for assessment per village, communal ownership would gradually give place to private ownership? We cannot doubt that it would, and we should regard it as a step forward.

Can it be that we are wrong in so regarding it? There are still people—in Russia more especially, there are many—who will not admit that the change from communal to private ownership is in the line of progress, and who declare themselves greatly in favour of the former. The reason for their preference is, that they regard communal ownership as a means for preventing the impoverishment of the lower classes. Some go so far as to deplore the fact that this system of land-tenure scarcely exists any longer in Western Europe. They invoke the historical theory referred to at the beginning of this section according to which all landownership in our hemisphere originated in the Free Mark. A return to this "primitive" condition is what we all should aim at, and that would be real progress.

That there really is a grain of truth in this observation has just been shown. But from the moment when we regard communal ownership as affording, in general, a guarantee against impoverishment, we deceive ourselves. In the first place, it prevents the population from spreading. So long as a peasant continues to derive any profit from the retention of his holding, he will be reluctant to give it up. Secondly, in villages where the system of communal land-tenure obtains,

<sup>1</sup> Pp. 301-302.

the disparity of wealth is far greater than people usually suppose. Constantly, and with increasing frequency, one hears in Russia of rich peasants (*Miroyedi*, or devourers of the commune, as they are called) who, by lending money to their impoverished cō-villagers at a usurious rate of interest,<sup>1</sup> reduce these poor people to a state of dependence and get possession of their holdings for a trifling consideration. Of course, the holdings so acquired can only be retained until the date of the next re-distribution of the land, but these are just the people who exert all their influence to ensure that such re-distribution shall be deferred as long as possible.<sup>2</sup> People who have squandered or gambled away their capital, or lost it through misfortune, can no more carry on the business of agriculture under the system of communal land-tenure than they could under the system of private ownership; they must earn their living in some other way. That explains the existence in most Russian villages of a class of persons called *Bobyly*, who have no share in the land; these are the people who do not count as "souls," who share neither in the advantages nor in the burdens of the community.<sup>3</sup> Now it is true that such people may, at some future time, recover their right to a share in the land, but it has been shown what this right amounts to in practice, even in cases where it is worth anything at all. The causes of social inequality lie far too deep and are far too potent to permit of their being counteracted by any artificial means. Even the most drastic measures would scarcely prove adequate. And supposing that the most drastic measures were adopted—if, for example, a law were to be enacted insisting that in all villages with communal land-tenure there must be periodical re-distribution of holdings, and if the Government were really able to perform the difficult task of enforcing such a law, then the remedy would be worse than the evil.

There are two further points on which we wish to touch before leaving this subject. The first relates to the question as to what has been the experience of Russia in the matter of concentration of landownership; and the second, which is not

<sup>1</sup> Sometimes 10 to 12 per cent. per month, according to LEROY-BEAULIEU (*op. cit.* i. p. 543).

<sup>2</sup> VON KEUSSLER, *op. cit.* Part III. p. 337.

<sup>3</sup> VON KEUSSLER, Part II.; 2nd half, p. 242. LEROY-BEAULIEU, Part I. p. 545.

altogether a question of economics, has to do with the powers of the Russian Village Commune in relation to its members.

At the end of our last section we disputed the position of those who hold that there is a fixed natural law under which the ownership of the soil is subject to a constant process of subdivision. There is another opinion, diametrically opposed to this, namely, that there is a historical law according to which the system of small holdings must, in the long run, give way before the competition of large capitalists and so disappear automatically. We are unable to agree with the second of these opinions any more than we could agree with the first. The "historical law" exists only in the imagination of those who invoke it. As regards the distribution of property in land, history affords no evidence of a common evolutionary process. The process has differed widely in different countries, and has always depended upon circumstances. In England, peasant ownership has given way to the system of large estates; a circumstance which, to a great extent, is to be explained by the fact that English farmers saw more advantage in being tenants than they did in being proprietors. In France things took just the opposite course: we have shown to what an extent the system of peasant ownership had already developed in that country even before the Revolution.

What is happening in Russia at the present time? Which of the two is proving the stronger in the struggle for the ownership of the soil—the peasant or his former lord? An extensive Inquiry was made into this subject in 1878; reports were received from 25 persons with reference to forty districts. From these we learn that manorial lands are not increasing at the cost of peasant lands; that, indeed, the converse is taking place. In the government of Tver the number of manorial estates farmed by the proprietors themselves has declined from 2,860 to 1,802. In the government of Tula the area of such estates has declined from 5,604,282 to 2,884,950 acres. The decline was not so great in other parts, but everywhere it was noticeable. Of course, the purchasers of the land that came into the market were not always individual peasants or village communities—in Tula they were mostly traders—but frequently they were. In Tver no less than

1,294,772 acres passed into peasants' hands, while more than half of that amount (671,404 acres) became the property of 12,609 persons.<sup>1</sup> Such a course of things is certainly noteworthy.

It does, however, seem to have been necessary to protect the small people against persons of their own class; against peasants anxious to increase their holdings; against usurers ready to take advantage of the ignorance, the carelessness, the necessities of their victims. The general law of 1861 contained a provision (Article 165) under which any peasant might redeem the debt that rested upon his holding, in which case the Commune was required to make over to him that holding as his private property. Peasants have availed themselves of this clause to no small extent; up to the year 1887 indebtedness of this sort had been redeemed to the amount of £1,421,000. On December 14th, 1893, however, a law was enacted for the purpose of preventing this. It provides that communal land may only be sold with the consent of a two-thirds majority of the Communal Assembly, and subject to the approval either of the Central Government (where the purchase price exceeds 500 roubles) or of a Lower Government Authority (where the price is 500 roubles or less). Nor may this land be sold to any but members of the Commune. VON SOBOLEFF, who supplies a description and a criticism of this law, terms it inadequate; and of the clause prohibiting the sale of the land to any but members of the Commune, he says that it is "senseless, inasmuch as it is the peasants themselves who practise usury in connection with the land, and who spread their nets over the members of the same Commune."<sup>2</sup> From this he concludes that the danger which it is desired to avert does not threaten from the side of the great landed nobility. The law seems, nevertheless, to operate beneficially, since it places an obstacle in the way of reckless selling of peasants' holdings.

The second point is no less worthy of attention, since it warns us of a great danger which it would be necessary to

<sup>1</sup> VON KEUSSLER, Part II. 1st half, pp. 98-101. With regard to the peculiar manner in which the communes purchase land, see Part I. 2nd half, pp. 223-236, and Part III. pp. 327-330. See also LEROY-BEAULIEU, Part I. pp. 573-577.

<sup>2</sup> *Jahrbücher für Nationalökonomie und Statistik*, vol. lxv. p. 540.

guard against if ever the ideals of the socialists were to be realised. The Russian Village Commune does not, of course, fulfil those ideals in every respect, but it does fulfil them to some extent, and in a measure sufficient to enable us to realise with what serious danger individual liberty is threatened when the political authority becomes identical with the authority for administering economic affairs; in other words, when the Government is armed with the powers which, in the nature of the case, it must possess for the proper fulfilment of the mission with which the socialists would invest it. Formerly the peasant had to submit to his lord; now he is delivered over to the caprice of the Village Commune: for its tutelage is absolute. All matters concerning the Commune are decided by the Village Assembly; only in certain cases is a two-thirds majority necessary—in most cases a bare majority will suffice. It is there that the *Miroyedi*, to whom we alluded above, make their influence felt; for they are accompanied to the meetings by their clients, supported by whose votes they carry whatever measures they want. Elsewhere it is the idlers and drunkards who constitute the majority, and everything must yield to their will.<sup>1</sup> When we consider what important interests are often at stake at such meetings, we can form some idea of the harmful consequences that often result from such a state of things: consequences which it is seldom possible to avert altogether, since there are no means of tying the hands of the Communal Authorities. Communal land-tenure makes it necessary to frame many rules by which the property rights, the weal and the woe of large numbers of persons are affected. Those who are entrusted with authority to make such rules—it matters not who they be—possess great power. Little room is left for the exercise of individual freedom. The individual is absorbed—and must of necessity be absorbed—in the community, otherwise the utmost confusion would ensue.

Russia, accordingly, has come to recognise the necessity of limiting the power of her Village Administrations. The first step in this direction was taken as long ago as the year 1886, but her strongest measure was the law of July 12th, 1889, for

<sup>1</sup> See VON KEUSSLER, Part I. p. 215, and LEROY-BEAULIEU, Part II. pp. 28-29.

the appointment of District Magistrates and of District Councils composed entirely of members chosen from among the class of great landowners and higher officials, and to whom great authority has been entrusted. Thus, under a law dated August 3rd, 1893, the re-distributions referred to above cannot take place without the approval of the District Magistrates. The same law laid down stringent rules concerning re-distributions of common lands.<sup>1</sup>

There is thus sufficient reason, we think, for welcoming with gladness a development in the direction of private ownership, and for the State to give encouragement to whatever may, under such a development, be found necessary. Active intervention is no part of the duty of the State in this matter; nor is there any need for such intervention. The State will already, as we have said before, be exercising sufficient influence for good if it does what it can for the advancement of the welfare and civilisation of the people. Welfare and civilisation—these are the most effective, and, in fact, the only means by which one may hope to achieve beneficial results in this domain. The solution of the problem that we are now discussing is this: so to govern the people that communal ownership may, of its own accord, cease to retain its principal characteristics, and a new state of things may be created, which it will only remain for the State to recognise, to regulate and to perfect.

One cannot discuss communal land-tenure without thinking of the undivided "mark" or common lands of which there are still large areas in some countries, and which were once very numerous in Holland. In the province of Drenthe, for

<sup>1</sup> It provides, for instance, that the Communal Ordinance regarding the re-allotment must specify the term for which the re-allotment is to hold good, and that such term must not exceed twelve years. No allotment must take place during the term, except in special cases, and with the consent of the District Council. Another regulation of equal importance is, that at each re-allotment peasants who have improved their land shall, so far as possible, have the same fields re-allotted to them, or else others of equally good quality. Should neither of these things prove practicable, then such peasants shall be entitled to compensation in the form (say) of a reduction of the taxes by an amount to be determined by mutual agreement. See Russian Official Gazette, 1893, No. 113, containing the text of this law, for a translation of which I am indebted to Mr. F. G. KRAMP of Amsterdam.

example, at the time of the introduction of the Real-Estate Register in 1828, there were still 116 marks or commons, of a total area of 312,000 acres, or half the entire province. By December 31st, 1860, 76 of these had already been distributed. Such distributions, however, involved great expense and trouble; accordingly, on May 10th, 1886, a law was enacted making rules for "facilitating the distribution of mark lands." Under this law any member of the mark has a right to insist upon such distribution being made. To exercise this right he must, in the first place, cause legal notice to be served on the Board of Administration of the mark, requesting that body to cause the distribution to be made. Within a month of receiving such notice the Board convenes a meeting of all the members of the mark in order that they may record their votes for or against the proposal. Should the proposal be rejected, or should it not be carried out within two years of its being accepted by the meeting, the member who made it may apply to the District Court; this Court then orders the distribution to be carried out, and appoints a Judicial Commissioner, under whose direction the matter is completed, after all reasonable claims have been duly considered and the parties concerned have been heard. The Commissioner is assisted in his work by a Board composed of three or five persons (so far as possible members of the mark) together with a surveyor, all of which persons he himself appoints. Those people who possess a right to the use of the mark only by reason of domicile—people, for example, who, because they live in a particular parish are entitled to put out their sheep to graze on the mark—are not allotted any share in the land, since they are not co-proprietors; their interests, however, receive due consideration. "To the parish or part of the parish from which, in their quality of inhabitants, such persons derive their right of grazing and the like, there shall be allotted one-third part of the share that would have accrued to them had their rights been those of ownership." The land available for distribution among the full members of the mark is then less by this one-third part.

In so far as this law had no other purpose than that of promoting the distribution of mark lands, it has proved a success, for in a short while the last of these lands will have

disappeared. Like the Prussian law of June 7th, 1821, the Dutch law recognises the right of even an individual member of the mark to demand that the land be distributed; by a later law (of July 23rd, 1838), this right was somewhat restricted<sup>1</sup> in Prussia, but it was not considered necessary to make a similar change in the Dutch law. The question was indeed debated as to whether excessive rights were not being accorded to an individual member of the community. To this question, however, the true answer was returned, that the other members, if they were unwilling that the mark should be divided up, might easily agree to form a joint-stock society for the working of their holdings in common, as had frequently been done.<sup>2</sup> The Dutch legislator, it must be owned, was very radical in this matter; in fact he strictly applied the rule of the Civil Code, under which a co-owner can always demand a partition. But had he any alternative? Having once conceded rights to minorities, why not accord to each individual the right to insist on the land being divided? Between the two things there was no fundamental difference.

A more serious objection might be urged against this law, were it possible to show that under its provisions too little consideration was given to the reasonable claims of the small man, who, although not a co-proprietor of the mark, had nevertheless certain interests in it in common with others. It will be remembered that under the earlier English Enclosure Acts the claims of such persons were very much neglected, with the result that the interests of numbers of people were violated.<sup>3</sup> To the credit of the Dutch law of 1886 it must be said that it has managed to avoid this grave defect: it has solved the difficulty by assigning a part of the mark to parishes in which there reside people who possess rights of use in the mark. So far nothing has come to light from which it could be inferred that this rule fails to answer its purpose.

Every reform is attended by certain drawbacks, and the one which we are now discussing is no exception to this rule.

<sup>1</sup> The restriction is contained in the clause providing that "when the distribution would involve exchange and consolidation of certain lands, it must, as a rule, be agreed to by the owners of at least one-fourth of the area of the tillage lands that would be affected by such exchange." See A. BUCHENBERGER.

<sup>2</sup> See *Tijdschrift der Nederlandsche Heidemaatschappij*, 1896, No. 6, p. 111.

<sup>3</sup> [See *The Village Labourer*, by HAMMOND, 1911.—A. A. W.]

We agree unhesitatingly with Dr. CARL BÜCHER when, in his German edition of LAVELEYE'S well-known treatise on property and its original forms,<sup>1</sup> he maintains that from a moral as well as from an economic point of view, the undivided marks possess some advantages. They do, however, constitute an obstacle to the spread of agriculture, to the extensive cultivation of the soil, and this is too important an interest to be neglected for the sake of advantages that are relatively small. The advantage should be very great, very real indeed, to warrant such neglect. With a rapidly growing population, the increase of the area of land under cultivation is not a matter of secondary importance. Even from a moral point of view it is desirable that the pressure of the causes that drive the rural population to the towns should be reduced so far as it can be reduced without prejudice to other interests. For the sake of such an object it behoves us to ignore drawbacks that would otherwise have to be treated as serious.

From this it follows, however, that the distribution of mark lands ought to be effected in a manner calculated to assist improvement. It must not be effected in such a way as to place all power in the hands of majorities that may be composed of persons who are guided by considerations wholly foreign to the promotion of agriculture. Were the law regulating the distribution of mark lands to be guilty of this error it would be open to serious objections.

Now this is the very objection that is urged against the Dutch law of 1886. Some of the partitions must have been effected on such terms as to render the improvement of the distributed land an impossibility, but the improvement of the land was not what was aimed at; all that people wanted was to acquire private ownership of grazing fields. Strips were formed which, as seen on a map, are strongly suggestive of the spiders'-web pattern of the open-field system. In many cases neither roads nor drains were constructed.

These mistakes would have been avoided if the carrying out of the law had, as in England, been entrusted to commissions of experts.<sup>2</sup> The approval of the Communal Authorities was found in many cases to afford no adequate safeguards.

<sup>1</sup> *Das Ureigenthum*, Leipsic, pp. 160 *et seq.*

<sup>2</sup> Cf. *ante*, p. 240.

## § 8

**Landlord and Tenant**

We now come to the last of the four questions that we have put to ourselves. Ought the State to interfere in the relations between landowner and tenant, or may it leave these relations to be determined by the working of the ordinary laws of supply and demand? The question needs to be stated in less general terms, for it is obvious that the laws of every country must lay down rules as to contracts for hire: in the Dutch Civil Code they are to be found in the Seventeenth Chapter of the Third Book. But the rules of the Dutch Civil Code are merely intended as a guide in cases where the agreement between the parties is incomplete. To give an example. Article 1629 says: "If the hire be concluded for one year only, and the harvest be lost either wholly or to the extent of one-half, then the hirer shall be dispensed from the payment of the whole rent, or from a proportionate part thereof. Where the loss amounts to less than one-half the hirer shall not be entitled to any abatement." Under this rule a yearly tenant can claim an abatement on the rent in the event of a partial failure of his crops, where the agreement contains no mention of the subject. If, however, the agreement should contain a clause under which the tenant waives this claim, then the rule of the Civil Code loses all validity so far as he is concerned.

In Holland, therefore, the State does not intervene in the relations between landlord and tenant. All it does is to say how it wishes the agreement between landlord and tenant to be interpreted in respect to those points of which no mention is made in the contract; but to the parties concerned it leaves absolute freedom to agree to whatever terms they may think fit. Subject, of course, to the general rule that all stipulations to do what is impossible, or contrary to good morals, or in contravention of the law are void, and that any agreement based on such stipulations is worthless (Article 1290 of the Civil Code).

That is how the matter stands in Holland, and that is how it stands in most other countries. Objection has, however, arisen of late in different quarters against the absolute liberty

which the landlord enjoys under this state of things in determining the terms on which he will allow another to use his land. Many people think that this liberty ought to be restricted; that the permissive clauses of the law should be replaced by imperative rules. It is even suggested that tenant-rights should be inheritable; that rents should be fixed by Commissions appointed by the Government; that the landlord should be compelled to compensate the tenants even in respect of improvements which they have made without consulting him. Were each of these demands to be conceded, then rights of ownership in land would become very restricted rights, greatly resembling those with which Irish landlords have had to put up with since 1881.

There is something very noteworthy, therefore, in the spirit in which proposals based on these ideals are received even among the classes whose interests they might be said to threaten. One would expect that in such quarters they would be rejected *a priori*, as being contrary to time-honoured principles and rules; instead of which we find people considering them on their merits in a spirit of serenity and detachment.

This is a remarkable sign of the times, to which we feel we must draw attention in the first instance. The storms of socialism and communism have swept across Europe and have left the outstanding features of our social system unchanged. The old oaks still remain, although they have lost a few of their branches and in some cases their crowns. But though the institutions have remained unchanged, it is obvious that we ourselves have not. The eye with which we study them, the standpoint from which we observe them is no longer the same. They still remain the object of our reverence, nor would anybody who sought to uproot them receive either help or support from us. This reverence, however, no longer amounts to a blind worship; it is mingled with a tendency to criticise. When BASTIAT speaks of a "natural" quasi-divine order of things, to which it is our duty to submit, he speaks a language that we no longer understand. We value our social institutions because we consider them useful, and solely for that reason; their antiquity does not blind us to the fact that they are the work of human beings.

All this applies in a particular manner to the institution of private property. The communists have not succeeded in convincing the present generation that it would be possible to dispense with that institution. Nevertheless our conception of the rights of property has been profoundly modified under the influence of communistic doctrines. The dictum pronounced more than a century ago by BECCARIA that private property (*la proprietà*) is not the mother, but the eldest daughter of society—a far-reaching dictum—no longer sounds so bold as it must have sounded in his time. We have not become communists, but something of communism has certainly crept into our manner of thinking and of judging of things. We respect private property because it is serviceable to civilisation, to welfare; because it forms a bond between one generation and another, and gives continuity to social life. But we do expect it really to fulfil this high mission. We maintain it, not for the sake of the individual, but for the sake of mankind.

And in maintaining this institution, we of the present day consider it not merely permissible, but a positive duty, to inquire whether the rights of private property should be treated as absolutely inviolable or whether they ought not to be subject to further limitations.

No limitation whatever of the rights of property is justifiable unless there is a probability that such limitation will be for the public good. Sometimes it is possible to discover by economic investigation whether the result would, in fact, be for the public good; this is true in particular of limitations of rights of property in land in favour of tenant-farmers. People have a tendency, when discussing this subject, to confine themselves to considerations of equity. "Is it fair," they ask, "that the tenant should be so situated that he may be obliged to forgo every one of the rights conferred upon him by the Civil Code to claim abatements of rent in cases of crop failure or other special disaster?" "Is it fair that his rent should be determined by competition?" That these are interesting questions cannot be denied, but there are other matters as well that need to be investigated. Every intervention by the State in economic conditions is productive of certain economic effects; we must know what these effects will be before we can

say whether or not the intervention will be beneficial in a particular domain. This is often overlooked by those who have to deal with the matters which we are now discussing. In order that we may be able to judge of the desirability of the various measures referred to above, it is necessary that we should be as fully informed as possible concerning the economic results which they would bring about. And in the process of tracing these results our judgment on that part of the problem which is concerned with equity will take shape of itself.

The demands that are being put forward may be regarded as falling into two groups. In the one group we have those that tend to place the hirer of land in a position of advantage over the owner of land; in the second group we have those that would place the hirer in a position of equal, or practically equal, advantage with the owner and no more. We will begin with the first group, and will assign thereto (1) provisions requiring the landlord to bear a part of the loss entailed on the tenant by a fall in the price of farm produce; (2) provisions which give the tenant a right to demand an abatement of rent in the event of heavy crop failure, or special disaster.

Few words are needed in order to show that under either of these two kinds of provision the tenant-farmer is placed in a position of economic advantage as compared with the man who owns the land he farms. From whom is the latter to obtain compensation for the loss entailed by falling prices? If his land declines in value owing to that cause, there is nobody to refund to him a part of the price at which he bought, or otherwise acquired it. The mortgagee—should there be one, and there very often is—allows no abatement on the capital sum that he has advanced, nor even on the interest. The owner alone, so long as he can keep going, is the one to suffer. The same thing applies in the case of "hail, lightning, frost, or unseasonable fall of bloom in orchard or vineyard; devastation caused by war or flood, to which the land is not usually exposed." Even under the law as it stands, the tenant-farmer is often less deserving of commiseration; in all these cases he can appeal to the kindly feeling of his landlord, and generally not in vain. If the provisions which we are now discussing were to be put in force; if, at the same time, the landlord were required to bear part of the

loss due to declining prices, the difference would become still greater. Nor is it possible to add materially to the inducements for hiring as compared with owning land without at the same time setting certain influences at work. How will these influences manifest themselves?

In this, that farmers will become disposed rather to hire than to own land, while landlords will become disposed to sell their land. The tenant will have acquired increased rights, therefore tenancy will become more eligible. On the other hand, the landlord will now have to satisfy legal claims where he had formerly only to meet wishes or requests; and should he be unwilling to satisfy those claims, he may have to face legal proceedings; therefore the possession of land will be less eligible as an investment for capital. The consequence will be a rise in the rent and a fall in the purchase price of land. For the farmer this will have the effect of reducing the eligibility of hiring as compared with owning land; while the effect on the landlord will be to render him less inclined to get rid of his land; the rise in the rent and decline in the price of land operates in both directions as a corrective. But it is far from certain that it will operate as a *sufficient* corrective in each direction. If it did, then the only result of the measures under discussion would be a change in the relation between rents and prices of land, but not in the relation between the areas of land occupied by owners and tenant-farmers respectively. If, however, the corrective were to prove potent enough for tenant-farmers only, and too weak for landlords, then the upward movement of rents and the downward movement of prices of land would not cease until many tenant-farmers had become landlords.

Unless, indeed, another thing were to happen—a thing not outside the bounds of possibility. The land that came into the market might be purchased by capitalists of another sort; by persons who regarded the lower purchase price as a capitalised insurance premium against future claims for indemnification on the part of the tenant-farmers, and who relied upon their own craftiness to secure a considerable abatement of those claims. How far there might be any danger of this thing happening would depend upon the ability of tenant-farmers to buy land with their own, or with

borrowed money. If their ability in this respect were slight, then the danger to which we alluded would be serious.

Is the foregoing argument too strictly theoretical? Does it take sufficient account of actual life? From the fact that the law had accorded certain rights to tenant-farmers it does not necessarily follow that these persons would always avail themselves of those rights. It is quite possible that they would scarcely go so far as to have recourse to legal proceedings in order to obtain what they were entitled to under the law; it is possible that in most cases everything would be arranged in a friendly way; that little change would, therefore, be made in existing conditions, and that, under the new dispensation as under the old, the amount of the abatement on rents secured by the tenant in respect of falling prices or other adverse circumstances would be determined by the landlord's sense of what is fair and reasonable. The tenants, for their part, would probably find it to their advantage to be moderate in their claims. A farmer who had the reputation of having no scruples about going to law in order to assert his claims would not be a desirable tenant.

It is quite possible that matters might work out in this way; and that is why the economic effects of such changes in the law as we are now discussing cannot be predicted with certainty. The principal cause of the uncertainty lies in the fact that one does not know how far the changes might or might not prove a dead letter in practice, how far they would be productive of a material change in existing conditions. Suppose they were to produce such a change; suppose that in consequence of the alteration of the law landlords had to allow much larger abatements on their rents than they now do under a voluntary system; suppose tenant-farmers were to take concerted action with a view to making the most of their new rights, so that the ownership of the land became an undesirable investment, and farming under a landlord became highly advantageous as compared with farming one's own land, in so far as the former was free from the risks of ill-luck that are inseparable from the latter,—in that case a rise in the rent and a decline in the price of land would inevitably ensue. And if the change in the relation between the rent and the price should appear to many landlords to offer no

sufficient inducement for remaining owners, while it proved an inducement for many tenant-farmers to purchase land, then there might be an increase in the number of agriculturists engaged in farming their own land. But none of these things would be likely to happen if the new legal provisions were to have but little effect on the remissions of rent, and we have seen what reasons there are for believing this to be by no means a remote possibility. The greater the liberality of the landlords in allowing abatement of rent under the old dispensation, the less the likelihood of the new dispensation being attended with important results in practice.

We now come to the second group of legislative provisions, namely, those under which the tenant-farmer would be placed in no privileged position as compared with the man who farmed his own land, but only on a footing of equality with the latter in all or some respects. To this group we would assign: (1) provisions whereby the hirer of land would acquire a tenure possessing a certain degree of fixity, and of which he might or might not be able to dispose by will or by sale; (2) provisions under which the tenant acquires a right to compensation for improvements. Under provisions of either of these kinds the tenant would acquire advantages which in almost all countries are enjoyed only by those who own the land. His position would be such that, except in special cases, he could not be evicted from the farm. He would be able to expend capital for the purpose of increasing the yield of his holding without the risk of incurring loss thereby.

Let us deal first with fixity of tenure, and let us assume that it has been granted in the form provided for under the law enacted for Ireland. In that country, as the reader knows, the rent is fixed every fifteen years by the Authorities, and the tenant is entitled to sell the rights that have been conceded to him. The consequences of such a law as this are obvious; Irish experience has shed all needful light upon them. In this case the tenant-right may acquire a selling value, and it must inevitably do so, if the judicially fixed rent is lower than the rack-rent—as it may be expected to be. For example, the full competitive rent is £100, and the rent actually paid, £80;  $x$  times the difference between the two amounts will

then represent the market value of the tenant-right; the value of  $x$  being higher according as the rate of interest is low, and according as the probability is great that the difference between the rack-rent and the judicial rent will be long continued. The granting of heritable tenant-rights on such terms, combined with the judicial fixing of low rents, simply amounts to a partial expropriation of the landlords in favour of the existing tenants and their heirs. Only existing tenants and their heirs will be gainers by this; people who acquire the tenant-right by purchase from the original tenants and their heirs will gain nothing, for they will have to pay, in interest on the purchase money and in rent, just what the land would have cost them if they had hired it at the rack-rent, but it will no longer be possible for them, in the nature of the case, to count upon any leniency on the part of the landlords in respect of crop failure or other misfortunes. We have already observed that the Irish system has with truth been said to create a dual ownership; under its operation the landlord becomes a mere receiver of rent. He loses practically all interest in contributing towards the improvement of the land, since he cannot be certain that, on the next occasion of fixing the judicial rent, due allowance will be made for the expenditure he has incurred in respect of improvements. For the tenant, on the other hand, there will have been created an inducement to spend money on improvements; but the inducement will not be so strong as in the case of the farmer cultivating his own land, for there is the chance that he too may fare badly under a judicial revision of his rent. The Irish system, although it constituted an improvement on the conditions previously prevailing in Ireland itself, will not bear comparison with a system under which the farmer cultivates his own land, nor will it bear comparison with such a system as prevails in England. Were the Irish system to be transplanted to a country where the landlords were in the habit of treating their tenants generously and spending capital on the improvement of the land whenever necessary, the result would not be beneficial to the farming classes of that country in the long run. After some time, when all the farms had passed into other hands either by sale or by devolution on death, the sum which the farmers had to pay

annually in rent and in interest on the value of the tenant-right would be very high; and there would be no abatement in bad years.

In the granting of tenant-rights, however, the law need not go so far as it has gone in Ireland. When, in 1866, the British Parliament had to regulate the condition of the crofters in the Scottish Highlands (whose ancient rights in the soil were to a great extent ignored by the landlords), it certainly did grant these people fixity of tenure combined with judicial rents, but it did not grant them freedom to sell their tenant-right.<sup>1</sup> This freedom was, in fact, explicitly withheld from them. The crofter may, it is true, bequeath his tenant-right to a member of his family, but the landlord is not obliged to accept the new tenant; should he refuse to do so, however, an appeal lies to the judge. There are those who advocate a similar measure for Holland, to be applied, not merely to particular districts where it might be specially needed—as is the case in Scotland—but to the whole country.<sup>2</sup> The tenant is to be required, not only to pay rent, but also to make a fit and proper use of the land; the landlord being free to cancel the tenant-right not only for non-payment of the rent, but also for misuse or neglect of the land on the part of the tenant. On the other hand, the tenant, and after his death his heirs, would be entitled “on the expiration of each period of tenancy (and for so long as the landlord shall not desire to take over the working of the land for his own account) to claim to be confirmed in his tenant-right, on such conditions as, failing agreement between himself and his landlord, shall be determined by an ‘agrarian judge.’” Thus the fixity of the tenant’s right to the use of the land would be far from unconditional. He would be assured of it only

<sup>1</sup> This course would appear to have been prompted by what had happened in Ireland. “If there is land-hunger,” writes Professor NICHOLSON in his *Principles of Political Economy* (Part II. p. 320), “the value of the tenant-right will be pushed to such an extreme that the interest on the sum, added to the judicial rent, will amount to a rack-rent. This discovery was fortunately made in time to prevent the grant of the doubtful boon of free sale to the crofters in Scotland. They obtained judicial rents and fixity of tenure.” Cf. G. SHAW LEFEVRE, *Agrarian Tenures*, pp. 181-182.

<sup>2</sup> See Dr. J. P. MOLTZER’s speech before the meeting of the Dutch Society for Economics and Statistics held at Utrecht on October 3rd, 1896 (pp. 36 and 51 of the Report of the Meeting).

so long as he farmed the land for his own account, did not neglect it, and duly paid the rent ; and, further, so long as the landlord did not choose to farm the land himself.

It must be conceded that under such circumstances no saleable tenant-right would be created. The principal difference between the new condition of things and that now existing would be that the amount of the rent would be determined, not by the free play of supply and demand, but by an "agrarian judge," which judge would, in certain cases, also have to decide as to the validity of the landlord's contention that the tenant was neglecting his land. In order to be able to judge whether or not such a law would prove beneficial for the community as a whole, we must therefore ascertain what are the economic results that usually follow from the freedom of landowners to let their land at such rents, for such periods, and to such persons as may seem best to themselves.

It requires much optimism to venture to contend that these results are wholly beneficial. Owing to excessive demand, rent frequently rises to far too high a figure. And who will deny the possibility of would-be tenants being sometimes refused, or actual tenants notified to quit for wrong reasons? Shopkeepers too, impelled by competition, will sometimes offer an excessively high rent, and capital is sometimes borrowed at a rate of interest which the borrower cannot afford to pay. In no domain does the free play of supply and demand lead to perfect conditions. The manufacturer at times will pay too high a price for his raw materials, or he will ship his goods at such a freight as will swallow up the profit. The merchant is sometimes induced to embark on commercial operations that will bring him loss. The banker will occasionally join a syndicate that will cost him money. It cannot be denied that free competition and the free determination of prices have their drawbacks, for we have daily proof of the existence of those drawbacks. But their advantages are no less obvious. One result of personal responsibility for our own acts is, that if we have made a mistake we suffer loss, but another result of this personal responsibility is that we enjoy advantages if we have been more discerning than most people. Under the

system of free competition losses will indeed be suffered, but exceptional gains will also be realised. In an earlier chapter we referred to that system as being one of penalties and rewards: of penalties for bad judgment and mismanagement; of rewards for sound judgment, knowledge, and ability.

Luck, too, is a factor in the matter, but in the long run not the chief factor. Free competition provides an incentive for activity such as no system of State tutelage can ever provide. For society in the aggregate it is a vitalising force. Wherever it is lacking, there we may expect arrested development, if not indeed paralysis and decay. To convince ourselves of this we have only to consult the teachings of experience under the protectionist system. But other experience too is at our disposal, and it is just such experience as may be of service to us here. Agriculture in Europe only began to develop vigorously after it had freed itself from mediæval bondage: after it had been brought under the influence of commercial principles. In this field, too, competition has been productive of good results. Under the competitive system the skilful and progressive farmer, by offering a rent which only he can afford to pay, can always obtain the use of land suitable for his business. Let us not recklessly abandon these advantages. When rents are fixed judicially, the standard by which they are determined will always be a lenient one; the object of the Court is to arrive at a "fair rent," and in this connexion "fair" will mean what the great majority would consider to be such. Where are we then to look for the incentive to increased exertion? Where will then be the opportunity for the man who excels to conquer the position to which he is justly entitled? After such a system had been in operation for no more than a century, or even half a century, it would be found that agriculture had ceased to develop, unless indeed special circumstances, on which nobody can reckon, should have intervened to avert such a consequence. What is being asked for is protection for the tenant-farmer, not only against the improvident competitor, but also against the skilful, the enterprising competitor; not only against the man who offers a high rent because he knows no better, but also against the man who does so by reason of his superior knowledge and

brains. It means averting, not only the harm, but also the good that results from free competition; it means getting rid, not only of inconveniences, but also of wholesome incentives. Is this advisable? If so, then why only, or more especially, in the sphere of agriculture? Is it, perhaps, because the influence of habit, of tradition, is less potent there than elsewhere? Is it, perhaps, because farmers, as a class, are by nature so disposed to try improvements, and to adopt them at once if they find them successful, that they can dispense with the stimulus of competition? Does not experience show the exact reverse to be the case?

In the measures that we have been discussing so far we fail to discover anything that, on a balance of advantages against drawbacks, we can identify as being a restriction of ownership rights such as a regard for the *public interest* would prescribe. The public interest is not served by placing a bounty, as it were, upon tenant-farming as distinguished from farming one's own land; neither is it of service to the public interest that the fixing of rents should be withdrawn from a competition which, although it has its drawbacks, is no less salutary in the domain of agriculture than elsewhere. In these days agriculture is ever acquiring more and more the character of an ordinary industry conducted on commercial principles. And that is what it must become if it is to prosper. The agrarian policy of these days should therefore be directed towards awakening the spirit of self-help, of self-reliance. Of course, the State too must lend its help, its support; but it must do this in such a way as to excite the zeal and quicken the perception of the farmer for the requirements of the new state of things. To cast the relations between landlord and tenant in semi-mediæval moulds; to establish in the minds of tenant-farmers the conviction that they represent quite a special class of *entrepreneurs*, a class that ought to be safeguarded, at least in some measure, against the disappointments to which every *entrepreneur* (including the man who farms his own land) is exposed; that they ought to be safeguarded against the competition of the man who places upon his land a rental value higher than that ascribed to it by public opinion,—all this would not mean helping in the right way; rather would it mean doing the exact

reverse of what, in our opinion, is needed under present-day conditions.

The subject still remaining to be discussed is that of legislation under which tenant-farmers receive compensation for improvements. England has already enacted legislation of this kind. The Agricultural Holdings Act of 1883 has taken the place of an Act of the same name passed in the year 1875. The earlier Act, while granting to the tenant the right to claim compensation in respect of improvements, permitted him, when making his contract with the landlord, to forgo that right. Under the Act of 1883 contracting out is forbidden, and this constitutes the principal difference between the two laws.

The word "improvements" is used in a wide sense in the English Act—in a sense that comprises every betterment in *value*. The Act distinguishes three kinds of improvements. The first includes the erection or enlargement of buildings, the making of permanent pastures, of beds, gardens, water-works, bridges, roads, and hedges; the planting of orchards, the reclamation of heath land, the construction of embankments; in short, work of every description that alters the shape, sometimes the purpose, of the property. The second kind consists in drainage work alone; the third kind comprises every introduction of new ingredients into the soil whether by ordinary manuring or through the application of bone-dust, chalk, clay, marl, or even through feeding cattle, sheep, or pigs with oil-cake or other things not produced by the land itself.

Now the general rule is this. When the tenant's agreement expires, and he leaves his farm, he is entitled to claim compensation in respect of any improvements which he has made at his own expense, and any agreement depriving him of this right is "void both at law and in equity." Subject to the following condition, however. For improvements of the first kind, compensation is claimable only where they have been made with the consent of the landlord; and such consent may be conditional, even as regards the amount of the compensation. For improvements of the second kind—drainage—the consent of the owner is not necessary, but not more than

three, and not less than two months beforehand, he must have been given notice of the intention to carry out the improvements, and of the manner in which it is proposed to carry them out. He is entitled, moreover, to defray the cost of the work himself, and to require the tenant to pay a proportion not exceeding 5 per cent. of the capital outlay either in a lump sum, or spread over a period of twenty-five years, with interest at 3 per cent. In the case of improvements of the third kind there is no obligation on the part of the tenant either to obtain the landlord's consent or to give him notice of intention; certain cases, however, are specified in which the tenant forfeits his claim to compensation. He forfeits this claim, for example, if he should carry out the improvements after having received notice to quit, or, where the lease is for a certain number of years, if he should carry out the improvements in the last of these years. He is required, moreover, to notify the landlord two months before the termination of the tenancy that it is his intention to claim compensation.

The amount of the compensation may be settled by mutual agreement; failing agreement between the parties, the amount is determined by an arbitrator; if necessary each party may name an arbitrator, and the two thus selected call in an umpire. Where the amount exceeds £100, there is an appeal to the County Court Judge. The compensation is not necessarily paid by the landlord himself. The outgoing tenant may ask the amount from the incoming tenant, and should the latter, with the written consent of the landlord, comply with this request, he succeeds to all the rights of his predecessor.

In England it is the general rule, as we know, for the cost of buildings and drainage to be defrayed by the landlord, and to this rule there are few exceptions. Thus the question of compensation practically never arises in connexion with improvements of the first and second kinds, since their cost is usually borne, not by the tenant, but by the owner himself. With improvements of the third kind the case is different, and the chief significance of the law lies in what it prescribes concerning the latter. Here, as we see, it allows the tenant great freedom. He need not obtain the landlord's consent; he need not give him notice; and yet on quitting the farm, he is entitled to get a valuation of the ingredients that he has

arbitrarily added to the soil, and to claim compensation for their value.

It has excited astonishment that a law like this should have been enacted in England, the very country where so much is already done for the improvement of the land. The explanation is to be found in a remark which we have already made. Taken as a whole, the land in England is owned by persons who lay out much money on improving it; but there are exceptions to this rule, and these, just because they are exceptions, attract great attention. Only a nation which looks for a high standard of excellence in its agriculture, and which, on the whole, is conscious of the absolute need of a plentiful and ever-increasing production, would enact such a law. Elsewhere people may dispute about the distribution of income. England is fully alive to the importance of a fair distribution of income, as witness her trade-unions; but above all she insists upon an abundant production, whereby *everybody's* share shall be increased. She is content that her aristocracy should retain their large incomes; that primogeniture, even the system of settlements should remain intact. Always provided, however, that the enterprising farmer be not deterred from putting capital into his business.

A fine idea, as we see, underlies this law. But the Agricultural Holdings Act of 1883 has not fulfilled the expectations entertained by those who were responsible for its being placed on the Statute Book. The best that can be said of it is that it has stimulated some owners to make certain arrangements with their tenants with regard to compensation for improvements.<sup>1</sup> For the rest, the Act has excited nothing but criticism. In 1895 a Royal Commission was appointed for the purpose of inquiring into the condition of agriculture in the United Kingdom, and into the working of the Agricultural Holdings Act. What the Commission had to report concerning the second of these subjects sounds most unsatisfactory.<sup>2</sup>

<sup>1</sup> Cf. W. E. BEAR, "The Agricultural Problem," in *Economic Journal* for 1893, p. 579.

<sup>2</sup> Cf. an article by F. B. LÖHNIS in *De Economist* of 1896, pp. 189-199; also the report by Prof. D'AULNIS DE BOURQUILL on "The Contract of Tenancy in Holland and how to improve it," in *Praeadviezen der Vereeniging voor de Staathuishoudkunde en de Statistiek*, for 1896, pp. 45 *et seq.*; also see the article by L. L. PRICE on "The Commission on Agriculture" in *The Economic Journal* of 1896, p. 104.

The Act was similarly judged of in other quarters. Nobody was altogether satisfied with the results which it had yielded; the majority even declare these results to be poor in every respect.

But on the question as to what ought now to be done, opinions differ widely. Professor NICHOLSON, formerly an advocate of even much stronger provisions than those of the Agricultural Holdings Act, is so discouraged by what he has observed since 1883, that he is now against the granting of any right whatever to the tenant to claim compensation in respect of improvements that he may have made. The purpose of the law was good, but it failed in practice; moreover, the advantage procured for the farmer is chimerical, because rents will adjust themselves to the new law.<sup>1</sup> This, however, is not the opinion held by all. Many of its critics insist, not that it should be repealed, but that it should be radically revised and that the revision should be in the direction of generous treatment of the tenant.<sup>2</sup>

A difference of opinion like this is very natural. Social legislation is always difficult, and for that reason apt to lead to disappointment. Then some people think they have new evidence of the impossibility of achieving any good by means of social legislation, while for others the initial failure is only a reason for setting to work once more. It is always an advantage if people of the latter kind are forthcoming. In many a field of legislation it has been possible to achieve, not indeed perfection, but at least something very useful, through a series of gropings and experiments; if, after the first or second disappointment, further attempts had always been abandoned, we should now be less advanced than we are. Never let us be over ready to give up searching for the means of attaining an object once it has been established beyond doubt that the attainment of that object would be highly desirable.

In the matter under discussion the foregoing remarks are true of Holland even in a greater degree than they are of England. On land that is bought solely as an investment and by one who knows nothing whatever about agriculture—

<sup>1</sup> *Principles of Political Economy* (London, 1893), Part I. p. 322.

<sup>2</sup> Cf. the article by F. B. LÖHNIS already referred to; but more especially Dr. F. PH. KOENIG, *Die Lage der englischen Landwirtschaft*, pp. 66 and 287.

and how very frequently this happens—very little capital is, as a rule, spent. The landlord is unwilling to risk heavy expenditure because he is incapable of appreciating the advantage of doing so, and for the tenant there is no inducement to do so unless he has the land on a very long lease. But against long leases there is the objection that they are more in the nature of a speculation on prices than are short leases; they cannot, therefore, be recommended without reserve, and as they approach their end, the advantages that they yield grow less and less. The consequence is that in the case of properties owned by people who lack knowledge of agricultural matters, there is too little capital expenditure of the sort that yields a good return only after the lapse of some years. Those who really have something to gain by incurring such expenditure lack the knowledge, while those who possess the knowledge lack the prospect of gain. The Agricultural Holdings Act is an attempt to remedy this. One need not be surprised that those who understand the needs of agriculture in our times, and the conditions under which alone it can prosper, are not disposed to abandon this attempt. This in itself is deserving of high appreciation.

But is the practical problem which people are endeavouring to solve really capable of being solved by means of legislation? It will doubtless be possible to improve the law of 1883 considerably; to get rid, in great measure, of defects that have been discovered in its administration; but even then the end which it is desired to attain will not have been attained. The experience obtained in England from the working of this law is highly instructive; there is, in the first place, the fact that in most parts of the country the law has remained a dead letter—on this point all those who report on its operation are agreed. Tenants make little use of the rights conferred upon them by the law; they seldom do or claim what the law entitles them to do and claim. In the opinion of many people this is simply due to certain defective clauses in the law; therefore these people are confident that once the Act has been judiciously revised it will be sure to operate effectively. The costs entailed by the settlement of disputes are too heavy, especially for the small farmers, who, therefore, often forgo the assertion of fair claims.

In other respects, too, the law is defective. Once these defects have been made good, tenants will—so it is imagined—be much more ready than they have been up to the present to avail themselves of the rights conferred upon them by the law.

We are not sure that this view is correct and that those who entertain it have discovered the real obstacles. The reader will remember the thought that we could not help expressing when we were discussing the question of compulsory remissions of rent. Owing to the keenness of the competition amongst those who engage in agriculture on hired land, the farmer will, as a rule, be anxious to establish or foster among landlords a feeling of friendliness towards himself. He will be reluctant to acquire the reputation of one who involves landlords in trouble and expense, who insists on asserting his rights to the utmost limits permitted by the law. This same thought again occurs to us here. We cannot help thinking that the reason why the Agricultural Holdings Act is not being extensively applied, is that the farmers deem it contrary to their interests to avail themselves of its provisions. This state of things would not be altered by increasing the stringency of the law and making it less costly for the farmer. Even then there would still remain a public opinion, under the influence of which the individual farmer would feel compelled to act with great moderation, and the greater the readiness shown by landlords to continue granting remissions in respect of bad crops or other misfortunes, the more strongly would this public opinion assert itself. But then the law would remain what it is now—to a large extent a dead letter. There would be no contracting out then any more than there is now, and yet the result would be the same as if such a practice did exist, and the tacit understanding were adhered to in every case. And if now and then a tenant should fail to observe the terms of the tacit understanding, the landlord would only see in this a reason for being more careful in future in selecting his tenants; or else for keeping a note of any infraction of the agreement on the part of the tenant, so as to be in a position to make a heavy counterclaim against him should occasion arise. This practice, we are told, obtains even under the present law. How is all this to be prevented by amending the law?

On grounds of principle there is nothing to be urged against the Agricultural Holdings Act; its aim is wholly praiseworthy. Nevertheless, we do think that those who expect something wonderful from any good results which it may yield do not take sufficient account of actualities.

We should seek, therefore, above all, for means which, apart from all legislation, may lead to the solution of the problem that confronted the British legislator in 1883, a problem which, fortunately, is being recognised more and more in these days as one of extreme importance. Where are these means to be found? Some people hold that they consist in the formation of Advisory Rent Committees, such as have already been established in a few places in Holland. Others suggest the establishment of public offices managed by agricultural experts; these offices to be entrusted by the landlord with the letting of his land and the supervision of his tenants, and to be provided, moreover, with capital for the purpose of granting temporary loans to either party if necessary. It is for the specialists to determine which, if either, of these suggestions is correct. On certain important points the interests of landlords and tenants are identical, but there are many landlords who fail to do what needs to be done, both in their own interest and in that of the national production. In cases where the expenditure of money is absolutely necessary, they frequently will not incur that expenditure. Land is let on terms that are not only burdensome to the tenant, but at the same time unprofitable to the landlord. Many landlords fail to realise that in order to yield the most lasting advantage the letting of land requires a knowledge of agriculture combined with the most careful supervision. What is needed is that those concerned should be more fully convinced than they are of this simple truth; much more good is likely to result from this than from any legislation designed to remedy the defects inherent in the system of letting land.

And now we have come to the end of the task that we set ourselves at the beginning of this part of our treatise. The subject-matter is almost inexhaustible; the more one works at it the more does one realise this fact. Much of it we have only just touched; much of it we have not dealt with at all.

In the chapters that follow we shall have frequent occasion to revert to the subject of production, and in doing so we shall perhaps be able to fill up a number of *lacunæ*. We hope, moreover, by means of the succeeding portions of our inquiry to establish the truth of the leading thought which we have repeatedly expressed, namely, that however important the problems that concern the distribution of incomes may be, those that relate to the production of those incomes are of still greater importance.<sup>1</sup>

<sup>1</sup> [The above was written in the year 1902. For the modern law in England the student should consult the Agricultural Holdings Act, 1908 ; also the Small Holdings Act, 1908.—(A. A. W.)]



## PART IV

### THE REVENUES OF THE STATE



## CHAPTER I

### REVENUE FROM PUBLIC DOMAINS AND FEES

#### § 1

#### Introduction

WITH the growth of State expenditure, an inevitable consequence of the growth of State activity, it becomes increasingly important that we should acquire a knowledge of the principles to be observed in providing the means to meet that expenditure. In connexion with this subject, as with those already dealt with, there have been evolved certain ideals, closely akin to ideals in the domain of social life, and towards the attainment of which it is held that we must strive earnestly. We look to science for light to guide us in those strivings; to give definite shape to what, at many points, is visible in crude outline only. We look to science, too, for guidance in preparing effective financial legislation.

Is it within the power of science to help us in these respects? It is her duty to try to do so, and in complying with this duty she gains in depth and in breadth. The study of the theory of the revenues of the State is extremely helpful in promoting general economic knowledge. In pursuing that study our attention has to be given to problems belonging to every domain with which economic science is concerned. In order to be able to learn the effects—and especially the indirect effects—of the various taxes, we have to make use of all the conclusions to which economic inquiry can lead. But in doing this we discover in those conclusions certain gaps, certain imperfections, which we feel ourselves impelled to repair. The study which we are now advocating is very

useful for practical affairs; but even though it were not of the least use in that respect, it would yet be valuable as a powerful means of advancing economic knowledge.

Its utility for practical affairs does not consist in supplying the legislator with a complete set of rules. Tact, judgment, and resourcefulness are qualities that will always be needed and never sufficiently exercised. Nevertheless, even here scientific inquiry is useful, in that it enriches and accustoms the mind to methodical thinking. It is of great importance for the statesman that he should have a knowledge of what has been achieved in the sphere of finance, outside his own immediate circle of observation; that he should know of the mistakes made elsewhere; that he should know of the happy solutions found elsewhere for practical questions; that he should know of all that has been discovered concerning the operation of different taxes; that he should also know as to what points there is still uncertainty, and, therefore, a necessity for approaching them with caution. Men of affairs are often bold theorists; what they preach as being the result of experience is often the product of their own very imperfect observation. From propositions that are true they often deduce consequences which are in no way warranted thereby. Against these dangers we have to arm ourselves, and it is only by the means here advocated that we can do so.

In the introduction to the present treatise,<sup>1</sup> we wrote of the theory of State revenue as being a branch of the theory of finance, "that cannot be regarded as exclusively economic." This remark, we imagine, does not require lengthy explanation. The rules to be applied in procuring the means wherewith to defray the State expenditure cannot be based solely upon a consideration of the material welfare of the nation. In framing those rules regard must be had to the canons of justice, of morality, of public health; to the great importance of avoiding serious discontent at home, and complications with foreign Powers. The theory of the State revenue extends beyond the domain of economics, so that it will be impossible in this section always to keep strictly within the limits of the latter. In most cases, however, it will be possible to do so, owing to the close connexion that exists between the

<sup>1</sup> Vol. I. p. 38.

material and the higher interests of mankind. Imposts that are unjust, and such as are objectionable for moral, political, or hygienic reasons, cannot be defended on economic grounds.

The revenues of the State and of its subdivisions are for the most part made up of income derived from domains, from fees, and from taxes. The State can always procure money by contracting loans. These are the four subjects with which we now intend to deal, and we shall discuss them in the order named.

## § 2

### Revenue from Public Domains

Domains have been named first as being one of the oldest sources of State revenue; the rôle that they fulfilled in former days was very important. The State domains—if we may use this expression concerning a time when the concept of the State had not yet been evolved, and no distinction was made between the revenues of the State and those of the sovereign—were in the Middle Ages everywhere considerable, and continued to be so for a long time in different countries.<sup>1</sup> The sovereign lived for the most part on the income derived from his own estates; and only to a small extent on the taxes paid by his free subjects. By degrees a great change came about in this respect, but the idea that there was something ignominious associated with the levying of taxes persisted more or less for a long time. VON SECKENDORFF, in his *Teutscher Fürstenstaat* (1655), still gives strong expression to that sentiment. We must not forget, however, that we now apply the term taxes to many imposts which in former times were not regarded as such. Owing to gifts, payments in land, assignments of State property to the Crown, and, not least, owing to occupiers of land acquiring real property rights,<sup>2</sup> large areas of public domain have disappeared. Prussia, nevertheless, still derives from her public forests and lands a

<sup>1</sup> The English Domesday-Book of 1086 mentions no fewer than 1,422 manors belonging to the Crown, besides farms and other lands in Middlesex, Shropshire, and Rutland. STEPHEN DOWELL: *A History of Taxation and Taxes in England*, London, 1884, Vol. I. p. 16.

<sup>2</sup> [See Notes at end of this volume.—A. A. W.]

clear annual revenue of £2,150,000, and from her mines and factories £800,000.<sup>1</sup> In France 10·8 per cent. of the forest area (2,644,000 acres) belongs to the State, and 22·7 per cent. (4,711,000 acres) to Departments, Communes, and Public Institutions.<sup>2</sup> Russia, before the latest reforms, possessed, as we have seen, domains inhabited by a population of 22 million souls. In England public domains no longer amount to much; they only yield £400,000 per annum, and the same is true of Holland, where the annual yield of the ordinary domains (including the fisheries) amounts to about £125,000. Both England and Holland, however, have large public domains in India. They consist of the waste lands, so far as these are the property of the State. The largest owner of domains among civilised nations is undoubtedly the United States. At the time of her separation from the mother-country, many of the then existing thirteen states owned large areas of land outside their actual borders; but the Union persuaded them to make all this land over to the Federal Government, which subsequently acquired large additional tracts by treaty and conquest. In these various ways the United States Government has acquired the ownership of land of which the area far exceeds that of all the public domains in Europe together. In 1890 it amounted to 1,852,310,987 acres, or nearly fourteen times the area of the German Empire.<sup>3</sup>

This wealth has not always been put to intelligent use. In the beginning it was provided that, so soon as a tract had been measured up, the land should be sold to the highest bidders at a minimum price of 2 dollars per acre, which price was reduced in 1820 to  $1\frac{1}{4}$  dollar; but the land was not to be sold in lots of less than nine square miles each. This tended greatly to encourage speculation; it proved, moreover, to be a source of great hardship for small colonists, who, if they had settled on State land, found themselves at the mercy

<sup>1</sup> *Annuaire de l'Économie Politique et de la Statistique*, 1889, p. 1026.

<sup>2</sup> *Dictionnaire des Finances* (1894), Part II. p. 282. In the period 1814-1870, 871,090 acres were sold by the State for £12,257,000. No further sales have since taken place.

<sup>3</sup> F. L. McVEY, *The Populist Movement*, vol. i. No. 3 of the "Economic Studies" of the American Association, p. 152, where reference is made to a work by DONALDSON entitled *The Public Domain: its History*.

of the owners so soon as that land passed into private ownership. To provide against this, such persons were, in 1820, accorded a right of pre-emption for an area of 160 acres each, at the fixed minimum price. Since 1841 colonists desirous of exercising this right have been required to declare on oath that they do not already possess 320 acres of land elsewhere, and that they do not intend to engage in land speculation.

The old system had been already, to some extent, abandoned, but its abandonment was carried a step further by a law enacted under President Lincoln on May 20th, 1862. Under that law it was provided that any actual or future citizen of the United States, being of full age, might take possession of 160 acres of land<sup>1</sup> subject to his declaring on oath that he would cultivate and occupy the land himself; after five years the land became his absolute property (or the property of his widow or heirs) on oath being made that the above conditions had been duly observed and that none of the land had been sold except to churches or railway undertakings. Those who were prepared to pay the statutory price were not required to wait the five years, but became absolute owners after a period of six months.

There remains a further law to be mentioned, namely, that of March 3rd, 1873 (amended in 1874 and again in 1878), called the Timber Culture Act, under which an area of 160 acres of prairie land is granted to any American citizen, or to any person who shall have declared his desire to become such a citizen, subject to his promising to plant one-sixteenth of the land, that is to say, 10 acres, with trees, and to attend to their growth for a period of eight years. Since the consumption of timber in America is very large—the railways alone require 30 million tons per annum—it is easy to realise the purpose of this law. Another thing that one realises is the amount of land which it is possible for a colonist to acquire: he can obtain 160 acres in virtue of the right of pre-emption, 160 acres under the law of 1862, which has never been repealed, and a further 160 acres under the Timber Culture Act: thus 480 acres in all, and only for one-

<sup>1</sup> At first it was 160 acres in the case of land situated outside the railway region; and 80 acres in the case of other land; after 1879, however, it was 160 acres irrespective of the situation.

third of this is he required to pay anything! Millions and millions of acres have passed, and still continue to pass into private hands—since 1883 from 11 to 14 million acres per annum—for which the State has received nothing, or practically nothing in return.

And very much land has been given away in other ways as well. Thus, in 1880, all swampy and inundated lands—a total of 56 million acres—were assigned to the individual States. Much land, too, has been given to schools and other institutions. Most, however, has been given to railways, in order to encourage railway construction. Since the Illinois Central received the first grant, no less than 187 million acres, or nearly once and a half the area of the German Empire, has been given to railway companies.<sup>1</sup>

That this great liberality has helped powerfully towards the colonisation of America is not to be denied. The policy is not one that is to be commended, however; future generations will not feel grateful to their forbears for having dealt so prodigally with the land. If, instead of being given away or sold at ridiculously low prices, it had been let on hundred-year leases, agriculture would probably have been encouraged in an equal degree; and even though progress might then have been less rapid, there would have been ample compensation for this disadvantage in the fact that the State had retained its rights of ownership in the land. If the population of the United States continues to increase, the time must come when there will be as great a scarcity of fertile land in America as has for a long time been experienced in Europe. Rents will then rise, but it is not the State that will derive most benefit from the rise. Without being an advocate of the principles either of HENRY GEORGE or of FIÜRSCHHEIM, one may well deplore what the future course of events must be. For the State to purchase the land is certainly not advisable; but for the State to give away large uncultivated domains, or to sell them at a very low price, is still less advisable. To do the first is to sacrifice the present to the future; to do the second is to sacrifice the future for the sake of temporary advantages.

<sup>1</sup> For detailed particulars with regard to all these matters see Professor M. SERINGS' excellent work, *Die landwirtschaftliche Konkurrenz Nordamerikas* (Leipsic, 1887), pp. 88 and 106-154.

From this remark the reader will be able, in some measure, to infer what we believe to be the proper policy for the State to pursue with regard to its domain lands. If the lands are uncultivated, but suitable for cultivation, then it seems to us very desirable that they should not be sold. It was in accordance with this principle that the Dutch Government acted in 1870, when it had to frame rules for the allotment of waste lands in the Dutch Indies. Up to that time those lands might only be let, and not for a time exceeding twenty years. But since such a tenancy constitutes no *jus in re* the tenant was unable to mortgage his holding, besides which the term of the lease was much too short to give him any strong inducement to develop the resources of the land. This state of things could not be allowed to continue, and the question arose as to whether in future it would not be better to confer absolute ownership or to grant inheritable leaseholds.<sup>1</sup> The decision was in favour of the latter, and the law of April 9th, 1870, provided that waste lands should in future be granted on lease for terms not exceeding 75 years "in accordance with rules to be determined by General Ordinance." These rules were promulgated in a Royal Decree, dated July 20th, 1870, and were amended on April 16th, 1872, and several subsequent dates.<sup>2</sup> All domain lands owned by the State are surveyed, described, and charted by, and at the cost of, the Government. Every year a portion of them is offered on leasehold, usually in parcels of about 865 acres. Only Dutch subjects residing in Holland or the Dutch Indies, and companies established in Holland or the Dutch Indies are eligible. During a period of four months such persons and companies are to "take part in a public competition by tendering a rent per acre in excess of a yearly sum which is fixed for the occasion and is payable from the sixth year following that in which the lease has been secured." But there is also another way in which an allotment may be obtained; it is, indeed, the usual way, for very little land is given on the public tender system. Any person or company, as aforesaid, may, by applying therefor, obtain an inheritable lease, of (a) land that has

<sup>1</sup> [See Notes at end of this volume.—A. A. W.]

<sup>2</sup> Cf. The Indian Gazettes (*Staatsbladen*) of 1874, No. 78; 1877, Nos. 196 and 270; 1888, No. 78; 1893, No. 151; 1895, No. 199; and 1896, No. 140.

not yet been surveyed by the Government, (b) land that has been so surveyed, but is not intended to be put up for public tender, during the first three years following such survey, and (c) land that has failed to elicit any tenders. In such cases the cost of surveying and charting has to be defrayed by the applicant. When application is made for the lease of an island the operations of surveying and charting may be restricted to those lands which are excluded from the lease, and the rule limiting to about 865 acres the amount of land comprised in a leasehold may be departed from. Whenever the Governor-General allows total or partial exemption from the obligation as to having the land surveyed, he fixes the rent at a sum reckoned on the basis of the estimated area and not subject to revision as a result of subsequent survey. In all other cases applicants for leaseholds must comply with identical formalities; the rent must be in excess of the fixed minimum.

During the year of the granting of the lease, and for the ten<sup>1</sup> years immediately succeeding, no land tax is levied. Furthermore, natives, and persons of the same civil status as natives, who are settled on lands comprised in the leaseholds, are exempt from forced service to the Government as well as from all manorial services except for the purposes of averting disasters and ensuring the public safety. The leaseholder is at liberty to make over his lease to another on condition that he notify the authorities of such transfer. He is also required to give similar notification should he at any time hand over the management of the undertaking to an accredited agent. In other respects he enjoys comparative freedom in dealing with his property. He is, however, obliged "to permit mining operations to be carried on by, or under concession from, the Government, subject to rules to be determined by General Ordinance"; and for any scheme involving the execution of hydraulic works or the utilisation of existing watercourses or conduits he must obtain special sanction from an authority designated by the Governor-General, to which sanction there may be appended regulations framed in the public interest."<sup>2</sup>

<sup>1</sup> Originally five. The period was doubled by Royal Decree of March 5th, 1888. The same Decree abolished the poll-tax of 8s. 4d. per able-bodied labourer.

<sup>2</sup> It is forbidden to grow pepper or to manufacture salt on leasehold lands;

Such, in rough outline, is the system on which the allotment of waste lands is regulated in Java; the Governor-General is empowered to apply the same principle in the Outer Possessions, and has done so by various Colonial Ordinances. As regards Java, the following figures give some idea of the extent to which people have availed themselves of this system. In 1871 only 66,690 acres were allotted on yearly tenancies; in 1896 no less than 911,430 acres were allotted either on yearly tenancies or on inheritable leaseholds. In the Outer Possessions the area allotted on leasehold in 1899 amounted to 906,490 acres (no lands are let there on yearly tenancies). Not the whole of the allotted land, however, has been brought into cultivation.

The decision of the Legislature in favour of the leasehold system was taken in the face of a certain amount of opposition. Not only the Chamber of Commerce at Batavia, but also the Netherlands Indian Council and the Council of State were in favour of selling the land outright.<sup>1</sup> The first named of these bodies presented a Memorial on the subject on January 24th, 1867. The decision is not one that need be deplored, however. The system of allotting the land on leasehold does not impede the extension of cultivation, if only the lease be sufficiently long and the State be careful to avoid the great mistake of wanting to derive large direct advantages quickly. As compared with selling the land outright the system of allotting it on leasehold possesses the inestimable advantage of not entailing upon the State the sacrifice of its rights of ownership in the land. When, owing to increase of population and improvement of transport, the land acquires increased value, the gain will accrue to the community as a whole and not to a few capitalists.

In expressing a favourable opinion of the principle of the

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furthermore, in the neighbourhood of Government coffee plantations, and within such distance therefrom as shall be determined by ordinance, the Governor-General may prohibit the cultivation of coffee on lands, the situation of which has been found to favour stealing coffee from the Government plantations without the authorities being able to prevent it.

<sup>1</sup> See "Memorial to the Colonial Minister concerning the allotment of waste lands in India, presented by the Netherlands Indian Industrial and Agricultural Association," Batavia, 1888.

law of 1870, we do not wish to be regarded as entertaining an equally favourable opinion of the manner in which that principle has been applied. In Java the authorities did not at first succeed in avoiding the mistake referred to above—the mistake of being in too great a hurry to secure large gains for the Exchequer.<sup>1</sup> The Government realised its mistake, and since 1877 has applied more generous principles. In 1872 the minimum charge was fixed at from 1 to 5 shillings per acre, according to the nature of the land. In 1877, however, it was decided to fix a standard figure of 2*s.* 6*d.* to 3*s.* per acre for those districts in which the best lands were situated, to accept from a shilling to eightpence per acre for land situated elsewhere, and to regard these figures as maxima.<sup>2</sup> But excessive fiscality is possible under any system. Where the land is sold outright the prices asked may be too high; which is no less harmful than asking too much for the leasehold. And it is quite certain that the excessive land taxation so loudly complained of in Java, would not have been avoided had the Legislature adopted the system of selling the land in preference to that of granting leaseholds. What merited condemnation was, not the system that was adopted, but the manner in which that system was put into operation.

We will also describe the policy pursued with reference to waste lands by another Colonial Power, England. The system of selling such lands is still in operation in Ceylon, also in Madras; in most of the provinces of British India, however, that system has been abandoned. It was believed at first that large-scale cultivation would best be promoted in that country by sale of the waste lands; the policy of selling was, in fact, formally adopted in 1861. Its application failed to give satisfaction, however. It was found that the Exchequer

<sup>1</sup> See the interesting pamphlet entitled "Agriculture as a private enterprise in Java: its importance and the obstacles with which it has to contend. Memorial to the Governor-General, printed by the Association of Agricultural Undertakings at Soekaboemi," Batavia, 1885.

<sup>2</sup> See Colonial Report for the year 1887, p. 73. (For the Outer Possessions one shilling per acre was fixed as a maximum, to commence from the sixth year. Cf. Indian Gazette, 1886, No. 39, and 1888, No. 152.) In 1894 the maximum figure was fixed at 5 shillings per acre for lands of very good quality and situation; at the same time a minimum of one shilling per acre (reducible in certain cases to sixpence) was adopted (Colonial Report of 1894, p. 89. See also Colonial Report for 1900, p. 90).

was sacrificing future advantages for a small sum, since lands thus sold were for ever exempt from land-tax, otherwise they would have fetched low prices; nor was it found that large-scale cultivation was being promoted to any appreciable extent, for many of the purchases were made solely with a view to speculation. Then it became evident that some other way must be found, but the different provinces chose different ways. In order to maintain the requisite degree of conciseness we will confine ourselves to a statement of the principal rules in force in the Julpaiguri and Darjeeling districts of the province of Bengal with regard to the allotment of lands for tea cultivation. They date from May 16th, 1888.

The area of land applied for must not—this is a general rule—exceed from 800 to 1,000 acres. The applicant must first of all deposit a certain sum; the land is then measured and the trees are valued. Should the application be refused, the deposit is refunded less the expenses incurred; should the application be granted, the applicant is required, before taking possession, to pay the value of the trees, or he may be allowed to do this by instalments. He now obtains a “preliminary lease” for five years, of which the first is rent-free. From the second year he has to pay a rent commencing at 3 annas per acre and rising by annual increments of 3 annas until it reaches 12 annas, or one rupee in the fifth year.

On the expiration of the five years, if all obligations have been duly fulfilled—one of these being that at least 15 per cent. of the land shall have been brought into cultivation—a lease for thirty years is granted at a rent, the maximum of which must not, as a rule, exceed the highest rent that is being charged on neighbouring lands under ordinary cultivation. On the expiration of the lease, and after each succeeding period of thirty years, the holder is entitled to a new lease on the conditions in force at the time.<sup>1</sup>

All that we have been saying hitherto has had reference

<sup>1</sup> *Statement exhibiting the Moral and Material Progress and Condition of India during the Year 1876-77*, p. 31. See also Statement No. 19, Part I. pp. 121, 127, and 134. Reference may further be made to SIR GEORGE CAMPBELL's article in *Systems of Land-tenure in Various Countries* (new edition), pp. 287-289, but above all to the important Blue-book entitled *Rules for the Lease or Sale of Waste Lands in India*, Simla, 1892.

to waste lands; but what is the proper course to be pursued with regard to lands that have already been brought into cultivation, and with regard to forest lands? Does the rule hold good in that case too, that the State, instead of selling outright, should only grant leases, or perhaps retain and work the land itself? No regard was paid to this rule by the framers of the Dutch law of August 29th, 1848, the preamble to which declares it to be "expedient to pursue and further develop the policy of alienating State domains." In consequence of this law, the land acquired by the drainage of the Haarlem Lake was sold in the years 1853-1855 for £662,000, but in later years the principle laid down by that law has been less rigidly observed. Such public domains as are sold in Holland consist for the most part of the sites of disused fortifications, or of areas acquired by embanking alluvial lands, or by similar works; nobody thinks of selling public farm or forest lands; not even public heaths or downs are sold except for special reasons. The extent of the public domains of Holland is, however, no longer great, the question therefore does not now greatly concern that country; but it is a question in which France and Prussia have some interest. The day will come when it will acquire an interest for the Dutch Indies, and even for Holland herself should it ever be decided to drain the Zuider Zee. This fact was borne in mind by the Royal Commission appointed in 1892 to inquire into the subject of the drainage of the Zuider Zee, for the Commissioners devoted part of their report (pp. 149-155) to a discussion of the question as to what should be done with the reclaimed land.

Here let it be said that large areas of land cannot be sold in a short time except at low prices. To be convinced of this, one has but to consider the means to which the Italian Government had to resort, in order to be able in a few years to dispose of public domains and Church property to the value of £44,000,000.<sup>1</sup> A country that possesses large public domains will therefore never act wisely in bringing the whole of such property into the market at once, or even within a short period of time: to sell a very small

<sup>1</sup> Cf. ISID. SACHS, *L'Italie, ses finances et son développement économique depuis l'unification du royaume* (Paris, 1885), pp. 285-309.

portion each year is the most that it should do. But ought it to do even so much as this?

This is a subject which LEROY-BEAULIEU has examined at great length in his *Traité de la science des finances*,<sup>1</sup> and the conclusion at which he arrives may be summarised as follows. A clear distinction must be drawn between woodlands and other lands. As a rule it will not be advisable to sell the former, because experience has shown that when such lands are sold the timber almost invariably disappears. In France, for example, where State forests were put up for sale in 1832 and 1856, all who came forward as purchasers were people who wanted to cut down the timber. In no hands are forests so safe as in those of the State. LEROY-BEAULIEU does not merely object to their being sold; strongly opposed as he is to State intervention in economic affairs, he is, nevertheless, in favour of the State expropriating waste lands and planting them with trees.<sup>2</sup> Already this is being done, he says, but on far too small a scale; it ought to be made an object of steady pursuit to enable the State to acquire a million hectares of forest—this object might very well be attained in thirty or fifty years. With cultivable lands, however, the case is quite different. These never produce in net rent a percentage equal to what the State has to pay in interest on its debt; therefore, it is always a gain to sell them and use the proceeds for the redemption of debt. There is not a single drawback to be set against this gain. "There are some people, it is true, who hold that the State in doing this always does a bad thing, inasmuch as it robs posterity of the increase in value which the lands are almost certain to acquire as a result of increased population, growth of manufactures, and depreciation of money. These people support their contention with an argument which sounds impressive: the argument as to the Church lands in England which Henry the Eighth sold in the year 1542 for £273,000, and which would now produce at least £6,000,000 *yearly*, that is to say, 24 times the sum for which they were sold. But this calculation is wrong; money was worth more in Henry the Eighth's time than it is

<sup>1</sup> Third edition, I. pp. 67-92.

<sup>2</sup> The same subject is discussed by LEROY-BEAULIEU in his work entitled *L'État moderne et ses fonctions* (Paris, 1890), pp. 123 *et seq.*

now, so that by selling those properties the State was able to procure for itself important advantages at that time. Moreover, had the properties not been sold, agriculture in England would have prospered very much less than it has done. There is a saying of ADAM SMITH'S, which has much truth in it as applied to public domains other than forests, namely, that those kinds of revenue which appear to cost the inhabitants nothing really cost the community very much."

Thus LEROY-BEAULIEU. But the question is by no means so simple as he represents it to be; he cannot be serious in his contention that the increase which has taken place since 1542 in the money-value of the monastic estates that were sold in England, is in a great measure to be explained by the depreciation of the pound sterling. If these estates would now yield £6,000,000 per annum, they must be worth £200,000,000, or seven hundred times the amount that Henry the Eighth got for them, and certainly the purchasing power of the pound sterling has not declined so much as that. There is less difficulty in accepting the other argument, namely, as to its probably having contributed to the prosperity of agriculture in England that the monastic lands did not remain in the hands of the State, for it cannot be supposed that the State would always have let them to the best advantage. But what are we to deduce from this as to the policy which the State ought to choose at the present time? Knowledge is not wanting, nowadays, as to the rules to be observed in connexion with the letting of the land, and why should a Government be less mindful of these than a private individual? The interests of production are not directly involved in the question which we are now discussing. Agriculture does not necessarily benefit by the fact of the State selling its domains, for the land may get into the hands of persons who will deal with it less rationally than would the State itself. As regards the forests, we agree with LEROY-BEAULIEU.<sup>1</sup> As regards landed estates his judgment, it seems to us, is too absolute. In the first place this writer, who so frequently quotes ADOLF WAGNER, forgets what WAGNER

<sup>1</sup> A subject closely related to this is that of State Forestry, on which an interesting article by R. DINGER appeared in *De Economist* for the year 1890 (pp. 184-205).

himself says as to the point of view from which this question ought to be considered.<sup>1</sup> It does not always resolve itself into an arithmetical calculation. In a country of large landed estates the sale of public domains may conduce to the formation of a class of peasant proprietors. In a country of excessively subdivided landownership nothing may be more calculated to create a consciousness of the disadvantages of such subdivision, than for the State to retain the ownership of its domains, but to let them for large-scale farming. Secondly, it is by no means certain that from the point of view of its financial interests the State ought to sell its domains. In a country with undeveloped means of transport the sale of public domains would be an unpardonable mistake; it may be reckoned upon with certainty that by the time the country shall have become intersected by a network of railways and canals, the land will have risen considerably in value. Besides, seeing that the probability of the land ultimately acquiring greater value is greater than that of its declining or not changing in value, the onus of proof must always rest with those who advocate the sale of domains. They should be able to adduce strong reasons; they should be able to point to very solid advantages in justification of the policy of parting with property which, if the population continued to grow, might one day become a much more fruitful source of revenue to the Treasury than it perhaps is at the present time. Had the preamble to the Dutch law of 1848 been intended as a general rule, it would be very much open to question.

Does not this conflict with what has already been said against the nationalisation of the land? If it be a good speculation for the State to keep such landed estates as it already possesses, then it must be an equally good speculation for the State—so it might be argued—to purchase the whole of the land. But the sacrifices entailed upon the living generation through the State retaining possession of its domains will not bear comparison with those that would be entailed upon it by the nationalisation of all the land. Land being, as a rule, much in demand as an investment, the State will in most cases gain financially by selling its domains and applying the proceeds to the redemption of debt. So far we

<sup>1</sup> *Finanzwissenschaft*, vol. i. (Leipsic and Heidelberg, 1877), p. 370.

must agree with LEROY-BEAULIEU. When the advantage thus to be gained is very great—as, for instance, where the public domains are very extensive, or the rate of interest that the State has to pay on its debt is very high—then the sale of domains will be desirable. But, as a rule, the financial gain will not be so great as has here been assumed, and it must always fall far short of the financial loss which the purchase of all the land by the State would entail. The reason for objecting to nationalisation is that we must not impose on the living generation heavy sacrifices for the sake of an uncertain future. It does not follow from this, however, that to submit to a slight sacrifice would be equally inadvisable. A State that has contracted large loans in order to obtain possession of all the land would find that its expenditure on interest and supervision was greatly in excess of its income from rents, so that it would be obliged to add considerably to its taxation. One may very well object to this without being committed to the proposition that a State which owns domains would be acting wisely if, for the sake of a relatively small gain, it were to forfeit its chance of the advantage that would result from increase in the value of such property. The magnitude of the sacrifice must be the determining factor.

What has here been said with reference to the State is equally applicable to local authorities. Some communes own agricultural land, others building land; some both. Ought they to sell the property, or ought they not? Land situated in the vicinity of a large town may in a few years have increased greatly in value; as to this, however, there is no certainty; towns, once the most flourishing, have been known to decay. What, then, is the right course to pursue? By selling the land perhaps a momentary advantage will be obtained, but a possible future (and perhaps much greater) gain will be sacrificed. By not selling the land the chance of future gain is retained, but a present loss must be borne. For the solution of the question we know of no better method than that applied above. A Commune, we will suppose, has purchased large areas of building land and has to pay more in interest than it derives from the land. In what proportion does that excess stand to the total yearly expenditure? Is the burden of taxation heavy, and would it be considerably

lightened by proceeding at once with the gradual sale of the land? If so, it would be expedient to start selling at once; if not, such a course would be wrong. Again, the question is determined by the consideration that there is no justification for imposing a heavy burden on the living generation in order to procure a possible advantage for future generations, but that in case of a relatively slight burden the converse is true.<sup>1</sup>

### § 3

#### Fees

We use the word fees in a sense that covers every direct payment for State or communal services; every payment required to be made for the use of any institution provided by the Governing Authorities in the public interest, but not for purely fiscal purposes. Some writers have been at great pains to trace the distinguishing line between fees and prices; the only difference is that fees are a particular kind of prices: the prices of services, of actions, never of merchandise. Those who purchase tobacco from the French or the Austrian *Régie* do not pay a fee for it, nor is the payment made for gas supplied by a municipal gasworks a fee. To speak of such payments as "fees" would be wrong, not because fees are not prices, but because they are not prices of goods.

There is another reason why payments of the kind just mentioned fall outside the domain of fees. Tobacco monopolies and municipal gasworks have purely fiscal aims, while fees can only be spoken of in relation to services, the performance of which the governing authority has undertaken in the interests of the citizens, either because those services could not, from their nature, be performed by private individuals, or because they would be less efficiently performed by such individuals than by the authorities themselves. Professor SELIGMAN is quite right in saying that "the essential characteristic of a fee is the existence of a measurable special benefit together with a predominant public purpose."<sup>2</sup> With-

<sup>1</sup> We are here assuming that practical difficulties make it impossible to apply the system of granting long leaseholds at rents to be determined periodically by arbitration.

<sup>2</sup> *Essays in Taxation* (New York and London, 1895), p. 303. He adds that

out the predominant public purpose there can be no "fee." When, therefore, this term is used it should be with reference to certain kinds of law charges and registration duties; to tolls for bridges, locks, and highways; to dues payable in respect of schools, public weighing offices, markets, quays, and harbours. Among fees should also, we think, be reckoned charges for telegraphic messages, and, where there are State railways, all passenger and goods freights on such railways. For it seems to us a mistake to class railways among "domains"; it gives a grouping that may lead to misapprehension concerning the rules that must be observed in the administration of the railways.

This comparatively wide interpretation of the concept "fee," while it has the powerful support of Professor F. J. NEUMANN,<sup>1</sup> is not accepted universally. Some people think it too wide. They hold that receipts from railways, posts, and State telegraphs, ought not to be classed in the same category as law charges and the like. It behoves us, therefore, to begin with a defence of our own method of grouping, and to that end we will examine the reasons on which objections to it are based. There are three primary objections.

In the first place it is said that by giving to the term "fee" so wide an interpretation as is here proposed, heterogeneous quantities are thrown together. What is there in common between such things as school dues, harbour dues, law charges, railway tickets, postage stamps? Our answer is, that for present purposes it is immaterial whether the things paid for have anything in common or not; the question is whether the principles by which payment for those things

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"the absence of a public purpose makes the payment a price; the absence of special benefit makes it a tax." The first of these statements is not right. The "fee" is always a price.

<sup>1</sup> *Die Steuer und das öffentliche Interesse* (Leipsic, 1887), pp. 107 *et seq.* L. VON STEIN also, in the *Lehrbuch der Finanzwissenschaft*, classes railway freights among fees (cf. 5th edition, Part II. p. 294), but includes revenue from posts and telegraphs with royalties (pp. 315 and 329). With regard to the latter, see what ADOLF WAGNER says in his *Finanzwissenschaft*, Part I. p. 314.

A very interesting study is that of Dr. OTTO EHLERS, entitled "Die Stellung der Gebühr im Abgabensystem" (*Finanzarchiv*, 1896, vol. ii. pp. 1-81). This writer, too, interprets the concept *Gebühr* in a wide sense. The article is very instructive, although it is weak in parts (especially § 5), and wrongly classes payments for goods under the head of *Gebühren*.

is regulated are identical. And identical they certainly are in all respects. A characteristic common to all fees is that they constitute a full or a partial recompense for work which the State, acting for the public interest, has undertaken to perform; or for work which the State does perform in the public interest. The public interest is involved in every case; not always the same kind, but always some kind of public interest. The State does not construct railways for merely fiscal purposes: it does so in order to promote the general welfare. The Post Office is a State institution, not in the interests of the Treasury, but in the interests of the postal service. And if this were not the case—if, as Professor SELIGMANN would put it, “a predominant public purpose” were not present, this would be no reason why revenue derived from those enterprises should be classed with revenue from domains; like the revenue from a tobacco monopoly, it would have to be assigned to another class, namely, that of taxes.

But—and this is the second objection—it is denied that the principles which should govern the administration of State railways and posts are identical with those which should govern the administration of what are usually termed “fees.” The State must endeavour to increase the revenues derived from the railway and postal services, so far as possible, or, at any rate, so far as may be compatible with the purpose of those services; if they produce a large profit for the Treasury, so much the better. Can the same be said of the various imposts which have been enumerated? The framers of Article 254 of the Dutch Local Government Act did not think so; for, by that article the communes are forbidden to charge fees in excess of what shall be necessary to defray the cost; a prohibition which, some people consider, “it would be impossible to praise too highly.”<sup>1</sup>

Nevertheless, as NEUMANN very truly remarks, the maxim on which this prohibition is founded is by no means unassailable. It is quite possible that the fee, even though it were fixed at a particularly moderate figure, would yield a profit to the Treasury; and why should the State be obliged to forgo

<sup>1</sup> Thus M. W. F. TREUB, in Part I. p. 202 of *State, Provincial, and Communal Taxes: their Evolution and Inter-Relation*. The above prohibition, which was at first absolute, has been limited by the law of May 24th, 1897.

that advantage? Why should it have to fix the price of its services always with reference to their actual cost, and never according to their value to those who make use of them? The principle that "the fee must not exceed the cost" cannot be accepted in those terms. What M. CORT VAN DER LINDEN says in his *Leerboek der Financien*<sup>1</sup> is quite true. The "fee" ought not, as a rule, to exceed the cost of the public service, although that cost, according to its strictly scientific interpretation, by no means indicates the utmost limits of the fee. For, surely the service which the Public Authority performs may be worth a greater sacrifice than is represented by the cost of production? Every fee that exceeds that cost is not, therefore, necessarily a "tax in disguise."

In spite of this, M. CORT VAN DER LINDEN dislikes the idea of classing under the head of fees all revenue derived from public services that have not been undertaken for purely fiscal purposes. Such a classification, he thinks, is not felicitous. For, "the reason which leads the State to take over an enterprise," so he writes, "must not be confounded with the aim which the State has in view in working the enterprise. If the State builds railways because it wishes to promote the national welfare, the fact still remains that in the working of those railways its aim is to *secure profit*, and that the State in its capacity of railway *entrepreneur* stands in precisely the same relation to the individual traveller as the State in its capacity of mine-owner does to the individual coal or iron merchant." The fact that the efforts of the State are prompted in the one case by concern for the national welfare and in the other by concern for the national Exchequer, makes no difference in the nature of the relations between the State and the individual citizen.

So that we have a third objection: we ought to distinguish between the establishing of an enterprise and the working of that enterprise. The State builds railways in order to promote the national welfare, but in working those railways it has another object in view, namely, that of filling the State coffers. Our answer is, that things may shape themselves in this way, but where they do the railway misses its purpose unless it should happen that the interests of the community

<sup>1</sup> Cf. p. 31.

and those of the Exchequer are identical. When railways are built in order to promote the national welfare, the presumption is that they are to be worked in the public interest; if they are not worked in the public interest, then the plan is not being adhered to.

And would the relation in which the State, as railway *entrepreneur*, stood to the individual traveller be quite the same as that between the State, as mine-owner, and the individual iron merchant? Would it really make no difference as regards the relation between the State and the individual citizen, that, while the railway was built for the convenience of travellers, the mine was not worked for the convenience of those who purchase its products? This again we find it difficult to concede; it seems to us that the economic relation of the State to the citizen assumes an entirely different character where the State does not negotiate with the citizen, as does one private individual with another, but offers him certain services, the purpose of which is that they should be freely made use of.

We think, therefore, that we are justified in adhering to NEUMANN'S definition of what constitutes a fee, and that we are not obliged to limit the concept to the remuneration paid "for official acts, directed to the attainment of objects essentially pertaining to the State; for acts performed by public organs in fulfilment of the purposes of law and order," as SCHALL<sup>1</sup> expresses it. There lurks in that definition a trace of the old theory of *laissez faire*; according to which the State, whenever it appears as a direct supplier of economic wants, exceeds its natural functions. The State acts in furtherance of the public interest just as truly when it constructs railways as it does when it enforces the law. In either case it endeavours to attain an object "essentially pertaining to the State." Consequently the revenues, which it derives from both kinds of services, should be assigned to one and the same group; that is to say, they should be dealt with according to one and the same principle.

That principle itself, however, is only very imperfectly

<sup>1</sup> In SCHÖNBERG'S *Finanzwissenschaft und Verwaltungslehre* (Tübingen, 1885), p. 105.

explained by the foregoing remarks. What is the rule to be observed in regard to the fixing of fees? We do not furnish the correct answer to this question when we say that they should be so fixed that the services for which payment is demanded may be utilised as fully as possible, for that answer involves a condemnation of all fees. We have already had occasion more than once to observe that any price has the effect of reducing the demand to some extent. There would be a great increase in travelling and in the transport of goods if railways freights were very low, and the increase would be greater still if the freights were abolished altogether. The rates of postage for letters, parcels, and printed matter are low, but there can be no doubt that the work of the Post Office would be greatly increased if all these things could be sent through the post for nothing. If the rule must consist in making the service, for which the fees are demanded, as widely used as possible, then there is nothing for it but to abolish all fees.

But can this rule be applied unconditionally and under all circumstances? Every rule must be based on some principle, and on what principle could this rule be said to be based? On the principle—some might reply—of promoting the public interest, the same public interest which the State desires to serve by means of any of its institutions. Such an answer, however, would reveal a one-sided view of the public interest. Gratuitous service is impossible without increased taxation. If, for instance, Prussia, with her 16,000 miles of State railways, from which she derives a gross annual revenue of £75,000,000, were to forgo those takings, she would have to raise her income tax (which now yields her £8,700,000 per annum) to eight times its present figure, or else to adopt some other measure having the same result. In Holland the postal and telegraph services yield a gross revenue of about £1,000,000 per annum; nor does that figure represent the loss which the Exchequer would have to bear if all postal and telegraph charges were abolished, for the consequent great increase in the use of those services would entail fresh expenditure. Now, the public interest which resents increased taxation is certainly not identical with the public interest which demands low railway freights and postage rates, but it is no less deserving of consideration.

The difficulty lies in giving due consideration to *both* of these kinds of public interest. This difficulty seldom arises in the management of public domains and other property, in respect of which the State does not possess a monopoly, and which it administers entirely for the benefit of the Exchequer. Of course, in connexion with those kinds of services, too, it will behove the State not to forget that it is the State; in its treatment of its labourers and higher officials it must show itself a model employer; but a proper appreciation of its own interests would suffice to ensure its adopting such a course. A private employer may derive some advantage from being harsh in his dealings with his workpeople, but the State, which has always to think of the future, is sure to be the loser in the long run by any lowering of the moral or physical standard of the labouring population. The duty of the State in the management of public domains and similar property is in most cases simple and obvious. Here fiscal considerations may be placed in the forefront. There are some, perhaps, who would say that this rule does not apply in the case of waste lands. It might, at any rate, be questioned whether the State had not here another duty to consider as well, namely, that of contributing towards the reclamation and colonisation of those lands. But regard for fiscal interests alone should move the State to do all that is possible in that direction. The more the population advances in prosperity—and new production begets new prosperity—the larger the revenue derived from all taxes. From a fiscal point of view, for instance, it would certainly not be desirable to fix the rents charged for long leases of public lands in Java at such a figure that only a few could afford to pay them.

It is possible, nevertheless, that in the administration of public domains, cases may occur—in this complex world so many cases are possible—in which regard for the Exchequer prescribes a course of action different from that which a regard for wider interests would dictate. But such cases are the exception. They are not the exception, however, where fees are concerned. As a rule it is necessary, for fiscal reasons, that the fees should be high, and for other reasons that they should be low. This is due to the peculiar character—the origin—of this form of revenue. Once the State has entered

upon the course of providing institutions for the public convenience, of rendering services for which a payment can be demanded from every member of the community who makes use of them, it is sure, in the nature of things, to have to face this difficulty sooner or later. And then two voices are always to be heard: on the one hand, the voice of those for whose convenience the services are offered, clamouring for low fees; and on the other hand, that of the people whose business it is (or who think it their business) to look after the interests of the Exchequer, insisting on high fees. To watch the struggle between the two is not always edifying.

Where are we to look for the solution? We may look for it in constitutional law, but our search will be in vain. What constitutional law teaches with regard to fees is very simple; put in a few words it amounts to this, that the State is empowered to levy fees because a distinction must be made between expenditure from which benefits accrue to the whole country, province, or town, and expenditure from which benefits accrue to certain persons only; or which, although benefiting the whole population, does not do so in equal degree. Expenditure of the former kind should be defrayed out of taxes; expenditure of the latter kind should be defrayed out of fees, at any rate up to a certain figure. If the postal and railway services were supplied gratis, then all would have to pay for what was used by some people only—for not every one travels on the railway—or else those who make little use would have to pay for those who make extensive use of these institutions. The fees, therefore, are useful from the point of view of fairness. They are a vindication of the principle that, for some kinds of public expenditure at any rate, the assessment of the citizen must not be based on his ability to pay.

The above arguments, however, which are to be found in almost every text-book on public finance, and are very interesting, while establishing beyond all reasonable doubt the right of the State to levy fees, throw no light, and do not even attempt to throw any light, on the principles which ought to be followed in fixing the amount of the fees. Nor does ADOLF WAGNER throw any light on this point when he lays down the following general rules for determining fees.

"The service for which payment is made," says that writer, "is always of benefit to certain individuals in particular and to the community as a whole. But the proportions in which the individual and the community respectively benefit by the service vary greatly: the individual may benefit much and the community little, or the individual may benefit little and the community much. In the former case the fee should be high, in the latter low."<sup>1</sup>

This may be true when the concept "fee" is interpreted in a very restricted sense, but not where it is interpreted in our sense. Compare, for instance, canal dues with railway freights for goods—two kinds of payments, surely, which admit of mutual comparison. No State which owns and works railways would think of abolishing the railway freights; although their abolition would certainly be a greater gain to the community as a whole than it would to particular individuals. The free use of canals, on the contrary, is not uncommon. In Holland, for instance, all dues and tolls on State roads and waterways have been abolished.

WAGNER'S rule is not for that reason to be condemned, but it is valid only when other things are equal; it cannot be accepted as the only, or indeed the main rule.<sup>2</sup>

In order to find this main rule it is necessary that our minds should be absolutely imbued with the truth that, although any fee, however small, diminishes public use of the services for which it is paid, that diminution may be less detrimental than an increase of taxation. While keeping this well in mind, we shall still be confronted with difficulties in practice, since frequently there are no data for establishing a

<sup>1</sup> "From this we may also deduce the rule that governs, on the one hand, the growth of the fee until it reaches a figure at which it procures for the State what amounts to the full dividend earned by a private enterprise (in some cases even to a positive tax), and, on the other hand, the decline of the fee until it reaches so low a figure that the State has to defray nearly the whole cost of the service out of general revenue, and ultimately, perhaps, has to forgo a fee altogether."—*Finanzwissenschaft* (2nd edition), Part I. p. 326; cf. Part II. p. 7.

<sup>2</sup> The same remark applies to what LORENZ VON STEIN calls "the paramount principle of all scales of fees" (*oberste Princip aller Gebührenfusses*), when he says that "the amount of any given fee should stand in an inverse ratio to the frequency with which it has to be paid; the less frequently it has to be paid the higher it may be, for its individual character is then the more-pronounced." This, again, is only true *ceteris paribus*. Cf. VON STEIN, *Lehrbuch der Finanzwissenschaft*, 5th edition, Part II. p. 274.

true comparison between the advantages and the disadvantages that would result either from greater or less use being made of the services for which the fees are charged, or from a reduction or increase of taxation; the rule itself can then be easily stated, however. The difficulties which remain lie, if not exclusively, at least mainly in the application of the rule. We will try to make this clearer.

Suppose that a considerable reduction in the rates charged for telegrams would result in a great increase in the use, but in a still greater increase in the working expenses, of the service, so that in the event of the reduction being made one or more taxes would have to be increased. Now, is it desirable that the charges for telegrams should be reduced? Before this question can be answered, it will be necessary to weigh the gains on the one side against the financial sacrifices on the other. What would be the nature of the increased use that would be made of the telegraphic service? Would it be such as to satisfy real wants? Is the existing scale of charges, perhaps, such as to impede the prompt circulation of important news, say of prices and markets? Or would the chief result of the reduction of rates be to enable information to be sent by telegraph, when there could be no great inconvenience in sending such information by letter; in other words, would the reduction confer no real advantage? Having satisfied ourselves on this point, we should have to find out what the probable increase in the working expenses would amount to. If we find that it would not amount to much, then the possibility of even a small advantage resulting from the proposed reduction of rates would induce us to adopt the proposal. But if we were to find that a great increase in the working expenses would be entailed, then it would need both a certain and a considerable advantage to justify our adopting the proposal.

The method recommended in this illustration is the same as that recommended at the end of the previous section, that of comparing sacrifice and gain—the method invariably adopted when a thing can only be obtained at a price. To reduce fees does not *necessarily* entail loss; we have, in fact, the history of the postal service to show that fees may be reduced not only without loss but with positive gain to the

Exchequer. In that case there is nothing to render the reduction of fees inadvisable. The difficulty to which we alluded exists when the advantage of an improved service can only be obtained at the price of additional sacrifice on the part of the public. And in such cases what better method can we apply than that of inquiring into the magnitude, first of the gains, then of the sacrifice, and abiding by the result of our inquiry? We always do this when we find ourselves called upon to arrive at a decision against which we know it will be possible to urge objections. We weigh and balance, and we endeavour to attain the utmost possible advantage with the least possible loss. In deciding the fees to be charged for the use of costly public works, the determining considerations are much the same as those which led to the establishment of the works. When, for instance, the Government decides to construct a railway, its intention is, not to place this railway at the disposal of the public free of charge, but to work the railway in such a way that the Exchequer shall not suffer any serious loss. There are certain limits to the sacrifice which the Government intends to make; it is even possible that, for general considerations, the Government may have determined not to make any sacrifice at all, but, on the contrary, to secure from the railway a profit at least sufficient to meet the interest on the money which it is proposed to borrow for its construction. If, afterwards, an agitation were to take place in favour of a considerable reduction of the freight rates, such agitation being based on the general proposition that a service, which has been instituted for the advantage of commerce, ought also to be managed, so far as possible, in a manner designed to benefit commerce, the State might answer in the following terms:—"It was never my object to promote commerce at all costs; for, the maximum sacrifice which I was prepared to make had been fixed from the outset; if I were to increase that sacrifice I should be departing from my plan, and this I am not prepared to do unless it can be shown that I was wrong in that plan. I am certainly desirous of promoting commerce: the railway, in fact, exists for no other purpose; but this promotion of commerce does not go beyond a certain point which I have fixed after taking various matters into consideration."

Such has already for a long time been the course instinctively followed in the treatment of fees in actual practice, and the theory of finance would have made more progress in relation to this subject if its exponents had kept the practical side of the question under closer observation. Canal dues and highway tolls have been abolished, but railway freights never; why the one and not the other? Is it because ordinary roads and waterways are to be regarded as being "a general prerequisite for commerce," as LORENZ VON STEIN puts it?<sup>1</sup> But in many countries the same thing might with equal truth be said of the railways: what would remain of production for the world-market in the United States, Russia, the North-West Provinces of India, if these countries were to be deprived of their railways? The reason is much simpler: the financial sacrifice made by the State in forgoing the revenue from tolls or canal dues, is much smaller, and, therefore, much more likely to be thought of than such a sacrifice as would be entailed by the abolition of all railway freights; so great, in fact, is the difference, that we find the one sacrifice being actually made, while the idea of the other cannot be entertained even for a moment. Why is it that, at public elementary schools for the lower classes, pupils are admitted either at a very low charge or else free, whereas it is usual to charge fees—sometimes high fees—for attendance at secondary schools or universities? The reason is that we now consider it an absolute necessity to place elementary education within the reach of all classes of the population, and that no sacrifice must be spared in the attainment of that object. We do not consider it necessary that secondary schools and universities should be so numerously attended; in their case the charges are so fixed as to ensure a sufficient attendance, while scholarships are provided in order that promising youths of the poorer classes may not be debarred from the use of the institutions. For elementary and secondary education, again, different classes of schools with different scales of fees are established; or, at one and the same school, larger fees are charged for children whose parents are well-to-do than for those whose parents are poor. Such schemes are based upon the true consideration that a fee which would

<sup>1</sup> In the admirable essay on Fees, whereby that writer has earned so much credit (*Lehrbuch der Finanzwissenschaft*, Part II. pp. 284-307 of the 5th edition).

deter one parent will seem very moderate to another. Their object is to prevent fees from being reduced beyond what is absolutely necessary; to keep the demands that are made upon the public purse from exceeding what is unavoidable. The way in which fees are regulated in the different countries is very imperfect; frequently it is capricious, devoid of any underlying principle, ineffective. Its chief fault, however, lies in its not being in every case the simple expression of the true principle that is in fact applied in all important cases.

We have now found a general rule, and from it, unless we are mistaken, we shall be able to deduce the particular rules. We shall, for instance, be able to deduce that rule of WAGNER'S, as to bearing in mind the relative proportions in which the individual and the community respectively benefit by the service for which the fees are charged; for the more a service is productive of advantage to the entire community, the greater the gains which will accrue to that service from a reduction of its fees. The same may be said of VON STEIN'S rule that, other things being equal, more may be charged for a service of which each individual avails himself on a few occasions only, than for a service of which every one has to make frequent use; for a high fee will be less deterrent in the former than it will in the latter case. Thus, by elaborating the general principle many rules can be traced. Such elaboration can never be complete, however, if we fail to bear in mind the requirements, the resources, and the purposes of the various branches of administration. "Every branch of administration," says VON STEIN, with truth, "has its own system of fees, based on its own special arrangements and functions." But we need to know what these "special arrangements and functions" are, if we are to succeed in finding what special rules must be applied in each department in order to give effect to the main rule. Economic science cannot procure us this knowledge: it must leave it to those who are in charge of the various Government departments, to indicate the course that ought to be followed in each separate case in order to ensure conformity to the rule.

This task is not always easy; it often involves the

weighing of advantages against disadvantages, neither of which are capable of being expressed in figures. There are cases where the levying of a fee will operate in two ways at the same time: its effect will be beneficial in one sense, and at the same time harmful in another. This is certainly the case in respect of school fees. Nobody will deny where schooling is free, schools are apt to be well attended, but it is equally beyond dispute that parents are, as a rule, more concerned about the education of their children and more active in preventing irregular attendance when they have to pay something for the education than they are when the education is free. In regulating the fees, too, the policy pursued must be circumspect and tentative. In the main, however, it must allow itself to be guided by the general consideration that low fees, if they are prejudicial to the interests of the Exchequer, are *pro tanto* productive of harm. As a set-off to this disadvantage, therefore, some advantage will have to be pleaded; with those then who, in any given case, are the advocates of low fees, lies the onus of proving that such an advantage really does exist, and that it will outweigh the disadvantage.

In all such matters, however, there is one thing that must never be forgotten; the text-books do not mention it, as a rule, perhaps because it is obvious. We mean the duty of the governing authority to be humane in its treatment of the lower classes. There are cases where a very high fee might be exacted for a service without causing any diminution in the use of that service by the public. One might be tempted in such cases to argue as follows:—If we charge a low fee for this service, we inflict a loss on the Exchequer; if we charge a high fee, we shall not prevent the service from fulfilling its purpose; consequently, there is nothing to be urged in this case in favour of a low fee. There is this to be urged in its favour, that, unless the fee be low, we shall be inflicting a great hardship upon the poor, and this argument may be very forcible. Take a country with compulsory education; the father who does not send his children to school incurs a penalty. It is clear that in such a country it will be possible to charge a fairly high school fee without incurring thereby the risk of encouraging

neglect of school attendance, except among those who are unable to pay anything at all. But from the principles which we have been advocating with respect to fees, it does not follow that in such a case the alternative of high school fees should be chosen; for no objection that could be urged against high school fees could outweigh that of adopting an attitude of harshness towards those who have to pay the fees, and consequently no objection is more deserving of the very fullest consideration. This is an evil which must be avoided at all costs. Under no circumstances must the State set an example of inhumanity, of greed. On this ground a very good case could be made out in favour of a system under which the fees would not be the same for all, but would be graduated according to the means of those who have to pay them, and indeed remitted altogether in the case of some. We know that in many cases this is already being done; it is another instance of practice showing theory the way. It must be admitted, however, that here theory can do little more than dictate the principle. Humanity is a matter of sentiment: how far we ought to give way to it is a question to which the heart and not science must supply the answer.

For the proper regulation of fees there remains one further requisite, namely, that in one and the same assessment there should never be comprised both a fee and a tax.

The difference between these two is very fundamental.<sup>1</sup> By a tax we mean *any compulsory contribution towards the public funds* which does not consist in a direct payment for some service rendered. We do not mean it to be inferred from this that a tax ceases to be a tax whenever it is based upon some service rendered by the State.

It is possible to conceive that, in a country where all the schools were national institutions, the State might provide free education for everybody in those schools and recoup itself for the expenditure by an excise duty on food. In doing this it might have started from the assumption that the families who

<sup>1</sup> That is to say, from an economic point of view. From the standpoint of constitutional law, as has been frequently shown, there are no grounds of contrast between a fee and a tax; cf. *inter alia* Dr. J. T. BUIJS, *De Grondwet*, Part II. p. 580.

would have to pay most of the duty would, as a rule, be those who would make most use of the national schools. There would, indeed, be a close connexion in this case between the excise duty and the education, but we should be wrong if, for that reason, we were to style the former a fee; it would be a tax pure and simple, and we should have to call it by that name. For, the connexion would consist entirely in the fact of the State levying an excise duty to cover the cost of education; that cost might cease to be incurred while the excise was maintained, and conversely, the excise duty might be abolished while the expenditure on education was maintained or even increased.

What constitutes the characteristic feature of a tax is, that there exists no direct connexion between it and any particular item of public expenditure. Taxation and expenditure are connected with each other in the mind of the legislator, and even in the mind of the people; as a matter of fact they are independent of each other. And in practice this independence is usually very great in our day. In former times it was not unusual to set aside the proceeds of particular taxes for the purpose of defraying the cost of particular branches of the public service; this practice has, however, been always declining, and it is now the general custom to allow the proceeds of all taxes to flow into a common fund. We all know very well that protection against enemies abroad and at home, the advancement of arts and sciences, the extension and maintenance of public works, the care of the public health, and so on, represent the equivalent which the State offers in return for our taxes. Thousands of services are recompensed out of what we pay. But none of us can say of an ordinary tax<sup>1</sup> what services it is destined to recompense. In the case of a fee there is never the least uncertainty on this point.

But when does a fee cease to be a fee in the ordinary sense? When does it comprise an element of taxation? Some hold that it does so from the moment that it exceeds the sum which it has cost the State to provide the service in respect of which the fee is charged.<sup>2</sup> We quoted above<sup>3</sup> the passage

<sup>1</sup> Of the special assessment we shall speak later.

<sup>2</sup> Amongst others, Professor SELIGMAN (*Essays in Taxation*, pp. 278 and 298-99) adopts this view.

<sup>3</sup> P. 364.

in which Dr. CORT VAN DER LINDEN combats this opinion. If the rate of postage for letters and parcels were to be reduced, and if by reducing them the Post Office were enabled to secure larger gains for the Exchequer, the postage rates would not alter in character as a result. They might do so in the event of the additional gain being secured by increasing the rates themselves; but even this would not necessarily cause these to alter their character; for, in spite of the increased rates, the postal service might still remain an institution for the public advantage, that is to say, an institution which, if left to private enterprise, would confer fewer public advantages. The element of taxation does not enter until the moment when—to borrow EHLER'S epigram—"instead of fees being born of the State's activity, the activity of the State is born of the desire for fees." The natural relations are reversed. "The State, hungering for taxes, copies the outward semblance of the fee, so as to render the proposed impost more acceptable; that which constitutes the essential element of the fee—some useful service—it puts aside."<sup>1</sup>

This may be—and in the case assumed by EHLERS it actually is—carried so far that there no longer remains any vestige of a fee. When, for instance, it is decided that unregistered documents may not be employed in legal actions, and in the case of some of these documents the registration confers no advantage that might not be equally well obtained by other means, then the duty charged for such registration is taxation pure and simple. But often the circumstances are different from this—less simple. Then the formalities for which the State demands payment really do possess some value; that value may even be great. It is not so great, however, but what many would avail themselves of the freedom of not complying with those formalities, owing to the great expense which they entail, had not the State, by means of appropriate rules, either restricted that liberty, or else provided an inducement for many people to do the very thing which, for fiscal reasons, it wished them to do. In such cases there is a combination of a fee and a tax. The State performs a service for those who make use of its institutions, but it

<sup>1</sup> *Finanz-Archiv*, 1896, ii. p. 24.

charges much money for this service; and in order that the high price may not prove too strong a deterrent, it devises a number of artificial stimuli, which shall be strong enough to induce a large number of people to overlook the objections. In short, the State uses its authority as law maker in order to cause its service to acquire an enhanced value. It succeeds in giving rise to certain difficulties, and in this way manages to get itself well paid for a service, for which, otherwise, only a few people could afford to pay a high price. The result of this is, that both a fee and a tax are comprised in the payment—a fee for what the State does towards removing the difficulties which existed of themselves, a tax as the price for removing the others.

But how much of the one and how much of the other ingredient is contained in any impost nobody can tell, and this in itself, apart from other drawbacks, is a serious objection against such combinations. Taxes must be regulated according to sound principles: how is this to be done if nobody knows how much is being paid in taxes? The same thing applies to fees. For certain services the impost may have been too high or too low. Who can tell, where nobody is in a position to say how much of a composite impost is made up of the fee element? Before we can tell whether or not a fee is excessive, we must know how much it is, and this we can never know when the two kinds of impost are fused in one.

Whenever this fusion occurs—we may state this as our conclusion—neither the one nor the other kind of service can be properly regulated. The State, which combines these heterogeneous imposts, places itself beyond the possibility of providing so that taxes and fees shall conform to the requirements of fairness. And if the whole sum which, in a given case, has to be paid in respect of fee and tax combined, happens to be very high, there arises a new objection, namely, that many people will have recourse to devices for evading the payment. It is a matter of common knowledge, for instance, how often documents are drawn up in a defective manner with the object of evading the proportionate registration duty. It is equally well known how many false statements used to be contained in deeds of sale with a view to evading payment

of part of the high duty of  $6\frac{1}{2}$  per cent. formerly charged on transfer of property. Nor has this evil been altogether cured by reducing the duty to 2·15 per cent.

All this involves a condemnation of taxes which *cannot be levied otherwise* than by combining them with fees. And if such taxes are open to still other serious objections, then they are doubly deserving of condemnation.

We will conclude these remarks by answering a question which arises out of ambiguity in the use of terms.

When a Local Authority concedes to a particular company, or limited number of companies, the right to supply the inhabitants of the place with gas or water, or to provide them with a tramway or omnibus service, the concession is usually conditional upon the company or companies paying a yearly sum to the municipal treasury. In common parlance such yearly payments too are termed "fees." We must see, however, if they are rightly so termed. The question is not devoid of interest for a reason which will presently appear.

We have, in fact, to distinguish here between two component parts of the payment. It may be that, in order to put the company in a position to carry on its business, the Local Authority has had to incur, and may have to keep on incurring, certain expenditure. Now, in so far as the yearly payment is simply a recompense for this expenditure, it cannot possibly be a fee, and is simply a refund of expenses. We will, therefore, leave this part of the payment out of consideration and confine our observations to the remaining part. Our question will then be this: In so far as the payments which companies have to make to Local Authorities, in respect of concessions held from the latter, do not consist in compensation for expenses incurred for the benefit of the concessionaries themselves, ought those payments to be regarded as fees?

It will help us to find the correct answer to this question if we find out, first of all, who it is that pays these moneys. Seemingly it is the companies who do so; but after a little reflection we realise that the payment is made by others, namely, by those who make use of the companies' services. However difficult the question as to the shifting of taxes may be as a rule, here there is, in most cases, no reason whatever

for doubt; least of all when the granting of the concession is accompanied by the fixing of a scale of rates which the enterprise shall be permitted to charge. For what concessionary, when discussing the scale of charges, will fail to make due allowance for the payment required to be rendered in respect of the concession? Some Local Authorities invite public tenders for the right to supply gas. The prices at which the gas may be supplied are fixed; it is stipulated, amongst other things, that, after the expiration of a certain period, the works shall become the property of the Municipality without payment; the tenderer is then required to state what proportion of his takings he is prepared to pay to the Local Authority. Supposing the Municipalities had not imposed all these conditions, and had simply invited companies to state the price at which they were prepared to supply gas, and then granted the concession in every case to the company which offered to do so at the lowest price, would the gas consumers of the various localities have to pay as much for their gas as they do now? Of course not; the payment which the concessionary company has to render to the Municipality raises the price at which that company will supply its products or services. We might now enter into a subtle argument with the object of proving that the sum which a gas or water consumer, or a person who makes use of the tramways or telephones, brings annually into the municipal coffers by doing so, is a fee in the ordinary sense of the term; that it constitutes so much recompense for the passive service rendered by the Municipalities in permitting the placing of pipes beneath the road, of rails along its surface, and of telephone wires overhead, and in continuing to allow these things to be kept in proper repair. To us, however, it seems both simpler and more correct to regard those payments as ordinary taxes levied in an unusual way. In saying this, we express no opinion, favourable or otherwise, respecting the nature of such imposts; we merely indicate the light in which we think they ought to be regarded. They may be said to resemble excise duties; they are, in fact, excise duties. The Municipality might enter into an agreement with the various companies who render annual payments for their concessions, whereby these payments should be remitted on

condition that the companies reduced their scale of charges. Those who hold that the Municipality ought to adopt this course show thereby that, in their opinion, it would be better that the Municipality should substitute some other kind of taxation for this indirect tax. On the other hand, those who approve of the existing arrangements thereby commit themselves to the opinion that excise duties on tramway tickets and gas are quite well adapted to municipal finance—an opinion the correctness of which we shall have to examine in the third chapter, dealing with the regulation of taxation.

We propose now to pass on to a new subject, that of the pressure of taxation. What is it that constitutes this pressure? How can it be shifted? How can it be amortised,<sup>1</sup> and to what standards must it conform in order to be equally distributed?

<sup>1</sup> The subject of the amortisation of taxation is dealt with further on, pp. 396-414.

## CHAPTER II

### THE PRESSURE OF TAXATION

#### § 1

#### The Severity of the Pressure of Taxation

WHAT does the pressure of taxation consist in? A cursory inquiry suffices to teach us that this pressure does not consist solely in the reduction of incomes brought about by the taxation. It may be heavier than what is implied in that direct reduction of incomes, but it may also be lighter.

It is heavier when the taxes hamper production. The income of the nation is thus reduced not only by what the Government takes from it for public purposes, but also by the decline caused by restricted production. Suppose the taxes to amount to £10,000,000, and the aggregate of incomes to £200,000,000; if there were no taxes, or if the taxes were apportioned in some other way, the aggregate of incomes would amount, say, to £220,000,000. In that case the yearly sacrifice made by the nation would amount, not to £10,000,000, but to £30,000,000; not to one-twentieth, but to nearly one-seventeenth of its income.<sup>1</sup>

Both the *interest* a nation has in producing abundantly as well as the *productive energies* of a nation may be weakened by taxation.

A weakening of the former results from taxes which are assessed on the gross product and which cannot be shifted on to the purchasers. If the land-tax were so arranged that land-

<sup>1</sup> See also the example given by Dr. K. WICKSELL in his *Finanztheoretische Untersuchungen* (p. 17). He there assumes the case of a monopolist; but his demonstration applies with equal truth to the production of an entire nation.

owners were assessed, not according to the net annual value of the land, but according to the value of their crops, then certain branches of agricultural enterprise which entail very heavy expenditure would be impeded—would perhaps cease to be engaged in at all; the landowner who farmed his own land would cease to have anything to do with them, while the man who let his land would forbid his tenants to engage in them in order to escape the higher assessment. This is the objection commonly urged against what are called tithes; they constitute an obstacle to intensive cultivation of the land—an obstacle which, in practice, is of little importance so long as scarcity of capital, lack of culture, and a superabundance of fertile land renders intensive cultivation impossible and unnecessary, but which with the growth of population, of capital, and of knowledge assumes a serious character. Land taxes should never be assessed on the gross, but always on the net product of the land; they should be assessed on what remains after all those who have taken part in agriculture have found a normal recompense for their labour, their management, and their capital.

But even where land taxation is assessed in this way, it may have a detrimental effect on production—not directly but indirectly, in so far as it may render it disadvantageous to improve the land. Suppose there be a tax of 20 per cent. on the net annual value, and the rate of interest be 5 per cent. If there were no tax, the landowner would always find it to his advantage to carry out every improvement by which he was able to secure an income of more than 5 per cent. on the capital employed therein. As it is, however, he has to pay 20 per cent. of the net annual value to the State, so that he has no interest in undertaking any improvements unless he expects them to yield him something over  $6\frac{1}{4}$  per cent.; for, in reckoning the assessable rent, the interest on the capital used in improvements is never taken into account. We are here assuming that the land tax is altogether wanting in the quality of fixity; and in doing this we are assuming what is nowhere the case, namely, that the rents on which the tax is assessed are valued afresh each year instead of the same valuation holding good for a long series of years. And the smaller the percentage rate of the tax, the less weighty the

objection to which we are here referring. Land taxation, therefore, according to the system obtaining in most civilised countries, cannot be regarded as constituting an impediment to the improvement of the land; the fault of the system in most cases lies in not re-valuing rents at sufficiently short intervals, and sometimes in excessive moderation in fixing the percentage rate of the tax. It is not, however, solely with a view to being exhaustive in the handling of our subject that we have dealt with this point; for it is not much more than sixty years since the burdens on the land had attained such proportions in England as not only impeded the improvement of the land, but made it difficult in some parts of the country to engage in agriculture at all.

Another form of taxation which has a prejudicial effect on production is that of export duties. Like tithes these duties are assessed on the gross product, consequently they are open to the same objections as tithes. If we wish to form a correct judgment of the consequences of such taxes for the national welfare, we must ask ourselves how production is affected by the decline of prices. For tithes and export duties are just that and nothing else; they take something off the prices received for the goods to which they apply. Whatever the amount appropriated by the Exchequer, the producer receives less by exactly that amount. Now, we know how a decline in prices operates. There are always certain lands which can only be cultivated with advantage when certain prices prevail. There are always certain factories which only yield a moderate profit. There are always certain openings for the employment of capital towards increasing production in existing agricultural and manufacturing enterprises — openings which, from a commercial standpoint, become impracticable so soon as there is a fall in the selling price of the product. Knowing this, we are able to say what the effect of export duties will be. We know that they will impede the cultivation of certain fields, that they will cause some undertakings to be abandoned, and prevent others from being extended or carried on with greater energy. And this will have a detrimental effect, not only on the welfare of those whose products are taxed, but on that of the nation

as a whole. Levying duties on important articles of export lessens opportunities for employing capital and labour with advantage; it causes the liberation of a certain amount of capital and labour, which then seeks employment in the untaxed industries; the effect of this is to depress the general level of wages and interest, that is to say, the labour price. In a country where high export duties are levied on articles which are of great importance from the point of view of trade, the monetary recompense of capital and labour must necessarily be lower than would otherwise be the case.

We can prove the correctness of this conclusion in another way by making use of the theory of the balance of payments. Suppose a tax to be placed on exports so that these are made to decline. Now the balance will no longer be maintained; a drain of gold will set in, nor will it cease until money has risen in value in the country in which the tax has been introduced; that is to say, until the general level of prices in that country has fallen. It seems strange, but is nevertheless true, that the effects of export duties are, in the main, the same as those of import duties, inasmuch as both cause a shrinkage of the aggregate volume of trade. Import duties cause goods to become dearer and increase the labour price, whereby *export trade* is impeded. Export duties make goods cheaper and reduce the labour price, whereby *import trade* is restricted. Both cause production to assume a new form. There is less production for foreign markets; more for the home market. But then we have to remember that both put an end to part of the gains to be derived from international trade. And if the country where such duties are levied has its own shipping, or has built railways with its own resources, a further disadvantage has to be faced in the reduction of the incomes hitherto earned by that shipping and those railways.

Were it not that we have already dealt exhaustively with the protectionist system elsewhere, we should now have occasion to discuss this subject. The essence of all protective duties consists in the fact that, as such, they are never levied in the interests of the national Exchequer. A State which levies such duties must be dissatisfied if they yield a large revenue, for then it is evident that they are far from fulfilling their

purpose, which is, to restrict the importation of certain kinds of goods. Relatively low rates of duty are profitable, as a rule, from a fiscal point of view. Often the revenue derived from a tariff has been found to decline after the tariff has been raised, and to increase after it has been reduced, and each such case has been a new proof that the amount of a tax is a very bad measure of the burden which that tax entails; for under the high tariff less will have been paid although the sacrifices were greater. But to dilate upon this would be superfluous, after all that has been said on the subject of protection. Equally superfluous would it be to prove in detail that certain import duties may do great harm to commerce and manufactures owing to the measures which the revenue authorities have to adopt in order to ensure their being productive. Even a tariff, which, as regards the goods selected for taxation, is so constructed as not to be protective, may place a heavy burden on part of the population; it may do this even though the duties which it imposes be not particularly high, or the articles which come under its operation be such as, considered in the abstract, are very well able to bear a high tax.

Production, in the second place, is obstructed by anything which weakens the productive forces of a nation. This alone is a serious ground of objection against taxes imposed on the necessaries of life. Apart from other objections which may be urged against such taxes, they are attended with this great drawback, that they frequently lead to a reduced consumption of necessary things, or to the use of substitutes. The working-classes have to economise in things in which it is impossible to economise without reducing the physical powers either of the adults or of the young people, and generally of both. Inadequate feeding is not only an effect but also a cause of low wages, because wages are in a great measure determined by the quality and quantity of what the worker produces.<sup>1</sup>

Does it follow that taxes which impede the formation of capital are to be condemned? The productive power of a nation depends not alone on the physical powers of that nation, but also upon the aggregate of the instruments of production which it has at its command. Whatsoever checks the growth of the latter must, therefore, be prejudicial to the

<sup>1</sup> See Vol. I. pp. 321-323.

national welfare just in the same manner as a tax on the necessaries of life.

The question is of importance primarily with regard to the taxation of large incomes. As to this, there can be no doubt that a very wealthy man, one whose income far exceeds his expenditure, pays his taxes out of the balance remaining to him after he has satisfied all his wants. For such a man increased taxation does not entail curtailment of his expenditure on luxuries, but the accumulation of less capital. This may not be altogether true of taxes imposed on particular kinds of expenditure, such as that entailed by the keeping of servants or horses; but it is certainly true of taxes assessed on income or property. And should there be any who are inclined to dispute even this, surely they must admit that, in the case of very wealthy people at any rate, a large part of what is paid in taxation is withheld from savings. If, therefore, we are opposed to taxes which check the formation of capital, it means that we disapprove of the imposition of heavy taxes on the very rich. It also means that we are opposed to heavy death duties. In many cases these may ultimately be paid out of income, but it is certain that in many other cases they will not, and in any case they always come out of property in the first instance. The sum inherited is the balance of the property bequeathed which remains after payment of the death duties.

It is not superfluous to direct attention to this. We frequently find socialists advocating a progressive income or property tax with such a scale of progression as would bring very large incomes under an assessment of 20 per cent. or more. Such proposals, of course, are prompted by a desire to improve the lot of the working-classes, but their acceptance would not bring about the desired result. If it be true (and we think we have proved it to be true) that increase of the instruments of production helps to raise wages, then whatever retards such increase must be harmful in its effect on wages. A socialist would probably express incredulous surprise were he to be told that a heavy tax on the rich might have about the same consequence for the poor as would, say, a moderate tax on wages. And yet it is a proposition which can be proved, that whatever the amount the rich have to pay in taxation their savings will be less by the whole or by a part of that amount.

If, however, any one were to maintain on these grounds that the very rich should, in the interests of the rest of the population, be entirely exempt from taxation, he would be mistaken, and for three reasons. In the first place, because savings are accumulated by the less well-to-do classes as well as by the very rich, though not in very large sums. The more the rich were exempt, the more the people of moderate means would have to be taxed; and as the latter are a numerous class, a certain influence would, as before, be exercised on the formation of capital. The rich man who pays the tax out of his savings does so because he does not want to reduce his other expenditure; the man whose means are only moderate does so because he cannot reduce his other expenditure; but as regards the increasing of the instruments of production the result is in both cases the same.

In the second place, because the unfavourable influence which the moderate taxation of large incomes exercises on production can never be said to be immediate; in no case can it be said to be anything but a remote influence. But if the proposition, which we shall enunciate later with a certain degree of emphasis, and which is one of the principal canons of taxation, namely, that the State must not place any hindrance in the way of production—if this proposition must be interpreted in so wide a sense as to require due consideration to be given to every remote and possible effect of a tax, it would scarcely be possible to point to a single tax which does not violate this rule. In speaking of effects which are prejudicial to production, we are thinking primarily of those which are immediately prejudicial, and more especially of taxes which trench on capital itself—taxes which make it unprofitable for certain instruments of production to be put to such use as is most desirable from an economic standpoint. Not that the remote effect is to be lost sight of; but seeing that it is a factor which is never altogether absent, we need not do more than note it in those cases in which its presence is asserted in a very prominent way.

In the third place, we would observe that a tax which is paid at the expense of savings, or even a tax which is paid out of property, does not necessarily exercise an influence upon the quantity of instruments of production *in a particular*

*country.* Here, as in many cases, it is necessary to distinguish between general and local results.

If, in a country which possesses instruments of production and securities, taxes are levied which are paid out of property, it is quite possible that the result will be to reduce that country's stock of securities only. The nation will then indeed have lost some of its wealth and some of its income, but it will still possess the same quantity of instruments of production as it did before. Or suppose that part of the nation's savings have always been invested in foreign stocks, and that the only effect of a decline in savings is a decline in the imports of securities. Here again the tax which checks savings will certainly have an effect upon the increase of property and income, but not upon the increase of instruments of production.

Probably that is what really happens in small countries which own a relatively large amount of securities. We cannot assume that taxes which diminish savings, or even such as are paid out of property, will have any marked effect on the stock of capital in such countries. Unless we are mistaken, their effects will then be entirely, or almost entirely, confined to other forms of property; fortunes and incomes will certainly be reduced, but not the instruments of production. For, were the taxes to operate in some other way: were they to have no effect on the stock of securities, or on the growth of that stock, so that capital invested in agriculture, manufactures, shipping and commerce would be reduced or hindered in its growth, then a rise in the rate of interest would be inevitable, and a rise in the rate of interest results in the exportation or in a diminished importation of securities. If this reasoning be correct, then it would show that the effects of placing heavy taxes on the very rich are most harmful in countries which own few securities, or in countries owning securities for which no market can be found abroad. It would also show that, to a country whose neighbours are large owners of foreign securities, it cannot be a matter of indifference if those neighbours impose such taxes. The trade carried on in securities helps greatly towards equalising the rate of interest on capital. Just as exports of securities are a means of obtaining capital from abroad, so imports of securities are a means of reducing the stock of capital in the country.

So far we have confined ourselves to production. But in order to realise that the burden of a tax cannot be measured by the annual sum yielded by that tax, we must also have regard to consumption. Whenever an excise or import duty is levied on an article, that article rises in price, and every rise in price, as we know, restricts consumption. If the excise duty on sugar were to be abolished in Holland, a considerable increase would take place in the amount of sugar consumed. If the import duties on tobacco were to be abolished in England—where they sometimes amount to as much as three shillings per pound on the unmanufactured leaf, and yield about eleven millions sterling per annum to the Exchequer—the people would smoke very much more in England. In this respect all taxes on expenditure operate in the same way, though not all in the same degree. In Holland people have to pay to the State a tax of 8 per cent. on their house-rent, and this is increased by further percentages payable in respect of provincial and local taxation, so that the 8 per cent. mounts up to 12 and even 16 per cent. on the more highly rented houses. There can be no doubt that many people find in this a reason for occupying a less expensive house than they would otherwise have chosen.<sup>1</sup> The nature and extent of our expenditure is more strongly influenced by taxes on expenditure, the lower we descend in the scale of welfare. A tax on carriage horses will deter but few from keeping a carriage; it is quite certain, however, that where there is a tax on domestic servants it causes many people to keep fewer servants than they otherwise would.

It means a sacrifice to deny ourselves a pleasure. You are subjected to a burden when, owing to taxation, you are obliged to refrain from expenditure in which you might otherwise have indulged. The Government lays an excise duty on article A and leaves article B exempt. If no duty had been imposed on either, you would have bought the former; now you buy the latter. Do you therefore escape the effect of the tax? As regards your money, yes; but not as regards your enjoyment. And the burden thus imposed on certain classes of the population, though it cannot be estimated in pounds, shillings and pence, may be heavy. What was said above

<sup>1</sup> See Vol. I. pp. 131-132.

with regard to taxes on the necessaries of life may here be repeated in part.

Taxes, which the people to a very large extent escape by using less of the article taxed, or by using substitutes and articles of inferior quality, are not very profitable to the Exchequer. They hamper people quite unnecessarily. Their abolition would be a great relief and would not cause any appreciable loss to the Exchequer. Such taxes are perhaps the only ones which one can safely condemn without having previously compared them with others. Their effect is like that of a toll-gate where the toll is so high that scarcely any one passes through the gate.

## § 2

### “Deflection”<sup>1</sup> of Taxes

So far we have only shown that the pressure of a tax may be greater than would appear from the sum of money which it yields in the form of revenue; now we propose to show that, for another reason, the pressure may be less owing to the possibility of part of it being what is called “deflected.” Taxation is said to be “deflected” when the pressure is either (a) borne in part by the foreigner, or (b) avoided altogether. We will take the former sense first, that of deflection to the foreigner. We might have deferred the discussion of this matter to a later section in which we deal with the theory of the shifting of taxation; but we think it better to confine ourselves there to the subject of shifting as between members of the same community.

One way of “deflecting” part of the pressure of taxation to the foreigner is by means of import duties. This point has already been explained in the section dealing with protection.<sup>2</sup>

<sup>1</sup> [The Translator has been unable to hit upon a less assailable rendering for the Dutch word *Afwenteling* here used by the Author. Like the corresponding German word *Abwälzung* it means, literally, rolling off (e.g. a burden). In any other connexion than the present, “shifting” would be a possible, and even preferable, rendering; but that term has to be reserved as the rendering for *Overdracht*, which the Author uses in the heading to § 4 of the present chapter (p. 414 *post*).—A. A. W.]

<sup>2</sup> Pp. 202-204 *ante*.

There we went into the question whether it was possible for the foreigner to have to bear a part of the burden of high import duties levied by ourselves, and we found that it was, because a rise in prices must always reduce demand, and a reduction of demand is prejudicial to the person who offers the supply. There can be no doubt that, when a great country starts to levy a heavy duty on an article, of which it had been in the habit of importing large quantities, the price of that article in the world market will fall; more especially will this be the case if the heavy duty is causing a strong development of the industry which it protects, and the decline of demand in the world market is therefore very appreciable. Such of the foreign *entrepreneurs* as were only just able to make a modest profit at the old prices will then have to close their works, while the others will have to be content with smaller profits. Or, if the article should happen to be a product of agriculture, a part of the lands which had previously been employed in the production of that article will then have to be put to less profitable uses, and agricultural rents will decline. Consequently the country with the high import duties will suffer less injury from these duties than would otherwise inevitably be the case. The taxed goods will certainly become dearer, but not by the full amount of the tax. A part of the tax will be "deflected" to the foreigner, and in certain circumstances that part may represent a very considerable proportion of the whole.

Only a part, however, of the burden, be it remembered, and never the whole, can be "deflected" to the foreigner. The price in the world market cannot fall by the full amount of the duty; to get rid of the whole of the burden is impossible. Just consider what it would mean supposing it were possible. It would mean that in the country where the duty was levied there was no rise whatever in the price, notwithstanding the duty. But if the price in that country does not rise at all, neither will there be any decline in the demand for the foreign article in that country; moreover, in other countries where the price has fallen, demand will increase, because at a low price demand is always greater than at a high price. Now let us review the situation. We have the price remaining the same in the country which resorts to protection; we see

increased demand in the world market; we also see reduced production,—all these things owing to a decline in the price in the country of production. Such a state of things cannot last. The price in the country of production, although, owing to a fortuitous combination of events, it has fallen by the full amount of the import duty, will rise by just as much as is necessary for the restoration of the equilibrium between supply and demand at some other point situated between the old price and the new. The contention that import duties are *nothing other* than taxes borne by the foreigner is altogether wrong.

When discussing this point before, we observed that in the case of import duties levied by a small country, practically none of the pressure can be “deflected” to the foreigner because the demand of such a country counts for nothing. We now add that precisely the same is true in respect to export duties. A small country pays these duties itself in the manner described in the former section; a large country may “deflect” a part of the burden of payment to the foreigner.

In order to illustrate this we will suppose the United States to place an export duty on their raw cotton (so as not to make the question too complex, we will assume that they also levy export duties to an equivalent amount on yarns and tissues). Now the effects of this measure will at first be confined to the United States themselves. Cotton growers in the States will earn less money than before, but beyond this nothing will happen at first. This will not last, however. While for some cotton growers the reduced earnings will only mean a certain decline in profits, for others they will prove a matter of grave importance. Now that the price of cotton has fallen in the United States, the least fertile lands in that country can no longer be used for cotton growing; they will therefore be abandoned, or used for growing some other kind of crops. The result of this will be a reduced supply of cotton in the world market.

Reduction of supply leads to a higher price; therefore cotton prices outside the United States will advance somewhat. They will not be able to advance by the full amount of the export duty, for this would imply that an advance in price has no effect on demand, whereas we know the contrary

to be the case. The price will oscillate between the old figure and the same figure increased by the export duty until, on the one hand, sufficient demand has been destroyed, and on the other hand sufficient production has been restored to establish equilibrium between demand and supply. Thus we see that the duty will not fall exclusively on the United States, but also to some extent on all countries which are in the habit of purchasing American cotton. Again there will be the "deflection" of a tax; to what extent, however, will depend upon many causes, especially upon the decline which took place in the production of cotton at the time when the export duty had to be borne by the planters alone.

Small countries, however, are not always at a disadvantage in comparison with larger countries as regards "deflection" of taxation; the reader will have realised this already if he has borne in mind what was said in the previous section concerning taxes that check the formation of capital. Suppose that heavier death duties were to be levied in England, or suppose that a strongly progressive scale of income tax were introduced in that country, so that large incomes were taxed there much more heavily than now. If either of these measures were to result in a rise in the rate of interest in England and the export of securities from that country, such export would be stopped by the fall in the prices of these securities in the world market much sooner than it would under similar circumstances in Holland. The fact that neither the supply nor the demand of a small country counts for much in the world market operates to the detriment of small countries in the case of import and export duties, but it operates to their advantage in the case of taxes which diminish or check the growth of capital. Holland might export very large quantities of securities to foreign countries—very large quantities in proportion to her total stock—before any appreciable effect were produced thereby on the prices of securities abroad.

Besides the "deflection" in virtue of which part of the pressure of a tax is borne by the foreigner, there is a second kind, to which the adjective "complete" is applied, and which is also termed "compensation"; the domain peculiar to this kind of "deflection," if we carefully mark its boundaries, will be found to be very restricted. For

it cannot be said of people that their "deflection" of the burden of taxation is "complete" if, in order to be able the better to bear it, they perform more arduous or prolonged labour. They may by such means succeed, after satisfying all the demands of the Government and Local Authorities, in retaining for their own use as much income as they would otherwise enjoy; but they cannot for that reason be said to have escaped the burden; we should not be putting their case very inaccurately if we were to say that they had converted their taxation into labour. Such conversion is of frequent occurrence. There can be no doubt that heavy taxation is a stimulus to effort. But by working more we do not get rid of the burden: we simply alter its shape.

The only case in which the "deflecting" of the burden can be said to be "complete" is when *entrepreneurs* adopt technical improvements with the object of escaping the tax. Manufacturers, for example, have to pay an excise duty, assessed on the quantity of raw material used; they then discover some means whereby they can get a larger quantity of the finished product from the same quantity of the raw material, or the same quality of product as before from an inferior quality of raw material. They then earn large sums at first, but presently there come competitors and the product falls to a price which is lower than the old price as increased by the tax. The Exchequer now gains by an amount corresponding to the fall below the last-named price, and the gain costs nobody anything. It will have been seen from our illustration, however, that it is never possible to discover the limits of the area within which the complete "deflection" of the tax is taking place, and also that it must in most cases be of a temporary character. Under the stimulating influence of the sugar tax, when that tax was still assessed on the quantity of raw material used, the German sugar manufacturers invented the diffusory system, and, mainly by means of that system, succeeded in reducing considerably the number of pounds of beet-root required for the production of a pound of sugar. But even if there had been no tax, there can be no doubt that the improved process would have been adopted some day, though its advent would probably have been delayed somewhat. As a general proposition it may be asserted with good

reason that pressure begets ingenuity; the technical progress which is usually to be observed in industries suffering from depression lends support to this proposition. The human intellect, which requires to be powerfully stimulated from time to time, would probably become less active if all taxation were to cease. It would be impossible, nevertheless, to determine even approximately the extent of the influence exercised by taxation in this respect. All that can safely be said is, that the legislature, if it bears this influence in mind when framing measures of taxation, will be acting in the interest of the national welfare. The point is of practical importance more especially in connexion with the regulation of excise duties.<sup>1</sup>

### § 3

#### “ Amortisation ” of Taxes

We have now to speak of a very interesting phenomenon, which may arise in connexion with certain kinds of taxes—that of amortisation,<sup>2</sup> as it is called. The meaning of this term will be best explained by an example.

Suppose Holland were to do as Austria did in 1868, and to lay a special tax on the interest of the National Debt, so that the tax were to fall, not on Dutch holders only, but on all holders of the stock without exception; then the market value of stock of the Dutch National Debt would decline, and this decline would bring about what is called amortisation of the tax. Future buyers of Dutch Government stock, although a part of the original rate of interest was being withheld from them, would not suffer the least injury in consequence. The person who buys  $2\frac{1}{2}$  per cent. Government stock now gets no less advantage from his investment than the person who buys 3 per cents. But if by means of a tax the 3 per cent. were to be reduced to  $2\frac{1}{2}$  per cent., then the 3 per cents. would be obtainable at the same price as is now paid for the  $2\frac{1}{2}$  per cents.; probably even at a lower price, because the credit of the Dutch Government would have been considerably shaken.

<sup>1</sup> Cf. J. R. M'CULLOCH, *A Treatise on the Principles and Practical Influence of Taxation and the Funding System* (3rd edition, Edinburgh, 1863), pp. 156-159.

<sup>2</sup> [Also called “Capitalisation.”—A. A. W.]

For the future holders the tax would be completely "amortised."

Many writers discuss amortisation when treating of the shifting of taxes. We think it is better to deal with the subject separately, for amortisation is the exact converse of shifting, since it is the means by which shifting is prevented. On whom will the burden of the tax rest, in the example which we have just given? We have seen that it will not rest on the later holders of the stock. It rests, and will continue to rest, on those who were holders at the time of the introduction of the tax. By getting rid of their stock they do not get rid of the burden which has been placed upon them. It will be as if the State had exacted a capital sum from all its creditors, or had dispossessed them of part of their property without compensation. If the rate of interest had remained the same, and each entry in the Register of the National Debt, or each State bond, had been reduced in a certain proportion, the effect would have been the same so far as the then holders were concerned. Mark this, however: although a time will come, as it did after Napoleon's Decree of July 1810,<sup>1</sup> when it will scarcely be possible any longer to distinguish the persons who still continue to be at a disadvantage as a result of the measure, those persons will, nevertheless, still continue to exist, for the loss, once suffered, is never repaired; it passes to the heirs of those on whom it originally fell. There must be at this day, in Holland or elsewhere, people whose aggregate income would be about £2,000,000 per annum more than it is, were it not for the above-mentioned Decree.

In the foregoing we have explained what is meant by the amortisation of taxes, but as yet we have said little as to the conditions under which amortisation may take place. The case which we took as an example was extremely simple. A tax was put upon a particular source of income, upon the interest on a security which can be bought or sold anywhere; as a result, that security declines in the estimation of everybody who has the whole or a part of his property to invest—it declines in the same proportion as does the rate of interest. It is almost self-evident in this case that the amortisation ensues at once and that it is complete. But in some cases one

<sup>1</sup> [See Notes at end of present volume.—A. A. W.]

cannot be sure that it will ensue at all, and there is also uncertainty as to how far it will reach if it does. For amortisation may be complete or it may be incomplete; it may be rapid or it may be slow.

In order to explain this we will give a second example. Suppose a tax be imposed not only on the interest of the National Debt, but on all coupons of bonds, all dividends from stocks, and that means are devised for preventing any evasion of the tax. How will it be with the amortisation in this case? We feel at once that this question requires some consideration. The case is not so simple as the previous one. Here we have a problem which must be carefully examined at the outset.

When we examine it in this way we see that we have here a combination of two kinds of taxation. The tax on the National Debt reaches every holder of such stock, whether he be a native or a foreigner; it is what is called a real tax.<sup>1</sup> The essential characteristics of real taxation are (*a*) that it is intended to reach a particular source of income, and (*b*) that it reaches that income, irrespective of the nationality or the circumstances of the person who enjoys it. It *adheres* to that income as it were. The land tax, for example, is a "real" tax; it is paid by every person who owns landed estate in the country where the tax is levied; other examples of "real" taxes (levied in Holland) are the business tax which is assessed on the dividends of joint-stock companies—many foreigners have to pay a share of this—and the annual payment which has to be made to the State by the Netherlands Bank in consideration of the rights accorded to that institution under the law of August 7th, 1888; a Swiss or a Frenchman who purchases shares in the Netherlands Bank contributes his share of that payment. We are not now discussing the question whether real taxes are equitable or not; we only wish to bring into relief the characteristic features of such taxes, and

<sup>1</sup> [By those who are acquainted with the terminology of continental systems of finance it may be recognised that what the author calls "real taxation" (*Zakelijke belasting*) corresponds to what French writers call *impôts réels* and German writers *Ertragsteuern*, when they are speaking of taxes for which the thing, and not the person, is primarily responsible. The student will bear in mind that throughout this work the word "real" is never used with reference to taxation in any other sense than that just stated, never, *e.g.*, in the sense in which it is used in the United States where "real taxes" means taxes on real property.—A. A. W.]

these have now been made clear. Real taxes are imposed on some income-yielding commodity, irrespective of the person in whose hands that commodity happens to be.

The tax which, in our first example, we supposed to have been levied on stock of the National Debt was of this kind ; but not the tax on foreign securities. So soon as the latter have been acquired by foreigners residing abroad, they cease to have anything to do with the tax. Holders of Austrian bonds, of Russian bonds, or of American railway debentures continue to draw just as much income from these various securities as before, unless they happen to be residing in Holland. The tax which falls on these securities in Holland is not, and cannot be, a real tax ; a real tax on securities could only be levied in Holland on securities of which the coupons are not payable anywhere except in that country. It is clear, therefore, that, between the market prices of Austrian and Russian bonds, etc., on the one hand, and Dutch National Debt stock on the other, there will arise a difference in value, or that the existing difference (if any) will become wider. This, at any rate, will be the immediate result.

But is there not something more to be said in the matter ? We see at once that there must be when we take note of the strange state of things that has come about in Holland. We call the new state of things strange because, as regards the direction in which his advantage lies, the position of the Dutch capitalist who wants to invest money is now entirely different from that of the foreign capitalist who wants to do the same. Prior to the introduction of the tax both the Dutch 3 per cents. and the Prussian 3 per cents., let us say, were being quoted at par. The tax amounted to one-fifth of the interest, and caused the Dutch 3 per cents. to drop to 80, while the corresponding Prussian stocks remained at par. Clearly it will now be more advantageous for Dutch capitalists to buy Dutch than to buy Prussian 3 per cents. ; for they will have to pay a tax on both, and they can get the former at 80. We shall thus see large quantities of foreign bonds, now of one kind, then of another, leaving Holland ; in no country, on the other hand, will there be so good a market for stock of the Dutch National Debt as in Holland itself. The price will rise above 80, and the foreigner who never pays more than

80 for it so long as he can buy Prussian 3 per cents. at 100, will send all the Dutch stock that he has to Holland. It is not inconceivable that the Dutch demand may be strong enough to send up the price of the Dutch stock to very nearly 100; for, whatever the Dutch capitalist pays—no matter how little—short of that price, brings him an advantage in comparison with the income which he derives from foreign stock. If he pays 90 he gets 2·66 per cent., while the Prussian 3 per cents. at par only bring him a clear 2·40 per cent. Whence it follows that the process of amortisation, if it shall have set in at the outset, will quickly cease to a great extent. It cannot cease altogether, for the simple reason that if the Dutch 3 per cents. were to reach par the preference which they were enjoying in Holland would lose its *raison d'être*.

How other Dutch stocks will fare, will depend on two things: on the manner in which the tax is regulated, and on the saleability of those stocks abroad. If they are taxed in the same way as the National Debt, or if, for any reason, they should fail to find a market abroad, then their prices will be more on a line with those of the Dutch National Debt. But if they are taxed in the same way as the foreign stocks, so that the tax falls only on Dutch holders, and if, moreover, they are readily saleable abroad, then like the Austrian, Russian, and others, they will at first be exported in large quantities. Now it must be kept well in mind that the more nearly the stock of the Dutch National Debt, and those home securities which are not readily saleable abroad, revert to the prices from which they have declined, the weaker will become the inducement for people in Holland to get rid of other stock in order to buy those mentioned above. The business to which the tax has given rise will at last cease. A larger proportion than before of the securities of all kinds held in Holland will then be Dutch.

But then, too, the total amount of securities held in Holland will have become smaller, and this brings us to a new side of the matter, a side which, more than any other, we must be careful not to overlook. In Holland, according to our hypothesis, interest from all kinds of securities is subject to taxation; but not interest from all kinds of investments; not interest on capital advanced on mortgage or personal security,

or on simple note of hand; not interest earned by employing capital in selling on credit; not interest on discounts. However large the amount accruing in respect of coupons and dividend-warrants may be in a country like Holland, the amount of interest accruing on other kinds of investments is still larger, whether it be received in its undiluted form or in combination with other kinds of income. The effect of taxing interest on other kinds of securities will be, that for the whole, or for a part of such fortunes as are invested in funded debts, new investments will be sought. Purchases from abroad of National Debt stock will not be made to the full extent of the securities that are sent abroad; a considerable part of the liberated capital will be invested in mortgages or other loans, or in industrial enterprise. The result of this will be that the Dutch 3 per cents.—which, by our hypothesis, have fallen to 80—will not be able to approach their former price so closely as they otherwise might. Holland will become, on the whole, a bad market for securities. Investments in the Dutch National Debt, as well as in all other national stock whose price follows that of the National Debt, will still, it is true, be preferred to investment in foreign stocks, but purchases will not be so large as before; sales will preponderate. And this will continue until the newly imported capital has caused the rate of interest to decline to a level at which many people will again desire to invest in foreign stocks.

Unless we are mistaken, two important things concerning amortisation are to be learnt from all this.

In the first place we learn that in order to admit of amortisation, a tax must be real, or must practically amount to a real tax (as is a tax on securities which are not readily saleable abroad). If, to revert to our second example, the tax on the National Debt had been levied on the same terms as that on foreign securities, that is to say, if the foreign holder had not had to pay any share of it, why should its price in the world market decline? For the foreigner it will be worth as much as it was before. The tax would have no effect on the market value.

Some might be disposed to question whether the contention, that in order to admit of amortisation a tax

must be real, does not require some limitation. It might be asked, for instance, whether the contention was fully applicable in the case of a large country? The question is not unreasonable. Suppose, for instance, that Germany were to lay a heavy tax on securities, payable only by people living in that country, this would result in a large export of stocks from Germany, and that export would not, like the comparatively small export of such a country as Holland, be without effect on the general level of prices of securities. Here, surely, there would be amortisation. Complete it could never be, of course. If, for instance, the tax amounted to one-fifth of the interest, the stock would certainly never fall in that proportion: in the first place because, however large the amount of stock thrown on the market by Germany, it would still be too small to produce such an effect as that; in the second place because, so soon as the rate of interest in Germany had fallen owing to the cause just mentioned, Germany would cease pouring stock into the market. Still, here would be a case of amortisation; not complete, indeed, but still amortisation, without any real tax having been levied.

We do not believe, however, that this would be a correct use of the term. It would not be a case of amortisation in the strict sense of the word, rather would it be a manifestation of that economic solidarity among the nations which is growing stronger and stronger in these days of international intercourse. Whenever, in a large country, incomes from securities are subjected to a tax, it amounts to the same thing as if a bounty were given in that country on employing or lending instruments of production (otherwise than through the agency of a joint-stock company). Capital then flows into the country and becomes scarcer elsewhere; securities flow out of the country and become more redundant elsewhere. This is not amortisation in the true sense, because the prices of stocks now decline not only in the country where the tax is imposed, but in other countries as well. Money is lost not only by the German holders of securities, but by all holders of securities. We have here to do with a phenomenon to which either of the terms "deflection" or "shifting" would be more fittingly applied; for owing to the export of securities the tax is partly transferred to others, its burden distributed.

We feel bound, therefore, to adhere to our statement that only real taxation admits of amortisation; or the proposition might be stated thus: amortisation of the whole, or of a considerable part of a tax is possible only in the event of such tax being real.<sup>1</sup>

If amortisation is to take place, certain conditions must be fulfilled. Now these conditions are not always fulfilled; much less are they always fulfilled in their entirety. Thus every case in which it is desired to know whether amortisation is possible or not must be separately investigated. If the tax is real, then one of the conditions is indeed fulfilled, but not all. This was proved by our second example. The tax on the National Debt was real in the strict sense, but in the end it was barely amortised. And if, in our hypothesis, we had had in mind, not Holland, but some country with a very small National Debt, the whole of which was easily invested within the country itself, the result would have been still more striking.

By way of further proof that every real tax does not necessarily admit of amortisation, we may revert to the conclusions to which we were led by our inquiry into the rent of houses. We found<sup>2</sup> that wherever population and prosperity are on the increase, and, therefore, houses have to be built, taxation of the land is the same in its effects as a rise in the rate of interest. The man who expects 4 per cent. for his money does not invest in building a house of which the net rent cannot yield him more than 3·6 per cent. But more than that he cannot get if the rent, after allowing for cost of upkeep, only amounts to 4 per cent., and he has to pay 10 per cent. of that balance in the shape of general and local land-taxes. Under such circumstances the man would delay building until the rents of houses had risen to the point at which a clear 4 per cent. remained after the taxes had been paid. Wherever there exists a demand for new dwellings, land-taxes are shifted to the occupiers. But this is just because the land-taxes are not amortised in such places.

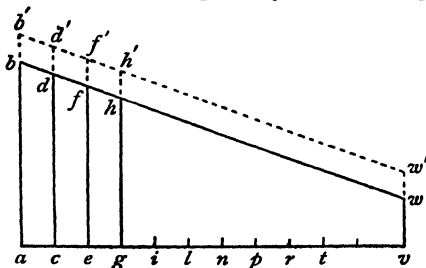
But as we were at pains to point out at the time, there is a very remarkable circumstance to be noted in connexion

<sup>1</sup> The pressure on the prices of securities would, of course, be much greater than has here been assumed if the securities were subjected to heavy taxation *in all countries*. But then this taxation would, practically speaking, be real, for all holders of securities would have to pay it.

<sup>2</sup> Vol. I. pp. 152-154.

with this shifting, namely, that it can never apply to more than that part of the land-tax which falls on the rental value of the building; under no circumstances will it be possible to shift that part which falls on the site. Suppose, for instance, that in an outlying part of the town there stands a house that fetches a yearly rent of £100. The ground has no value for building purposes in that part of the town, so that practically the whole of this £100 may be regarded as rent for the house. In one of the busiest parts of the town stands another house, in no way better than the first, but worth twice as much owing to its better position. What our demonstrations amounted to was, that if the land-tax in this town comes to 10 per cent., or £10 for the one and £20 for the other house, only one-half of the latter sum, *i.e.* of the £20, can be shifted to the occupier. Were the land-tax to be abolished, then, after new houses had been built and house-rents had fallen in consequence, the two houses would fetch, not £90 and £180, but £90 and £190 respectively per annum.<sup>1</sup> Our statement that a land-tax on property that has been built upon is not subject to amortisation therefore needs some modification. What we should say is that such a tax is *shifted* in so far as it falls on the rental value of the buildings themselves, and *amortised* in so far as it falls on the rental value of the land. It can hardly be necessary to remind the student that it is amortised—and wholly so—in places of declining population or prosperity. It is only through operating as a check upon building enterprise that land-taxes can cause house rents to rise. But this check on building enterprise is of no account in a locality where house

<sup>1</sup> The subjoined figure may be taken to represent the effect of the land-tax on the rent paid for houses. At



each of the points *a, c, e, g, i* to *v* is a house; the lines rising perpendicularly from those points represent the rental values. Now the tax, which constitutes  $\frac{1}{n}$ th of the lines *ab, cd*, etc., can never cause those lines to rise to the extent of that  $\frac{1}{n}$ th part, but only to the extent of  $\frac{1}{n}$ th part of the line *wv*, in which, according to

our hypothesis, practically no rental value of site is comprised.

rents have fallen so low that, irrespective of the tax, there can be no notion of building for profit.

Before proceeding to deduce a practical conclusion from all this—and the occasion for doing so is not wanting—we have one or two more remarks to make regarding amortisation. The first is that the person who purchases a taxed property and stipulates for an abatement of the price in consideration of the tax, cannot always be sure that the abatement is just enough or that it is not either excessive or inadequate. Suppose that he is buying land which is subject to a land-tax of 12s. 6d. per acre. It is quite possible that owing to a revision of rental values this 12s. 3d. may be reduced to 10s., or that it may be increased to 15s. Nobody can ever tell, years in advance, whether or not a revision of rental values will take place, or according to what rules and with what degree of accuracy it will be carried out if and when it does take place. But even while the land-tax itself remains unchanged, its pressure may become greater or less than could have been foreseen at first. The pressure becomes greater when the annual value of the land declines, because the tax constitutes a larger percentage of the whole; similarly, when the annual value increases the pressure becomes lighter. It is sometimes maintained that a land-tax, if it is to admit of complete amortisation, must represent a *fixed amount*. This is wrong. In order to admit of complete amortisation the land-tax must represent an unvariable portion of the net yearly return. Fixity of amount would make the amortisation incomplete.<sup>1</sup>

In the second place we have to observe that amortisation is not prevented if the real tax to which it relates, though indeed consisting in a certain portion of the taxed income, still consists in a portion which is subject to variation. A

<sup>1</sup> A person wants to invest £10,000 in land, and he is content if his investment yields him 3½ per cent. He buys 40 acres at £250 per acre, from which he gets a return at the rate of £10 per acre, or £400 in all. The land-taxes amount to £1 : 5s. per acre, or £50, so that he retains a balance of £350 or 3½ per cent. on his investment. Now suppose the return to be reduced by one-half while the land-taxes remain the same as before. His net income will then be reduced to £150 or 1½ per cent. Now, if the land-taxes, instead of remaining the same, had also fallen by one-half, his income would have been £175 or 1¾ per cent. And this sum would also have represented his income if there had been no land-tax at all. The income from his investment would in that case, too, have declined from 3½ to 1¾ per cent. per annum.

land-tax of which the percentage-rate of assessment changes from time to time is capable of being amortised; but here again the amortisation would not be what is strictly meant by that term. The purchaser calculates on a chance, and his calculation may be verified or it may be falsified. Should it be verified, then not only will he suffer no loss through the tax, but the circumstance that its rate of assessment was uncertain at the time when he acquired possession of the property will actually enure to his advantage. Should his calculation be falsified, then the reverse will, of course, happen. Again, a real tax which appeared to have a character of fixity when the purchase was made, may subsequently become variable. In that case a new amortisation must take place, and our purchaser must bear the disadvantage of it.

By degrees we have been approaching the question which has a special claim to our interest in this connexion; we mean the question as to the manner in which a land-tax<sup>1</sup> affects the land itself. A land-tax possesses all the qualifications requisite for amortisation since it is a real tax and its burden cannot be shifted to others.<sup>2</sup> When such a tax is introduced or increased, for those on whom it falls the effect is that of a partial expropriation, the detrimental consequences of which they continue to bear even after they have sold their property, since the sums offered by the purchasers of such property will be less by an amount corresponding to the capitalised value of the tax. But it is precisely for that reason that the purchaser bears no part of the burden of the tax. He will, indeed, pay every year to the National Exchequer a certain share of the income yielded by the property, but for him this will be no more of a sacrifice than it is for any one who purchases National Debt stock on which a tax has to be

<sup>1</sup> In future we propose, for the sake of brevity, to use the term "land-tax" when speaking of a tax laid upon land which has not been built upon, for the term ought not really to be applied to a tax on land which has been built upon. The former is a land-tax *par excellence*; the latter is not.

<sup>2</sup> See Vol. I. pp. 103-105. Only if a land-tax were to be increased to such an extent as to prove a check upon improvements, and assuming that this were to happen in so many countries as to prove detrimental to the supply of agricultural products, would it be possible for the tax to affect the prices of such products.

paid. The tax exercises its influence in the determination of the price. The pressure of the land-tax really rests only on those who were owners of land at the time of its introduction or increase, or upon the heirs of such owners. If the properties have passed by sale into other hands, and if, in the meantime, the tax has remained unaltered, then the new owners will not pay any more than they reckoned on having to pay when they were calculating the purchase price. In other words, so far as they are concerned, the tax has been amortised.

Nevertheless, it is true that here again the amortisation may be incomplete. If we carefully examine the calculation given by way of illustration in the footnote on page 405, we observe that if the land-tax consists of a fixed sum, then with a decline of rental value the tax falls on the purchaser of the property, and it does so to an extent corresponding to the decline in that value. For example, the land-tax amounts to £50 and is allowed for in the purchase price. So long as the rental value does not fall, this £50 constitutes no true tax for the purchaser; but if the rental value falls by 10 per cent. then he becomes taxed to the extent of £5; if it falls by 20 per cent. he bears a tax of £10; and if it declines by one-half, his tax is £25. Mr. W. P. J. BOK has referred to this point in his academic thesis entitled *The Dutch Parliament and Taxation*.<sup>1</sup> "When the price of the produce declines or the harvest is bad," says this writer, "the land-tax operates as an income-tax. How high this will be is unknown. With a rise in the

<sup>1</sup> *De Belastingen in het Nederlandsche Parlement*, vol. i. pp. 177-199. Mr. BOK also mentions as another cause of imperfect amortisation a fall in the rate of interest. His demonstration amounts to this. A person buys land on which there is a land-tax of £10. In consideration of this tax he gives £200 less for the land than he would have given had there been no tax, for the rate of interest is 5 per cent. He now has to invest this £200, and if the rate of interest falls from 5 to 3 this investment will bring him £4 less than he had reckoned on getting. In short, he will have been mistaken in his amortisation of the land-tax; he will have reckoned it at a figure which has turned out to be too low.

This reasoning is perfectly sound, subject to one condition, namely, that the purchaser of the land has invested the £200 either in a loan on mortgage, or else in funds which were either subject to redemption or stood at a price so near par, that they were in danger of being converted as soon as the rate of interest should fall. But nobody compelled him to adopt the one course or the other; he was a perfectly free agent in deciding to incur the risk of a change in the rate of interest. This cause of imperfect amortisation may therefore, we think, be left out of consideration.

income from the land the reverse, of course, takes place. Then the purchaser, by reason of the land-tax, will have received a gift at the cost of the original owner. Now the worst of this is that in bad years extra taxation is demanded from the land-owner, while in good years he enjoys an extra benefit. By making the periodical valuation of taxable income at somewhat short intervals this evil is of course mitigated, but it is by no means removed." The writer of this ingenious argument believes that by it he has proved existing real taxes to involve "uncertainties and injustices," and he has in fact proved this to be so. He might, however, have selected any other kind of taxes—even the income-tax—as the subject of his argument, and criticised them with equal ingenuity and equal justice.

But what we have now to examine is not the desirability of introducing a land-tax; such a tax already exists, and we have to see how it operates. As regards its capability of being amortised it is imperfect, we admit; the amortisation may prove insufficient or it may prove excessive. In the case of changes in the rental value of the land, however, these imperfections will balance each other; what the land-owner loses by reason of the tax at one period, he will recover at another period through the same cause. And if the general tendency of rents be upward, he will certainly have no cause of complaint. Moreover, every buyer and every seller of real estate will have been able to allow for the imperfect amortisation of the land-tax. Any one who invests part of his capital in land is perfectly well aware that the rental value of that land may fall, and that the land-tax may yet continue unchanged for a long time after. A person selling real estate knows quite well that the rental value of the property may rise, and the purchaser in that case gain a double advantage unless the land-tax be at once raised. These contingencies are weighed by both parties when the property is changing hands.

And now as to the conclusion to be drawn from all this. The conclusion is that there is no reason why the Government, when introducing a property tax or an income-tax, should exempt owners of real estate on the ground that they already pay

land-tax. One man has £1,000 to invest, and with it he buys securities which bring him £40 a year. Another invests the same amount in land, which, after allowing for the land-tax, the dykes rates,<sup>1</sup> and the cost of upkeep, also brings in £40 a year. If now the State imposes on the first man a tax from which it exempts the second, does it act rightly or does it act wrongly? The imperfect amortisation should be a reason for making the periodical revaluations more frequent and regular than they have hitherto been in most countries, for no land-tax admits of such complete amortisation as does one that consists of an unvariable portion of the real rental value of the land. But the imperfect amortisation ought never to be invoked as a reason for exempting owners of real estate when an income or property tax is being introduced.

The truth of this statement has sometimes been disputed, but if we attempt to give form and body to the theory which is advanced against it, we always arrive at a formula which involves absurdities, and which we cannot, therefore, believe it possible for our opponent to accept. What is it that he contends? That real taxes do not affect the selling value of the property on the income of which they fall? This would mean that the price of Consols would not fall if a real tax of 10 or 20 per cent. were to be imposed on income derived from Consols. Or are we to understand that the effect is disputed only in the case of a real tax on land? But nobody disputes the effect which rent-charges and similar burdens have on the value of any property on which they happen to be imposed. Or can it be meant to admit that, in general, and even in regard to land, a real tax does indeed produce the effect which we are now discussing, and to deny that it does so only in the case of a land-tax levied by the State? Who, we should like to know, would make himself responsible for so strange a doctrine?

Opponents of the view set forth in the foregoing pages have always failed to state a general proposition from which one could deduce with logical accuracy what really are their views as to the operation of land-taxes. As a rule, they confine themselves to disconnected observations. We will mention a couple of them, so as to give the student an opportunity of judging of their quality.

<sup>1</sup> [See Notes at end of this volume.—A. A. W.]

The farmer, it is said, in order to carry on his business—usually the only business which he understands—is often obliged to purchase land. In this case he has no choice; and although nothing would suit him better than to deduct the capitalised land-tax, yet if the vendor objects to his doing so he must just accept the vendor's terms. To this we would reply that in most cases the farmer really has a choice; he can choose between renting and purchasing the land; since by renting the land he would escape the obligation of paying the land-tax, we cannot agree that if he were to purchase he would not discount the land-tax. And those desirous of using the land themselves are not the only persons who want it as an investment. Surely the latter will not fail to take the land-tax into consideration?

Besides, the argument proves too much; if it were sound, then one might prove that a decline in prices of agricultural produce and farm stock has no effect on the price of land—which is contrary to all experience. For here again the same process of reasoning might be adopted; it might be said that the farmer had no choice: he absolutely must have the land; he would very much like to deduct from the former price a sum sufficient to compensate him for the decline in the prices of produce, but the vendor will not agree to this; consequently the farmer must pay the old price. Does the purchaser of the land, when fixing what sum he shall offer, base his calculations upon the probable *net* yield, or does he not? If he does, then a fall in the prices of agricultural produce will exercise some influence, but so also will the land-tax. If he does not, then how explain the well-attested influence of the first-named cause?

It has also been attempted to deny the effect of a land-tax on the selling price of land by pointing to the fluctuating and, therefore, uncertain returns yielded by agricultural enterprise. The farmer who works his own land cannot reckon exactly what income it will yield him; a variety of circumstances, such as the weather, prices, etc., affect the result. Consequently, it is said, the farmer has no fixed basis for a true calculation of what the land is worth him, and the tax will not weigh with him in making his estimate.

Here the fact is lost sight of, that, although the return

from land, which the farmer works himself, may be variable, the tax on the land is not variable. There may be no fixity in the sum from which the tax is deducted, but there is a fixity in the deduction itself. And that is all we are concerned with here. The burden imposed upon the owner is a sum of money subject to but little variation and representing a negative monetary value, and that negative monetary value admits of being easily computed. Even though a fixed basis for forming a true estimate of the land be frequently lacking, it is by no means impossible to form a very true estimate of the sum that ought to be deducted from the purchase price in respect of the tax. For this very reason the tax is a factor in determining the value of the land, and since it is the simplest and safest of all the factors to be considered in the matter, it can never fail in its operation. Whatever else may be doubtful, it is at any rate certain that the land-tax will have to be paid. The only question on which there is room for uncertainty in determining the value is, how much the land is worth after deducting the capitalised value of the land-tax.

Yet another objection, and one of more importance, is urged against the theory that we have been maintaining. It does not amount to a rejection, but only to a limitation of this theory, and is as follows.

Suppose all incomes in a country, except those derived from land, are subject to income-tax, while the land is subject to a real tax. Then the real tax will only be amortised in so far as its amount exceeds that of the income-tax. If, for instance, the latter were 4 per cent., while the former, together with its additional percentages, amounted to 7 per cent., then only the difference between these two figures, viz. 3 per cent., could be amortised, since those who sell securities or call in money invested in loans, etc., in order to buy land, will fall under a higher tax to the extent of that 3 per cent. only.

If we are willing to waive our regard for the strictest accuracy, we may indeed accept this argument. The price of the land in this case will ultimately be depressed only by a sum equivalent to 3 per cent. of its rental value capitalised.

If, however, we examine this result closely, we discover in it the operation of two mutually conflicting forces. With

one of these we are already acquainted; if it were operating alone it would *depress* the price of the land by the capital value of the whole 7 per cent. Opposed to this force, however, there is in the present case a second force of which we have not yet spoken, and which, if it were operating alone, would raise the price of the land by 4 per cent. of its rental value capitalised. What was stated above is the *resultant* of these two forces, and it is necessary that we should recognise it as such.

There is the amortisation of a tax, but there is also such a thing as the amortisation of *exemption from a tax*, whereby the advantages arising from the amortisation are not enjoyed by those who enjoy the exemption. In a town, for example, a tax is levied according to the rental value of houses, and is payable by the occupiers; properties situated in a particular neighbourhood are, however, exempted from this tax, the exemption having been granted at some remote period for the purpose of encouraging building in that neighbourhood, and having never been revoked. Do the occupiers of the exempted houses enjoy any advantage by reason of this? Apparently they do, for every one else is paying the tax and they are not. It is obvious, however, that competition for the exempted houses will have sent up their rents above the normal level by about the amount of the tax saved by the occupiers. In this way their gain will have become quite illusory. The people who have really benefited are the owners; and not the present, but the original owners, for the present owners will have paid prices based on abnormal rents. In any case, the exemption from the tax will have been amortised so far as the occupiers of the houses are concerned. The same thing happens if all incomes, except those derived from land, are subjected to a percentage income-tax. An inducement is then created to invest in land, and this inducement lasts until the price of land has risen by an amount corresponding to the capitalised sum of the tax. Should there happen to be a land-tax in operation at the time, then a twofold effect will be produced as we have seen. The exemption from the income-tax is amortised, but so also is the land-tax. The latter reduces the purchase value of the land, the former increases it. The existence of these two kinds of amortisation should never be overlooked by a

Government desirous of abolishing exemptions from taxation. There may be reasons why it must not allow this consideration to influence its decisions, but it should be able to state those reasons, and it cannot afford to neglect this point. Public opinion is always apt to regard the continuance of exemptions as an injustice. We have now seen that there may be injustice in not continuing them.

But just as it often requires much study in order to discover whether a tax has been amortised, so there is often great difficulty in judging whether an exemption has been amortised. The fact that the exemption is an old-standing one does not warrant the assumption that it has. Suppose, for instance, that the salaries of public officials are exempted; this exemption *may*, but will not necessarily, be amortised. It will be if—and only if—by reason of the exemption, these salaries are lower than they otherwise would be. We should, therefore, have to inquire—say, by comparison with salaries in private employment—if this really is the case. And it is as likely as not that the result of our inquiry will not point to amortisation, for the salaries of public officials are not governed exclusively by the law of supply and demand; many other factors also operate in determining their amount. When a decline takes place in the level of salaries earned in private employment—as may happen, for instance, after a decline in food prices—the salaries of public officials remain unchanged as a rule. Even this may become a cause which operates against the amortisation. Moreover, the amount of the tax from which exemption is granted has to be considered. If that amount be small, the depressing effect of the exemption on the level of the incomes in respect of which it is granted will be scarcely perceptible, for, in the case of official salaries, the relation between amount paid and value of services rendered is never so close as in the case of wages paid on the piecework basis.

To come back to our subject: we now perceive that a land-tax, when levied concurrently with an income-tax from which the land itself is exempt, only admits of partial amortisation. If the two taxes be equally heavy, there will be no amortisation whatever; and if the land-tax be the lighter of the two, then the reverse of amortisation will take place. Nevertheless, the economic law which we have here endeavoured to explain

will have been in full operation in these cases. Only another economic law will at the same time have been operating in the opposite direction, and its force may be less than, or equal to, that of the other law, or it may even be greater.

When we survey the course of this demonstration, we find that the main truths with regard to amortisation may be summarised as follows:—

I. Only a real tax, or a tax which operates wholly as a real tax, admits of amortisation.

II. Not every real tax, however, is necessarily amortised; amortisation does not take place, for instance, in respect of that part (if any) of the tax which is shifted to others.

III. Amortisation of a tax may in every case be wholly or partly neutralised by the counteracting cause, which consists in amortisation of exemption from the tax.

IV. If a real tax consists of a fixed yearly sum, and if the annual yield of the property whose income is taxed remains the same, the whole of such tax is amortised; then, should the annual yield of the property decline by 10, 20, or 50 per cent., the proportion of the tax borne by the owner will be also 10, 20, or 50 per cent. On the other hand, a proportionate advantage will accrue to him if, in the circumstances stated, the annual yield of the property should increase.

## § 4

### The Shifting of Taxation

We have now come to one of the most difficult subjects in the whole field of economics—that of the shifting of taxation.

There is no need for a detailed explanation of what is meant by the shifting of a tax. Frequently a tax is believed to be shifted when in reality it is not; frequently a tax is really shifted and none but the discerning notice it; but the phenomenon itself, its nature and its forms, are known to all.

A merchant pays import duties and recoups himself by charging so much more for his goods. The working-classes of a given country or locality are burdened with heavy taxes; if they succeed in shifting their burden, it may be that they do

so by exacting higher wages. A manufacturer has to pay an excise duty to the State; he will shift the whole or part of this duty on to the consumers of his product if he manages to secure higher prices for that product than would otherwise have been possible. In the last section we spoke of the way in which a land-tax on buildings will operate; such a tax, too, is shifted by adding something to the price, *i.e.* charging a higher rent for the buildings. This is the most usual way of shifting a tax, but it is not the only way, for a tax may be, and often is, shifted by taking something off the price. The merchant who imports goods may transfer a portion of the import duty to the foreigner who sends him the goods. We have shown that not only is it possible for him to do this, but that he does it always to some extent, and sometimes to a large extent. In the case of the workpeople who enjoy increased wages, their advantage may consist in receiving the same amount of money as the workpeople in other places, but having to spend less on house-rent; their real wages will then be greater than those earned elsewhere, and this excess will be obtained at the cost of the local house-owners, and the manufacturers whose products are subject to excise duty may perhaps fail to sell large quantities of their products after having increased the price by the full amount of the duty. In that case they must adopt some other expedient, such as paying less in wages or for raw material, and if they succeed, it will again be a case of shifting by a process of reducing. It will be evident to the student that the shifting of a tax may involve both processes—increasing as well as reducing—at one and the same time; that it may involve all kinds of things, in fact. In certain books we find statements of the various forms which the shifting of taxation may assume—statements that leave nothing to be desired as regards completeness. But if we study the conditions under which taxes are shifted, we recognise these forms ourselves, and what concerns us here more than anything else is to obtain a correct knowledge of those conditions. That taxes are shifted is, as we have said before, a matter of common knowledge; everybody knows that it is possible for one class to feel the pressure of taxes which have been placed on the shoulders of another class; everybody knows, too, that this may come about

through the free play of demand and supply, although the Government never intended it. But under what circumstances does this take place? This is the only question with which we need concern ourselves here.

As the starting-point of our inquiry we will choose a proposition which has been enunciated in Part I. of this work, and on which it is necessary once more to throw some light. Speaking of the relation between the rent of land and the prices of agricultural produce<sup>1</sup> we said that there were only two causes which can bring about changes in the price of an article, namely, changes in the "schedule of prices"—by which is meant that, at the same prices, the sales of the articles may be greater or less—and changes in the quantities offered for sale. These two causes are the only ones. "In spite of any understanding that may have been arrived at amongst the sellers of an article, provided they do their best to sell as much of it as they did before, the price of that article cannot rise unless the schedule of prices has changed in favour of the sellers." To this we would now add that, whatever may have happened to increase the effort of production or the producers' necessary expenses, so long as this increase does not influence the quantity of the article offered for sale, so long will it fail to influence the price of that article. The so-called cost of production never operates directly; it operates through the fact that its reduction or increase causes increase or shrinkage of the supply. Failing such increase or shrinkage, no sign whatever of any effect will be discoverable.

If this proposition—which we shall have to invoke repeatedly in the following pages—were undisputed, it would only be necessary to advert to it. RICARDO, however, disputes it in the thirtieth chapter of his *Principles of Political Economy and Taxation*,<sup>2</sup> where he speaks of the contention that prices are regulated solely by supply and demand as "a source of much error in political economy although it has almost come to be regarded as an axiom in that science." And much later, there occurs in one of those admirable essays with which Dr. E. NASSE has enriched *Hildebrand's Jahrbücher*, a passage which shows that that writer agrees

<sup>1</sup> Cf. Vol. I. pp. 94-95.

<sup>2</sup> Ed. M'Culloch, pp. 232-234.

with RICARDO.<sup>1</sup> We will therefore explain our reasons for thinking that it is not the contention which RICARDO rejects, but the theory which he advances against it that should be regarded as "a source of much error."

This will require no lengthy proof. Suppose that, of a given article, there can be sold

100,000	at 3s.	each.
1,500,000	,, 2s. 6d.	,,
2,000,000	,, 2s.	,,

At the price of 2s. 6d. each just 1,500,000 of the article can be supplied; at this price, therefore, the supply and the demand coincide; and 2s. 6d. will be the average price of the article in the market.

Now suppose the effort of production to be increased, or that a tax is imposed; as a result it becomes impossible to supply 1,500,000 of the article at less than 3s. each. According to RICARDO and NASSE it will now be possible for the price to rise to 3s. without the supply declining by 500,000. In other words, while only 1,000,000 of the article can be sold at a price of 3s. each, the price will rise to that figure although the supply continues to amount to 1,500,000. One sees at once that this is impossible. Either the producers will continue to supply 1,500,000 of the article, in which case there will be no change in the price; or they will refuse to sell it at less than 3s., but in that case they will only be able to dispose of 1,000,000 of it. Where there is no monopoly, says NASSE, market prices are determined by the cost of production. Precisely; but why could not the words "where there is no monopoly" have been omitted here? Because when the cost of production of an article is reduced, while its market price remains the same, the supply of the article will not be increased unless there be free play for competition. Without the condition as to the absence of

<sup>1</sup> "Where there is no monopoly it is impossible for a material change to take place in the expenditure of capital and labour required to produce a commodity without a corresponding change also taking place after a time in the ratio of exchange between that commodity and others whose expenses of production have not changed at all, or changed to a much smaller extent. That any change should at the same time take place in the supply of, or the demand for, the commodity is not an essential condition" (*Hildebrand's Jahrbücher*, vol. lii. p. 656.)

The same idea is expressed by J. S. MILL, *Principles*, Book III. chap. iii. § 6.

monopoly RICARDO'S proposition would not be true; but if a change in the supply or demand were not a *sine quâ non* for a change in the price of the article, then the proviso as to the non-existence of a monopoly might well be dispensed with. The theory which NASSE rejects in his second sentence he tacitly supports in his first. He begins by *implying* that a change in the supply is essential and concludes by *saying* that it is not. What he implies is correct, what he says is not.

We will therefore take as the starting-point of our inquiry into the shifting of taxation the theory described by RICARDO as a source of error. The subject being a wide one, we shall have to confine ourselves to essentials. We propose, therefore, to examine successively the effects of (1) local inequalities in the pressure of taxation, (2) excise duties on industrial products, and (3) State taxes on food. Under a fourth sub-head we shall examine the well-known theory that every system of taxation may be likened to a "corset to which the growth of the social body adapts itself, with the result that the bruises produced by local pressure very often heal by degrees, so that ultimately no effects remain beyond the painless stunting of the parts where the pressure was originally felt."<sup>1</sup>

I. The effects of local inequalities in the pressure of taxation.

Suppose that taxation in a certain town has been greatly increased, and that the extra money is being used not to meet expenditure incurred in the interests of the public welfare, but to provide some luxury or to meet expenditure which, although intended to increase the public welfare, has failed to do so, or at any rate will not do so until many years have elapsed. We are obliged to include this in our hypothesis, because an increase of taxation which is accompanied by a proportionate increase of productive power entails no pressure. The new taxation may be of two kinds, however: it may fall on the working-classes, or it may fall on the owners of property; it may consist of excise duties on food, or it may take the form of an income-tax.

We have to distinguish between these two cases, and we

<sup>1</sup> Words used by Dr. W. C. MEES in his "Observations concerning the Equal Distribution of Taxes," *Reports and Papers of the Royal Academy of Science, Literature Section, 2nd Series, Part V.*

will begin with the first. Our hypothesis, therefore, is that in a given town heavy taxes are laid on food in order to defray expenditure from which the public welfare derives no benefit. What will be the result of such taxation? Statistics can throw some light on this question. They show us—as we have already had occasion to mention in an earlier part of this work—that, while the population of a country is for the most part inclined to adhere to the district in which it is settled, removals from place to place within the limits of that district are frequent.<sup>1</sup> In the year 1899, for example, 355,314 persons settled in the different towns and villages of Holland. Of these 355,314 persons,

209,913	had come from a place in the same province,
118,537	„ „ „ some other „
22,040	„ „ the Colonies or abroad.

The nearer two places are to each other, the greater the probability that people will move from the one place to the other. We are accustomed to think of the population of a country as being very settled, but it possesses that character in a partial sense only.

In view of these statistics and other similar data which it would be possible to adduce,<sup>2</sup> there is every reason for believing that no important differences in the level of welfare of the working-classes can exist or be maintained between places situated within a short distance of each other. This does not mean that there must be equality of wages between such places, but that if wages are lower in one place than in the other, this disadvantage must be offset by lower house rents or lower taxes in the former. In town A, for example, a carpenter earns 26s. a week, of which he has to pay 4s. for house rent and 2s. in taxes; in town B he will earn 23s., of which he pays 3s. for house rent and nothing in taxes; thus with inequality in the wage rate there will yet be equality in welfare, provided the cost of food be the same in the two places. The opinion here expressed will not seem

<sup>1</sup> Cf. Vol. I. pp. 337, 338.

<sup>2</sup> Cf. ALEXIS MARKOW, *Das Wachstum der Bevölkerung und die Entwicklung der Aus- und Einwanderungen, Ab- und Zuzüge in Preussens einzelnen Provinzen, Bezirken und Kreisgruppen von 1824 bis 1885* (Tübingen, 1889).

hazardous when we take into consideration the causes which explain the very unequal density of the population in the different parts of the same country. The province of Drenthe, for instance, at the census of 1899 had a population of only 227 persons per 1,000 acres, while in the neighbouring provinces of Friesland and Groningen there were 417 and 517 persons respectively per 1,000 acres. This, of course, does not surprise any one who is at all acquainted with the material resources of those provinces. If, owing to special circumstances, Drenthe had increased greatly in prosperity, while the reverse had happened in Friesland and Groningen, then Drenthe would certainly not have remained so far behind the two northern provinces in respect of density of population. Prosperity attracts and poverty repels.

The years 1884 and 1885 were extremely unfavourable for Amsterdam; very exceptional measures had to be taken for the relief of the poor. This is clearly reflected in the returns as to arrivals and departures, as may be seen from the following figures:—

	Persons arrived.	Persons departed.	Persons arrived in Excess of Departures.
1883 . . .	26,326	18,932	7,394
1884 . . .	22,187	20,437	1,750
1885 . . .	21,181	20,522	659

Such figures, it seems to us, are eloquent; not less so are the figures comparing the movement of the population in towns where prosperity is declining or stationary, with its movement in towns of increasing wealth.<sup>1</sup>

One must guard against the mistake of accepting as strictly demonstrable what is really only very probable—a mistake frequently made, especially in the domain of economics. The proposition which we have here enunciated is not strictly demonstrable. We cannot prove, on unassailable grounds, that in places situated in close proximity to each other the

<sup>1</sup> Compare the following two groups of places, for example:—

	Population.			Population.	
	1795.	1899.		1795.	1899.
Enkhuizen . . .	6,803	7,039	Enschedé . . .	1,835	24,353
Middleburg . . .	20,146	18,837	Deventer . . .	8,287	26,212
Veere . . .	1,866	874	Rotterdam . . .	53,212	318,507
Stavoren . . .	1,236	868			

conditions as regards welfare will always reach a level which shall be absolutely the same for all. We can, however, produce data which show that there must always be a strong movement *towards* the same level, and that is sufficient for our purpose. Wherever population is increasing rapidly—as it is in almost every country in Europe—there is a constant stream of migration towards the towns. This is bound to be so, for the stream must follow the direction in which the most favourable economic conditions are to be found. Moreover, even for poor people, removal from one town or village to a neighbouring one is scarcely a hardship.

When, therefore, we suppose food to have become dearer in a given town as a result of excise duties, it also forms part of our hypothesis that a disproportion is created which cannot last, or at any rate cannot remain so great as at the outset. But how will it disappear? How will the welfare of the working-classes in the taxed town be restored to its former level or to something approximating to that level? This may come about in three ways. There is, in fact, a fourth way, which we will mention presently.

The first way is the lowering of house rents; the second is the raising of wages; the third is a combination of these two, and it is this that will probably happen. For, the cause which makes wages rise also makes house rents fall, and *vice versa*, so that neither is possible without the other. As the working-class population decreases in the taxed town, owing to more people leaving and fewer people settling in it, not only the supply of labour but also the demand for house room declines. Here the raising of wages must be accompanied by the lowering of house rents, and the latter by the former.

But which movement will be the stronger? Will wages rise more than house rents fall, or is it the reverse that will happen? This will depend upon the effect which the rise in wages may have on the local demand for labour.

Suppose there are two towns, A and B; in each town are 100,000 workmen, who are all paid at the rate of £1 per week for a particular kind of work. But the conditions in the two towns are very different.

IN TOWN A			IN TOWN B		
		A WEEK.			A WEEK.
70,000 men can get work at		23s. 0d.	70,000 men can get work at		26s.
75,000	„	22s. 6d.	75,000	„	25s.
80,000	„	22s. 0d.	80,000	„	24s.
85,000	„	21s. 6d.	85,000	„	23s.
90,000	„	21s. 0d.	90,000	„	22s.
95,000	„	20s. 6d.	95,000	„	21s.
100,000	„	20s. 0d.	100,000	„	20s.

There is nothing strange in this hypothesis.

One employer can give higher wages than another, and wages must tend to the point at which demand and supply coincide.<sup>1</sup> It would be an extraordinary coincidence, however, if that point were to be reached in the same way in every town. In one town the wage which a smaller number of workmen could obtain will differ but little from the wage obtainable by the actual number; in another the difference will be much greater. In town A a rise in the wage from 20s. to 23s. will not be possible until the number of workmen has declined by 30,000; in town B a decline of 15,000 in the number of men will suffice to effect such a rise. In other towns a falling off of 10,000 men would perhaps suffice.

This point is obviously of great importance in determining the question, Which movement will be the stronger, the rise in wages or the fall in house rents? Let us suppose the average amount of excise duty falling on a workman to be 3s. a week, while a 15 per cent. reduction of the demand for house room causes house rents to be reduced by 1s. 6d. a week.<sup>2</sup> Then in town A the level will be completely restored so soon as the number of workmen shall have been reduced by 15,000. The rate of wages will then rise by 1s. 6d. per week; the other 1s. 6d. will be made up in the reduction of house rents. In town B, on the other hand, a reduction of 15,000 in the number of workmen would cause the rate of wages to rise, not to 21s. 6d. but to 23s.; the workpeople would then gain 3s. per week through increased wages, and 1s. 6d. through reduced house rents, making together 4s. 6d., or much more than the

<sup>1</sup> Cf. Vol. I. p. 257.

<sup>2</sup> In this respect there may be differences as between one town and another; but in order to simplify the question, we here assume the "Schedule of Prices" for dwellings to be the same in all towns.

amount of the duty. From this we see that in town B it will not be necessary for the working-class population to decline so much; a fall of, say, 10,000 in their number will suffice. Should that bring down house rents, say, by 1s. per week, then the level will be completely restored.

Let us now proceed a step further and ask whose interests would suffer through the imposition of an excise duty on food. In so far as the levelling process was imperfectly accomplished the interests to suffer would be those of the workpeople; but where the original level of working-class welfare is completely restored both the employers and the house-owners will suffer. As regards the employers, what will happen is this. Those among them who were not earning normal *entrepreneur's* profit must retire from the field, for they cannot pay the higher wages; the others will have to be content with a reduced *entrepreneur's* surplus. As for the house-owners, they will receive less house rent, while the selling value of their property will decline. So also will the selling value of building land. Finally, a part of the pressure will fall upon the consumers of those goods which can only be produced in the town itself, and upon those who procure personal service.

We said, however, that there was a fourth way by which the level of welfare of the working-classes in the taxed town might be restored. In saying so, we had in mind the manner in which wages in that town would be affected by the stronger growth of population outside it. For, the same cause which sends wages up within the town will send wages down elsewhere. This downward movement will not signify much if the taxed town be comparatively small, while the area over which the workpeople who have been driven out or kept out may, and will, distribute themselves is very large. But suppose the town were like London or Paris; or suppose that the excise duties are introduced not in a single town, but in a large number of towns, say in all towns with large populations; then it would be different. In that case some decline in wages would actually ensue in the untaxed area, and the greater their decline the less would be the advance in wages and reduction in house rents in the place where the taxes were being imposed. The workpeople in that place would cease to be attracted towards the untaxed area when once they

found, that their condition would not be improved by moving thither, and the stream of migration to the towns would swell to its former volume so soon as wages outside those towns had fallen.

The conclusion to which we are finally brought is therefore this, that local excise duties on food, provided the labouring population in the towns where they are levied is very numerous in comparison with what it is in the other towns, operates exactly as if they were levied on a lighter scale all over the kingdom. An excise duty of three-halfpence on a stone of flour in all large towns, for instance, will be equivalent to one of a farthing or a halfpenny per stone levied in all parts of the country. With this difference, however, that a general excise duty—unless the death-rate should rise and the birth-rate fall in consequence of it—does not cause the special profits (or “surplus”) of *entrepreneurs* and the rents of houses to fall, whereas local excise duties always exercise a certain depressing effect on both. For, although the levelling process which we have just explained does undoubtedly moderate the other levelling process, it does not by any means neutralise it. If the population increases in the untaxed area, it does so at the cost of the population in the taxed area, so that a rise in wages and a fall in house rents must inevitably ensue in the latter. The fall in wages, where no excise duties are levied, reduces the employers’ and the house-owners’ share of the burden of the tax, but it does not rid them of their share entirely.

Having once acquainted ourselves with the effects which result from the introduction of local excise duties, it might be supposed that we had at the same time learnt what effects would follow from the abolition of those duties. Obviously it may be assumed that the effects of the abolition will be the exact reverse of those of the introduction of the duties. In two cases they will; but there is a third and by no means unusual case in which they will not.

Imagine a town where the amount of land available for building purposes is very limited, or where, for various reasons, certain of the older quarters are always preferred to the new ones. If, in such a town, excise duties were levied on food and then abolished, the population would increase and both wages and house rents would be affected in consequence.

Here, therefore, the restoration of the level of welfare would be by a process the exact opposite of that which we have just been observing. In that case we found it to consist in the raising of wages and lowering of house rents; here we find it to consist in the raising of house rents and lowering of wages.

Or, take the case of a town where there is an abundance of well-situated building land, but where declining prosperity in the past has brought down house rents to a level which must be raised considerably before any advantage can be got by building houses. Here again, if existing local excise duties on food were to be abolished, the process of restoration of the level of welfare would be through the raising of house rents and reduction of wages.

These are the two cases to which we alluded; but now let us examine a third case. There is an abundance of well-situated building land, but house rents are not low; they are exactly at the level where, with the least increase in the demand for house room, it will become profitable to build. Here, obviously, the growth of the population, caused by the abolition of the excise duties, can have no effect on house rents, for these have reached their natural limit; they cannot rise. But wages will fall, and they will fall far more than they otherwise would, because this is the only way by which the level of welfare can be restored.

It was necessary to explain this point in passing, so as to avoid the erroneous assumption that the abolition of local excise duties is always to the advantage of the house-owners. It is to their advantage only where there is a scarcity of well-situated building land, or where house rents are so low that it does not yet pay to build. If these conditions are not fulfilled, the house-owners gain nothing. The classes who benefit in that case are the employers who are already settled in the town, the local consumers of goods which cannot be produced or worked up anywhere but in the town, the people who keep servants—in short, all those to whose interest it is that wages should be low in the town in which they live.

Let us now endeavour to trace the effect of a local increase of taxation which falls only upon the well-to-do, so that the

working-classes are exempt. We here use the expression "well-to-do" in a sense somewhat wider than that in which it is understood in everyday language, and we mean it to include all those who would be assessed in full for an income-tax. We will also suppose the new tax to be an income-tax. The question now is whether the tax will be shifted, and if so, on to whom?

There will be no shifting of the tax if no one leaves the town in order to escape it; if no one is deterred from settling in the town because of it; if no one reduces his standard of life because of it. If, however, any of these three things should happen, then the tax will inevitably be shifted in some measure. If people leave the town, house rents and shop rents will fall, as will also the wages of certain classes of persons, namely, those of people who live by the expenditure of the rich. If new settlers are kept away from the town the same thing happens, for in every town, under normal conditions, there are always a certain number of well-to-do people who are obliged for various reasons to move elsewhere, and unless others come to supply their place there is a loss. Similar results ensue when a number of people adopt a more modest scale of living. Retrenchment then usually begins with the dwelling, as this is accompanied by many other economies.

These three things are not mere probabilities; they are to a certain extent inevitable. In every town there live people who, either because they are of independent means, or because they could quite easily pursue their business in the town while living elsewhere, would find no inconvenience in transferring their dwelling to some other town. Among such people there are always a certain number who will actually move out if the local taxes be increased considerably. Every town, moreover, has its advantages and its disadvantages, and those who contemplate settling anywhere usually weigh the one against the other; if the disadvantages be increased, it cannot fail to affect the choice that will be made between the two. Again, in every town—and this is a paramount consideration—there is to be found a numerous body of people who, although they are classed amongst the "well-to-do," find it difficult to make ends meet. For such people retrenchments become absolutely necessary as soon as taxes are increased, and if their economies

begin with the dwelling, the effect is the same as that of more people leaving and fewer settling in the town.

But while these three things never fail to happen, the extent to which they do happen may vary very much. A town in which the opportunities of earning an income are great will not be left so readily as another. A town having no well-situated villages in its neighbourhood will not be left so readily as one from which there is easy access to such places, so that people can move out to them without giving up their business in the town. Some places are specially chosen for residence by people of independent means, and by pensioners, for the reason that no heavy taxes are levied there on the well-to-do; but other places, by reason of their situation or other advantages, have a certain power of attraction, which they would not quickly lose even though the burden of their local taxation were increased. Finally, as to retrenchments, these may take the form of less travelling, or fewer absences in the country, in which case they will give rise to no shifting of the taxes.

We see, then, clearly that every effort to devise a general formula for the effects of imposing a high taxation on the well-to-do is frustrated by the insuperable obstacle that the circumstances of the different towns and their inhabitants are widely different; it is also frustrated by the fact that very much here depends on individual disposition and taste. In considering whether or not they will move from the town to a neighbouring village, people are influenced not only by the pressure of the taxes, but also by the extent to which they prefer the pleasures of the country to those of the town, the nature of their business, and the hours that have to be given to it. The one thing that is certain is, that effects of some sort will result. Taxation imposed on the well-to-do must, sooner or later, affect house rents, the earnings of shopkeepers, and therefore also the wages of workpeople; and should the effect on wages become very powerful, there is set in motion once again that process for restoring the level of welfare which we have already described.

The whole thing may be so insignificant as to be scarcely worth speaking about; on the other hand, it may be so marked as to entail serious consequences.

How, it might be asked, could the consequences be serious? There are towns where the working-class population obtain their livelihood mainly from commercial and industrial activities. Such towns can bear heavy taxation of incomes, for success begets liberality, and the non-successful are spared by this form of taxation. There are other towns where the working-class population lives mainly on the expenditure of the rich, and great poverty must ensue when the rich are driven away by heavy taxation. The evil then grows worse as the number of the well-to-do grows smaller; for, with the decline in their number, the burden of the tax becomes heavier for those who remain. The percentage of the income-tax and the number of additional cents levied on the personal tax are not determined by the proportion between the number of the population and the total sum to be raised by the income and additional personal taxes together, but by the proportion between that total sum and the income of the well-to-do classes; for it is only from these classes that any appreciable sum can be raised by means of such taxes. There are towns where the amount of taxation raised per head of the population is particularly large, and where, nevertheless, the assessment is, comparatively speaking, very moderate, because the well-to-do classes happen to constitute a larger proportion of the total population than is the case elsewhere. The towns in which the income-tax and the additional personal tax are very heavy are those where there are scarcely any well-to-do people, and the scarcer such people grow, the stronger will be the inducement for those who remain to go away too. This is a point of great importance, and one which must be kept well in mind by Local Authorities engaged in preparing schemes of local taxation.

But it is also a point to be remembered by the State Legislature. What can a town do if it is prohibited from levying excise duties, while law after law is enacted, each imposing on it some new obligation which it cannot fulfil without incurring great expenditure? The only source of any importance to which it can have recourse in order to meet these obligations consists in the taxation either of expenditure or of income, or perhaps of both, and however discreetly the local authority may proceed with such taxation, it may yet

bring about the increasing evil which we have indicated. It will find things growing worse from day to day: the rich leaving one by one; the volume of pauperism increasing; and in this case even the relief which results from the restoration of the welfare-level will be a long time coming, for things will be in an equally serious state in the neighbouring towns, so that the process of restoration must operate very slowly.

In such cases it will be obvious that the Legislature has placed an excessive burden on the towns. The State will then have to take over the responsibility for the whole or part of certain items of municipal expenditure, and preferably of those items of which the amounts are not apt to grow inordinately when the Municipality has no longer to pay them. It may be that this will entail a certain loss of local autonomy, but this cannot always be avoided, and in any case it is not so great an evil as the one which we have described.

Another way is that adopted by England in 1834, when, for the purposes of the Poor-rate, some 15,000 parishes were combined so as to form about 650 Unions. Something similar might be done in Holland; thus, for a specific purpose, such as the payment of the cost of education, groups of communes might be formed under a special Administrative Department. Even making the Provincial Authorities responsible for certain items of expenditure now defrayed by the Local Authorities would be a step in the right direction. But all these things (and more especially the first) give rise to great difficulties in practice, and are never so effectual as the taking over by the State of the responsibility for part of the expenditure of the Local Authorities. For the levying of heavy taxation on the well-to-do, the State is better fitted than the local authority, since there is less danger of a rich man leaving the country than there is of his leaving his town, or even his county, in order to escape taxation.

A third way would be to make grants to the Local Authorities from the State Exchequer. This is what is done in Holland (the grants to the communes now amount to something between £1,083,000 and £1,167,000), the State at the same time bearing a considerable part of the cost of education.

II. Let us now endeavour to answer the second question, namely, what effects result from excise duties levied on products of industry. Excise duties are called indirect taxes, whereby it is meant to be understood that they are taxes imposed, not on those by whom they are actually paid, but on the consumers of the goods on which they are charged. It is the consumers, so we are told, who ultimately pay them; all that the others do is to advance the money, as it were. The excise duty on sugar, for example, is not borne by the manufacturers or refiners, but by the consumers of the taxed article in so far as they reside within the country. There are cases, however, where it is otherwise, and these we must now examine. The pressure of the excise duties may fall on the manufacturers, and if these duties are very numerous they may affect the "labour price."

In order to prove this, we have only to develop a point already touched upon in connexion with the theory of the money-prices of goods.<sup>1</sup> To begin with, let us suppose that the demand for an article is wholly supplied by home production, and that the article is produced solely for the home market. This is the simplest case, but it happens also to be the very case in which part of the excise duty is inevitably paid by the manufacturers.

We already know that so long as the demand remains the same, the price of an article cannot rise unless the supply of that article be reduced. But will a reduction of the supply really result from the excise duty? If, in the taxed industry, much fixed capital is employed and cannot be rendered usable for other purposes except at a great sacrifice; if, for example, there are costly buildings and machinery, then it is quite possible that various manufacturers in that industry will be ruined, but their works will remain. These establishments will be bought up at low prices by new manufacturers, who will realise very good profits in spite of the fact that, owing to the excise duty, the return in money derivable from the article has fallen considerably. As has been said by H. J. TASMAN,<sup>2</sup> this is a case in which part of the tax has been amortised while a part of it falls on the special profits (the

<sup>1</sup> Cf. Vol. I. pp. 358, 359.

<sup>2</sup> *Afwenteling van Belasting*, p. 69.

surplus) earned by those manufacturers, who, because they are working under very favourable conditions, can, with advantage, continue supplying the product even after the money return which it yields has declined considerably.

What has been postulated here with regard to the manufacturers may also be postulated with regard to those who supply them with raw materials. They, too, may be employing much fixed capital which cannot readily be used for other purposes. If they are, then the pressure will fall mainly on their shoulders, for the demand-schedule will immediately change against their products. And even if the supposition as to their employing much fixed capital did not apply—suppose, for instance, that they were only using land—not even then would they altogether escape the pressure of the tax; for there would certainly be amongst them some for whom the production of those raw materials was so advantageous that, rather than cease producing them, they would accept a lower price. In that case the tax would fall on the rental value of certain lands, and so again be partly amortised.

We also spoke of the “labour price,” by which, as already explained, we mean the aggregate reward for the services of capital and labour.

It is possible to conceive of the system of taxation by excise duties being applied to such an extent as to lower the general level of profits. Under such circumstances the labour price must necessarily be affected; it would inevitably decline. As the writer whom we cited above has justly observed, in such a case the *entrepreneurs* can no longer pay the same interest and the same wages as before. “The productivity of their undertakings is lowered as it were.”

But in order to prove that excise duties do not necessarily increase by their full amount the prices of the goods on which they are imposed, one need not employ even such arguments as we have been using. It can be proved in another way. Bear in mind that we are still assuming that the taxed article is being produced only within the country and only for the home market, there being no sale for it elsewhere.

Suppose the position at the time of introduction of the tax to have been as follows:—

Price per cwt.	Amount that could be supplied at that price.	Quantity that could be sold at that price.
<i>s.</i>	Cwt.	Cwt.
20	850,000	550,000
19	800,000	600,000
18	750,000	650,000
17	700,000	700,000
16	650,000	750,000
15	600,000	800,000
14	550,000	850,000

The normal price was 17*s.*, and the normal production 700,000 cwt.

Now comes the excise duty, at the rate of 1*s.* per cwt. The result is that the supply-schedule changes; instead of 20*s.*, 19*s.*, 18*s.*, and so on, we now have 21*s.*, 20*s.*, 19*s.*, and so on.

The situation, in fact, is now as shown below :—

Price per cwt.	Quantity that can be supplied at that price.	Quantity that can be sold at that price.
<i>s.</i>	Cwt.	Cwt.
21	850,000	
20	800,000	550,000
19	750,000	600,000
18	700,000	650,000
17	650,000	700,000
16	600,000	750,000
15	550,000	800,000
14		850,000

Thus the price cannot rise by the full amount of the excise duty, *i.e.* to 18*s.* per cwt., for at that price there would no longer be equilibrium between demand and supply. That equilibrium can only be reached at a price somewhere between 17*s.* and 18*s.*, but at such a price it will no longer be possible to produce 700,000 cwt., but a smaller quantity. The producers who could just keep going when the price was 17*s.* and, therefore, cannot do with less than 18*s.*, will have to

cease production because they can only get, say, 17s. 6d. As to the others, their special profits—their surplus—would be reduced.

But let us now modify our hypothesis. The scale of the supply remains as before; but for the article on which the excise duty is levied, there is a smaller market at home than there is abroad. Of the 700,000 cwts., 500,000 are exported every year, and only 200,000 cwts. are consumed at home. The excise duty (which, of course, affects only the 200,000 cwts.) will now be passed in a much greater measure on to the home consumers. Perhaps a rise in the price from 17s. to 18s. will, as before, reduce the home consumption by 50,000 cwts.; but what will be the effect in this case? Instead of 500,000 cwts., the producers will export 550,000 cwts.; if their article is very important, this will have no appreciable effect on prices abroad. Some effect it will have; here again the special profits of *entrepreneurs* will not escape, but the part of the tax which will reach those profits is now exceedingly small; the price abroad will rise, not indeed to 18s., but to 17s. 11d., say, or perhaps higher.

Once more we modify our hypothesis. Suppose the demand-schedule to remain as first supposed, that is to say, that at the price of 17s. per cwt. it is possible to sell 700,000 cwts. of the article in the home market. But suppose that not the whole, nor even the bulk, of this quantity is produced in the home country; say that 500,000 cwts. are imported from abroad. The article being subject to an excise duty of 1s. per cwt., a customs duty at the same rate is levied on these imports. Now what will happen?

That will depend upon the importance in the world-market of the demand of the country which imposes the excise duty. The importance of that demand may be so slight that even if it fell considerably no appreciable decline in the foreign prices would result. In that case the price must rise by practically the full amount of the import duty; for if it rose by less than that amount, not merely a part of the 500,000 cwts., but the whole of that quantity would cease to be supplied. Here again almost the whole of the tax would fall on the consumers. But as their purchases would fall off by 50,000 cwts., the

imports would at first decline by just that amount; consequently the balance of payments would no longer be even, and the labour price would have to rise to some extent. This would mean a slight loss for the producers, but beyond this trifling disadvantage they would experience no detrimental effect.

It would be otherwise if the demand of the country which levies the excise duty were of great importance in the world-market. Then there might happen the very same thing that we said must happen in the first case. The price would not rise by a whole shilling, but only by 6*d.* or 7*d.* perhaps, and the tax would be passed in part to the foreign producer, but a proportionate part of it would also fall upon the home producer.

From these data we can deduce the general formulæ that explain the operation of excise duties. When the taxed article is produced and consumed in the home country, its price never rises by the full amount of the tax, for equilibrium between the supply and the demand is then reached at a point lying somewhere between the old price and the price plus the tax; perhaps, indeed, at a point very little removed from the old price. If now the excise duty be returned on the article being exported, the price at which the foreigner can buy will be lowered somewhat in consequence, and this may possibly stimulate foreign demand. In that case the injury suffered by the producer will be tempered. It will not be neutralised, however. For it could only be neutralised if the price rose by the full amount of the tax. And so soon as this happened the stimulus of the foreign demand would be withdrawn. In any case the producer will make a smaller profit than he did before.

But if there be a sale for the taxed article abroad as well as at home, or if a part of the supply of it be imported from abroad, the price may rise by almost the amount of the tax. And it will always do so unless either increased exports or reduced demand cause the foreign prices to decline.

In what we have been saying so far no account has been taken of the bounty on exports which may be involved in the return of the excise duty. There was no need to go into this, however. Obviously the imposition of an excise duty does not injure trade, and therefore constitutes no tax on the profits of the manufacturers in that trade when it is accompanied

by a disguised export bounty. In that case it may bring prosperity to the trade instead of depression.

III. We now come to one of the most important problems—that of the shifting of food taxes. One side of this question was examined when we were speaking of local excise duties, but that is not its most difficult side. We have seen that when a food tax is too heavy in a particular locality forces are engendered which make for the restoration of the welfare-level, and that these forces, even if they do not operate perfectly, do nevertheless fulfil their task very effectually and very quickly. But these taxes usually operate very feebly in respect of a whole nation, for the emigration movement is of small account in the countries of Europe. In Germany, whose emigration in comparison with that of other countries cannot be said to be small, the proportion per 10,000 of the population who emigrated to non-European countries per year was, in the period 1851-60, 25; from 1861 to 1870 it was 22; from 1871 to 1880, 18; from 1881 to 1890, 28; and from 1881 to 1897, only 13.<sup>1</sup> We have already, on more than one occasion, remarked that migrations from place to place within the borders of one and the same country are numerous, but not emigrations from one country to another. Whenever the means of subsistence diminish in one part while they increase in another part of a country, we shall see the inhabitants moving from the one part to the other. In the period from 1801 to 1886 the population in seven of the departments of France declined by 910,000, or 5·8 per cent., the decrease in the Basses Alpes alone amounting to 17 per cent. When the philoxera reached the department of Vaucluse, the population, which had always been increasing there, at once declined, and the same thing happened elsewhere owing to the same cause. In the period 1844 to 1885, the number who left the provinces of West Prussia, Pomerania, and Posen exceeded the number who settled in those provinces by 1,197,400; on the other hand, the districts of Arnsberg and Düsseldorf, the most industrial in the whole of Prussia, gained 445,940 new inhabitants by migration in the period from 1824 to 1885.<sup>2</sup> The density of the population per

<sup>1</sup> *Statistisches Jahrbuch für das Deutsche Reich*, 1889, p. 14, and 1899, p. 19.

<sup>2</sup> MARKOW, *op. cit.* pp. 131-132.

square mile, which is 943 in the Swiss Canton of Geneva, is only 34 in the Canton of Grisons. In Austria we find a population of 306 per square mile in the industrial province of Lower Austria, against only 78 per square mile in the Tyrol. In Italy we find 526 people per square mile in the province of Padua, with its rich alluvial lands, and only 67 in Grossete, where the soil is marshy.<sup>1</sup> To give more figures would be superfluous; they would all show the same thing. In these days when means of transport have become rapid and cheap, the population of a country readily diffuses itself within its own frontiers. Foreign emigration on anything like a large scale is, however, still exceptional. The example of Ireland is almost unique; besides, it proves but little, because the Irish have emigrated to America where a language is spoken which they know.

It will be seen, therefore, that the equalising forces which we have mentioned scarcely operate at all between different countries. If Germany puts heavy taxes on food, this does not warrant our arguing that, the economic condition of the German working-classes being thereby rendered less favourable, German workpeople will spread themselves over neighbouring countries, and will continue doing so until wages shall have risen in their own country. Whether or not wages will rise is still uncertain, but if they do, their rise will have been brought about in some other way. It will not be possible to rely on emigration as a remedy. Emigration will be stimulated, but it is not likely to attain such proportions as would enable it to affect the level of wages.

Before proceeding further and endeavouring to find the solution of our problem, let us see how it has been regarded by others. We do not propose to compile a sort of history of the dogmas, but merely to examine a few of the characteristic theories which have been propounded with regard to it.

First let us see what RICARDO has to say. In the ninth chapter of his *Principles* we find him arguing as follows: "From the effect of the principle of population on the increase of mankind, wages of the lowest kind never continue much

<sup>1</sup> Cf. E. LEVASSEUR, "La Densité et ses variations en France et dans les autres pays," *Bulletin de l'Institut International de Statistique*, tome iii. livraison 3, pp. 64-103.

above that rate which nature and habit demand for the support of the labourers." This is the proposition from which he sets out, and, as we see, it is full of qualifications. He speaks only of wages of the *lowest kind*; these can never continue much above a certain level; that level is determined, not by nature alone, but by nature *and habit*. But, as he proceeds, RICARDO becomes bolder. His sixteenth chapter, headed "Taxes on Wages," contains the unqualified statement that "a tax on wages is wholly a tax on profits."<sup>1</sup> In other words, what the capitalist-*entrepreneur* has to share with his workpeople is a given sum; if their share increases, his own share diminishes; this must inevitably happen when wages are taxed. The wages must rise by the full amount of the tax, so that ultimately the whole tax is paid by the capitalist-*entrepreneurs*.

How came RICARDO suddenly to forget all his qualifications? To the foregoing statement one might reply as follows. Not all wages are of the lowest kind, and if the level beyond which they cannot rise be partly determined by habit, the existence of that level is somewhat precarious. For what will happen is this. At first the labourers will bear the tax themselves; if, as a result, their number gradually declines, it will be years in doing so, and during so long a period new habits will be formed, because a new generation will be growing up—a generation who have never known the old welfare. If the level of the lowest wages be not determined by nature alone, even that level is capable of being lowered, in which case there is much reason for doubt as to the shifting of the taxes, and especially as to the complete shifting of such taxes as those now under consideration.

RICARDO neither mentions nor answers this objection, but for the shifting of the taxes on wages he adduces a second argument entirely different from the first. He says that wages will rise, not in virtue of the principle of population alone, but in virtue of the increased demand for labour which the taxes must elicit. If (he argues) wages remain at the same level, the capitalists will continue to require as much labour as before, for nothing will have happened to moderate

<sup>1</sup> The same remark also occurs in his *Letters to MacCulloch*, 1816-1823, edited by J. H. HOLLANDER (New York), p. 55.

their demand; but the Government, which employs the money, will require more labour than before. "The fund raised by the tax is employed by the Government in maintaining labourers, unproductive indeed, but still labourers." The Government and the people compete with each other in the labour market, and the result of their competition is a rise in the level of wages.

That this argument should have been penned by RICARDO would be surprising but for the fact that throughout his writings one constantly meets the most commonplace mistakes mingled with evidences of an uncommonly keen intellect. This is one of those mistakes—we cannot call it by any other name; this increased demand for labour which RICARDO thinks he has discovered does not exist, except in his imagination. A workman has to pay twenty shillings a year in taxes. Formerly, when he was spared this burden, he spent those twenty shillings in buying clothes for himself and his family; now the State employs the same sum in buying clothing for soldiers. Where does the increased demand for labour come in? There is more work for the Government tailors, just so much less work for those who make clothes for the working-man.

We see, therefore, that RICARDO'S bold contention as to a tax on wages being wholly a tax on profits rests on a weak foundation. He erred in abandoning his first position, for the connexion between taxes and wages must be proved from the population theory or it cannot be proved at all.

RICARDO'S disciples, and in particular JOHN STUART MILL, were conscious of this. The latter expresses himself very cautiously, so cautiously indeed that he says less than he could prove, and so commits an error.

Having first discussed young communities, in which production increases more rapidly than population, and having shown that in such communities taxes on wages fall exclusively on the workpeople, he goes on to say:<sup>1</sup> "In the condition of most communities wages are regulated by the habitual standard of living to which the labourers adhere, and on less than which they will not multiply. Where there exists such a standard, a tax on wages will indeed for a time

<sup>1</sup> Book V. chap. iii. § 4.

be borne by the labourers themselves, but unless this temporary depression has the effect of lowering the standard itself the increase of population will receive a check, which will raise wages and restore the labourers to their previous condition. . . . To attempt to tax day labourers in an old country is merely to impose an extra tax on all employers of common labour; unless the tax has the much worse effect of permanently lowering the standard of comfortable subsistence in the minds of the poorest class."

He concludes with a condemnation of all such taxes; whichever way they operate, their effect is always bad.

What MILL says here is partly incontrovertible. If the labourers adhere so persistently to their manner of life that, the moment the State taxes them, they beget fewer children, then indeed their wages must rise, and the taxes imposed upon them must fall upon other shoulders. But this might happen just the same even though the condition stated by MILL were not fulfilled, and he forgot to include this in his demonstration. A numerous class of the community may be living in such precarious circumstances that those who belong to that class can bear no taxes whatever; and even if their condition were not quite so bad, it is possible that the taxes might check the natural growth of their numbers by increasing the rate of infant mortality.

How poverty influences mortality may be seen from the following statistics compiled by KÖRÖSI for Buda-Pest, where it is the custom to record with each death the conditions under which the deceased person was housed.<sup>1</sup>

The average age of those who died in Buda-Pest in the years 1872 and 1873 was as follows:—

In Dwellings with	Including Children under Five Years of Age.	Excluding Children under Five Years of Age.
0·5 persons per room .	38·81 years . . .	50·86 years.
2·5    "    " .	23·50   "   . . .	44·66   "
5·10   "   " .	14·41   "   . . .	44·31   "
more than 10   "   " .	10·12   "   . . .	40·22   "

From a later publication of KÖRÖSI'S<sup>2</sup> we see that, in the

<sup>1</sup> Cf. *Statistische Monatsschrift*, vol. iv. p. 51.

<sup>2</sup> *Die Sterblichkeit der Stadt Buda-Pest in den Jahren 1882 bis 1885 und deren Ursachen* (Berlin, 1885), p. 122.

years 1882-85, amongst every 100 persons who died in Buda-Pest those over five years of age numbered

79 in dwellings with 1-2 inhabitants per room.

44	”	”	2-5	”	”
37	”	”	5-10	”	”
41 <sup>1</sup>	”	”	10 or more	”	”

It is hardly to be doubted that if similar inquiries were made elsewhere they would yield similar results.<sup>2</sup> MILL was therefore certainly wrong in saying that decline of population

<sup>1</sup> The fact that this figure is greater (instead of smaller) than the one above it is probably due to its being based on 750 deaths only, as against 7,754, 22,585, and 10,139 in the three preceding groups respectively.

<sup>2</sup> We take the following data from Dr. JOH. WERNICKE, *Das Verhältniss zwischen Geborenen und Gestorbenen in historischer Entwicklung*, Jena, 1889, pp. 83 *et seq.*

Deaths in Leipsic per 100 of the population in 1875-1876.

	Among Persons less than a Year Old.	Among Persons of All Ages.
In streets with less than 1 person per room . . . . .	11 . . . . .	1·1
” ” 1 to 1·5 persons per room . . . . .	25 . . . . .	1·8
” ” 1·5 to 2 ” ” . . . . .	26 . . . . .	2·0
” ” 2 to 2·5 ” ” . . . . .	34 . . . . .	2·6
” ” 2·5 to 3·0 ” ” . . . . .	33 . . . . .	2·7
” ” 3 or more ” ” . . . . .	42 . . . . .	3·4

In Frankfort-on-the-Maine, children of one year or under and children of five years or under respectively were represented in the general death-rate in the following proportions, according to the different quarters of the town :—

Quarter of Town.	Children of One Year or less.	Children of Five Years or less.
	Per cent.	Per cent.
Sachsenhauser Old Town . . . . .	43·00	62·00
Frankfurter ” . . . . .	37·38	53·71
Bronheim Quarter . . . . .	35·81	54·13
Inner Town as a whole . . . . .	25·90	38·80
New Town . . . . .	20·65	28·50
Sachsenhauser Suburb . . . . .	15·84	24·12
Frankfurter Suburb . . . . .	15·84	21·00

In Paris in 1822-1826, according to VILLERMÉ, there was one death on an average to every

71 persons in the II. *Arrondissement*, where the average rent per dwelling was 605 fr.

66	”	”	I.	”	”	”	”	498	”
50	”	”	IX.	”	”	”	”	192	”
44	”	”	XII.	”	”	”	”	148	”

Cf. KOLB, *Handbuch der vergleichenden Statistik*, 8th edition, p. 494.

or diminished growth of population was only possible through restriction of births. Increased mortality, especially among infants, may also result from heavier taxation, and this was such an important point that he ought not to have ignored it.

Now let us turn to LASSALLE, the founder of German Social Democracy. It was he who, in a letter written in 1863,<sup>1</sup> first made use of the expression "Iron Law of Wages," a law which he describes in the following terms:—

"The iron economic law, which, in the existing order, regulates wages subject to the rule of supply and demand in regard to labour, is this, that the average wages of labour shall always be restricted to such a scale of subsistence as shall, from habit, have become necessary for a people in order to enable it to sustain life and to multiply. . . . Above this average the wages of labour cannot remain for any length of time, for if they did, the more prosperous condition of the labourers would enable more of them to marry and beget children, and in thus increasing the labouring population, swell the number of those who would force back wages to the old level, if not below it. Nor can wages remain for any length of time much below this level of subsistence, for then labourers would emigrate, they would refrain from marrying and rearing children, and their numbers would be reduced by poverty, so that the supply of hands would decline still further and wages would return to their former level." LASSALLE then goes on to prove that he alone who can "set aside" this law will solve the social question. With this part of his doctrine we do not, however, propose to deal; we confine ourselves to what he has to say about the law itself.

It is said to be an iron law; as a matter of fact it is as plastic as wax. On what does it insist? That wages cannot remain below the subsistence level? It *seems* to insist on this, but if we examine it closely we find something else. Wages cannot fall below the level of subsistence rendered necessary by the habits of a people. Is this really the limit below which they cannot fall? Can they not fall below the

<sup>1</sup> *Offenes Antwortschreiben an das Central-Comité zur Berufung eines Allgemeinen Deutschen Arbeiter-Congresses zu Leipzig*, p. 14.

customary—what LASSALLE would call the *gewohnheitsmässig*—amount? LASSALLE'S reply to this question is that they cannot fall much below that amount. But how much below? This he tells us at p. 42 of another paper which he wrote in the same year, under the title *Die indirekte Steuer und die Lage der arbeitenden Klassen*.<sup>1</sup> There we read that “the German working classes generally have not yet sunk to the level of the Irish, or the Indian ryot, or the Silesian weaver. They have still something to lose. Wages, it is true, are only just sufficient for the bare means of subsistence, but for a subsistence such as has become customary (*gewohnheitsmässig*) in our country. These ‘customary’ means of subsistence, it is true, still comprise—though not to the same extent as in England—such articles as coffee or tea, sugar, beer, tobacco, meat, oil, soap, lighting materials. . . . And so long as this lasts, the burden of increased prices, due to indirect taxation, will fall on the working classes also in the case of corn. The burden is one which forces down the standard of life.”

We see how plastic is this iron law of wages in the hands of LASSALLE. When he is opposing SCHULZE-DELITZSCH he employs it in order to show the futility of co-operation. What does it profit the working-man to organise co-operative stores in order to reduce the cost of his subsistence? Straight-way his wages will go down once more. When, however, LASSALLE wants to prove that the pressure of indirect taxes is felt—and permanently so—by the working-classes, he again invokes his iron law. The emphasis then falls on the word “customary.” With LASSALLE the standard of life is a fixed or a variable quantity according to the use he wishes to make of it in controversy. It is variable when he is opposing SCHULZE-DELITZSCH, and fixed when he is condemning indirect taxes. When he wants to show that such taxes press heavily on the working-classes, he does not do as MILL, who merely states it as a possibility that the working-classes will change their standard of life; he represents it as a thing that must inevitably happen.

Between these two views we shall have to make our choice, and we have no hesitation as to the result. That the working-classes will not alter their standard of life seems to us a vain

<sup>1</sup> *Indirect Taxation and the Condition of the Labouring Classes*, p. 42.

expectation. We cannot believe that the unmarried will abstain from marriage, or that the married will beget fewer children, when food, housing, and clothing have become dearer. For a very short time marriages may be fewer in consequence, but only for a very short time. In saying this we do not imply that there is no such thing as a "standard of life"; such a standard exists in every grade of society, even in the lowest. However thoughtlessly marriages may be contracted, there is always a minimum income which is judged to be necessary, and as long as there is no reasonable prospect of obtaining that minimum income, marriages will be deferred. There are exceptions to this rule, but they are not numerous. When adult labourers of a certain kind earn twenty shillings a week, young labourers of the same kind will not marry so long as they only earn fifteen shillings a week. The error committed by those who speak of a standard of life is not that they believe in the existence of such a standard, but that they have not, as a rule, clearly understood what is meant by the expression. They have usually forgotten that the standard of life is determined by life itself, by what each one observes in his own immediate environment, in the circle to which he belongs. Whatever is customary or regarded as proper in that circle is the standard, and that standard alters whenever things happen in the circle which cause the majority of its members to deviate from their habits. In the fact that it is very variable, the standard of life is like the standard of morality. In a country where the working-classes are in the habit of eating wheaten bread, a couple who are about to marry will object to eating rye bread. The same couple would, however, waive their objection—not at once, perhaps, but sooner or later—if, owing to a heavy tax, the price of wheaten bread were to be raised so that the majority of the working-classes in that country were obliged to take to rye bread.

This interpretation of the standard of life is entirely consonant with what we are taught by statistics. From these we learn that the marriage-rate usually increases in years of high earnings. In the States composing what is now the German Empire the mean yearly marriage-rate per 10,000 of the population was 85 in the period of 1861-70;

but in the boom years 1872-73 it rose to an average of 101·5, with the result that the mean annual birth-rate, which from 1861 to 1870 did not exceed 388 per 10,000 of the population, increased to 411, 413, 418, 422, and 426 in the years 1872 to 1876 respectively.<sup>1</sup> When the demand for labour is strong, the wages of the younger workpeople reach a level which they would otherwise not attain, and this induces many to marry at a comparatively early age. Our view is also supported by the fact that the marriage-rate declines in bad years; for, although the standard of life will change if the bad times continue for long, the change will not, of course, take place at once.<sup>2</sup> In spite of all these fluctuations, however, comparisons between, say, ten-year periods show that, on an average, the marriage-rate in most countries is fairly constant, as is also the birth-rate, although in recent years both have declined somewhat.<sup>3</sup> In respect to the marriage-rate and birth-rate figures, the principal law would certainly appear to be that every period of ascent must be followed by a period of descent, and *vice versa*.

To state the conclusion to be drawn from all this is hardly necessary. If our point of view is correct, then taxes on food can only affect the growth of the population when they affect the mortality, that is to say, when they shorten life amongst adults or increase the death-rate amongst children. That they may have these results is not to be denied. There are probably in every community such a number of families who find it difficult to maintain themselves, that dearness of food must necessarily be disastrous for thousands. Deaths from starvation may have become rare occurrences, but cases of people having to go short of absolute necessities are far from rare. We cannot understand, especially when we consider the figures cited above from KÖRÖSI, how a considerable increase in food prices could possibly take place without affecting the

<sup>1</sup> *Statistisches Jahrbuch für das Deutsche Reich*, 1889, p. 14.

<sup>2</sup> See the Enquiries by Dr. BELA WEISS in the *Statistische Monatschrift*, vol. v. pp. 513-524, and vol. xiv. pp. 512-531; also the essay by Dr. F. VON JURASCHKEK in the same journal, vol. ix. pp. 394-409. The interesting study entitled "*De Nuptialiteit sedert 1873*," in the *Bijdragen van het Statistisch Instituut*, No. 3, pp. 476-511, might also be consulted.

<sup>3</sup> Cf. figures in *De Economist* of 1896 (pp. 989-990) for fourteen countries, and extending over the period 1865-1894; cf. also p. 158 *ante*.

mortality figures. If poverty and mortality were not closely related, there would be no adequate explanation for the slow growth of the population of Europe in past centuries. So far as can be ascertained,<sup>1</sup> births were no less frequent in the past than they are at the present day, but mortality was greater. Although this must in great measure be attributed to severe epidemics in those times—BARENSPRUNG has reckoned forty-five such visitations as having occurred between the years 1000 and 1625, or an average of one in every thirteen to fourteen years<sup>2</sup>—and although wars, with their devastating effects, also greatly swelled the number of deaths—RÜMELIN believes that the Thirty Years War reduced the population of Germany by one-half—still the lower level of welfare must also be taken into account. The great economic evil of former times was temporary dearness of food, and there can be no doubt that this helped in no small measure to increase liability to disease. But if even temporary dearness of food will cause mortality to increase, how much more powerfully must permanent dearness of food operate in this direction! In the eighteenth century bread was taxed nearly 100 per cent. in Holland. LUZAC, who mentions the fact,<sup>3</sup> contends that this heavy taxation affected the level of wages, and that it was responsible for the decline of Dutch industries. One has only to generalise from what he says in order to arrive at RICARDO'S proposition that "a tax on wages is a tax on profits." It is certainly remarkable that, during the heavy taxation of food in those days, the rate of interest was uncommonly low.<sup>4</sup>

Every community has its "frayed edge," as MEES expresses it. In every country—at any rate in the Old World—there are people living on the verge of starvation. Even amongst steady workpeople, one often meets with many who, owing to their excessively large families, or to sickness, or to misfortunes of other kinds, suffer want. For people so

<sup>1</sup> We would again refer the reader to Dr. J. WERNICKE'S work entitled *Das Verhältniss zwischen Geborenen und Gestorbenen in historischer Entwicklung*, Jena, 1889.

<sup>2</sup> According to WERNICKE, *op. cit.* p. 21.

<sup>3</sup> Dutch edition, 1783, Part III. p. 410.

<sup>4</sup> Cf. Mr. J. D'AULNIS DE BOURVILLE'S, observations on the subject in *De Economist* of 1888, pp. 779-781.

circumstanced heavy taxes on food mean ruin. Not even the most perfectly organised philanthropy will avert the consequences which such taxes must entail upon them, and these consequences must manifest themselves in increased mortality.

But what does this prove? RICARDO speaks, not of heavy taxes, but of all taxes. He does not say that the pressure will be partially shifted, he says it will be wholly shifted; this is more than experience and deduction entitled him to assert. In the first place, it is very questionable whether a *moderate* tax on food will have any effect on wages. Secondly, a tax on food does not necessarily affect *all* wages, and in so far as it does, it never operates so powerfully as to cause all wages to rise by the full amount of the tax.

A moderate tax on food, although it may increase the death-rate, does not necessarily increase even the lowest wages. Among the class of labourers who have to accept such wages, unemployment is a very common experience. We are probably not wrong in saying that the lower we descend in the social scale, the greater the amount of unemployment do we meet with. It is quite possible, therefore, that, by a reduction in the number of those at the bottom of the social scale, the evil of unemployment may be mitigated for the remaining members of that class; the incomes of these people will then rise without any rise taking place in the general level of wages. And, if the general level of wages does not rise, the full burden of the tax does not fall on the labourers who earn more than those of whom we have been speaking. There will be no shifting of the tax. In no respect whatever will "the tax on wages" be a "tax on profits."

Suppose, however, that, instead of being moderate, the tax is heavy, so heavy that it causes the lowest kind of wages to rise. Even then the wages of all the more highly paid classes of labour will not necessarily rise; it is quite possible that the rise may be restricted to certain categories of labour only.

Let us imagine a country in which there are 5,000,000 labourers distributed as follows according to their weekly earnings:—

1,000,000	earn at the rate of	28s.	per week.
1,000,000	”	26s.	”
1,000,000	”	24s.	”
1,000,000	”	22s.	”
1,000,000	”	20s.	”

Let us suppose, too, that a workman's family could not possibly live on less than 20s. a week in that country. Food taxes are introduced, which cost each family 2s. per week. To simplify matters, we will assume that every labourer is the head of a family, and that all the families are of equal size.

Obviously, 1,000,000 labourers with their families, *i.e.* those whose earnings are only 20s. a week, must now die unless their wages be advanced to 22s. Production may be strongly on the increase, so that if the supply of labour remained the same, wages would, before long, rise automatically by 2s. a week; after that it will be sufficient if the growth of the labouring population be kept in check. But, instead of being on the increase, production may be stationary; in that case a rise in wages will only be possible through a part of the labouring population being carried off by death. Now, assuming that production is stationary, how many labourers with their families will have to die in order that wages may rise to 22s. a week?

There is nothing in our hypothesis to suggest the answer; we will therefore suppose the number to be 200,000. After this reduction of the lowest group of labourers from 1,000,000 to 800,000 the wages of those belonging to the group will rise to 22s.

But what will now happen with respect to the wages of the higher groups as a result of these occurrences? Will they also rise, and if so, by how much? Will they all rise by 2s. a week, or just 10 per cent.? We know of only one cause which must bring about a rise here. It operates powerfully, but it operates on the wages of certain labourers only.

We know<sup>1</sup> that goods which stand in a fixed ratio of utility to each other must, in the long run, stand in the same ratio of value to each other. This is true not only of goods, but also of labour. Frequently the only reason why

<sup>1</sup> See Vol. I. p. 359.

one workman earns 20 or 30 per cent. more than another is that he does 20 or 30 per cent. more work than the other in the same time, or that the quality of his work is 20 or 30 per cent. better than that of the other. Among the labourers in our example who earn 22s., 24s., 26s., and 28s., a week, a part certainly belong to this class, and with the rise in the wages of the lowest group theirs too will at once rise proportionately. The best way of convincing ourselves of this is by assuming the wages of 20s. to be paid for 20 units of labour. So soon as the wages for each unit rise from 1 to 1·1 shilling, those who perform 22, 24, 26, or 28 units per week will earn 24·2, 26·4, 28·6, and 30·8 shillings respectively.

But a fixed relation of utility no more exists between all kinds of labour than it does between all kinds of goods. Cotton may become dearer while the price of iron remains the same. Similarly, the wages of common labourers may rise while those of carpenters and goldsmiths remain unchanged. There is no economic law which guarantees a fixed ratio between the wages paid in different trades. There is no reason why a rise should not take place in the wages of labour requiring nothing but muscular strength without any rise taking place in the wages of skilled labour. We are so accustomed to intellectual labour being more highly paid than muscular labour that we can scarcely imagine the converse state of things, and are inclined to regard it as impossible and even inconceivable. But why should it be inconceivable? Muscular labour is paid at a lower rate than intellectual labour because there is a greater redundancy of it; were it to become scarcer, it would be paid at as high a rate as the other—perhaps even at a rate exceeding that of intellectual labour. The man who performs exhausting manual labour all day is paid, say, 5*d.* an hour; another, who fatigues himself much less, gets 10*d.* or 11*d.* an hour. Why? Because for every one person of the latter kind there are ten, fifty, perhaps a hundred of the former; when the proportion between the number of men of the two kinds shall have altered, their relative wages also will change. It seems to us that this important point has been ignored by most people in discussing the relation between taxes and wages, and that entirely erroneous conclusions have been arrived at in consequence.

They show that taxes on food increase mortality, and feel justified in concluding from this that wages must rise in consequence of the increased mortality. This conclusion is premature. The wages of the class whose numbers are reduced will rise; so also will the wages of those between whose labour and that of the class referred to there is a fixed relation of utility. But the wages of the other labourers, in so far as they exceed the minimum, will remain unchanged, and those who earn them will feel the pressure of the tax, of which there will be nothing to relieve them. On the contrary, in so far as they need goods for the production of which a relatively large amount of the most inferior kind of labour is required, they will have to pay more for those goods, and therefore bear a burden over and above that of the tax.

Just one thing is possible, however. Owing to the increased wages in some industries, more capital will be required, and on the other hand the demand for capital will have been weakened owing to the decline in the number of labourers in those industries. It may be that of those two conflicting effects the latter will prove the stronger. It is not certain to do so; that will depend upon the extent to which a part of the labouring population has to be reduced in order to enable the lowest wage-rate to rise. It *may* do so, however, and in that case a certain amount of capital will be forthcoming, the rate of interest will fall, and wages will be found to advance somewhat all round. In most cases, however, the advance will certainly not be sufficient to compensate those who obtain it for the loss entailed upon them by the tax.

It will be seen that RICARDO'S proposition needs to be considerably qualified. In the first place, even in order to be only partially shifted, the tax must be so heavy that it will cause increased mortality. In the second place, the increase of mortality must be so great that it will influence wages, and not merely reduce unemployment. In the third place, the skilled labourers will even now not escape the tax; nay, it is possible that they may have to bear it in full. In all this, moreover, no regard is paid to the fact (a fact which RICARDO could not concede without admitting how strangely he erred in saying that the demand for labour must increase

when labourers are required to hand over a part of their wages to the Exchequer) that, except in the most favourable case, the shifting of a tax on food entails great suffering on a part of the labouring class.

The most favourable case is this. The tax may be introduced at a time when money-wages are rising, or the prices of the taxed goods are declining. The only effect of the tax will then be to deprive the labourers of all or part of the advantages which they would have derived from the increasing wages or falling prices. It is conceivable, however, that ultimately they would have lost those advantages in any case owing to reduced mortality and consequent accelerated increase of population. If this should prove to be the case, then the introduction of the tax would cause no lasting disadvantage, and the shifting of the tax would manifest itself in a negative form: there would be no decline in mortality. In other words, the wages, which would have again fallen if the tax had not been introduced, would remain at their higher level, or at any rate at a point somewhere above the old level.

After all that we have been saying nobody will suspect us of advocating taxes on food. We have this to say, however, that if it is proposed to impose such taxes, then the best time to introduce them is a time of increasing prosperity. The burden will then press less heavily on the working-classes when the taxes are introduced, and the shifting of the burden—in so far as it can be shifted at all—will be effected by the least painful process.

IV. Lastly, we have a word to say about an old theory which, in these days, has acquired a scientific form, and may be summed up in the thesis that *old taxes are always better than new*, because things have adjusted themselves to the former, whereas the community has still to adapt itself to the latter. "Any system of taxation," says Mr. W. C. MEES in his academic treatise, which we have already cited, "may be likened to a corset to which the growth of the social body adjusts itself, with this peculiarity that, even though the particular form of the corset may at first produce bruises in certain parts, owing to unequal distribution of the pressure, the bruises will, as a rule, become healed and in the end nothing

worse will result than the painless stunting of the parts originally bruised." L. VON STEIN expresses himself with equal force, though with far less clearness and ingenuity. In his *Finanzwissenschaft*<sup>1</sup> he devotes only six pages to the important subject of the shifting of taxation, and those six pages are made to suffice for the explanation of this far-reaching doctrine. Every tax is shifted by every one to some one else, for the person who pays the tax in the first instance only advances it for the person who needs his particular product. If we ask by whom the taxes are ultimately paid, VON STEIN replies that it is the function of production to supply a product which shall have a value at least equal to its cost of production, and the taxes are part of the product. In the value of his product the producer must *produce* the value of the tax imposed on it, just as he does the interest and wages, if he wishes to profit by its sale. If the product does not possess this value, it will be unsaleable, or else it must be sold at a loss. The taxes are not a thing apart in this case, they are absolutely the same as interest and wages. Once this is properly understood we are able to substitute the clear concept of taxes being *produced* for the "hazy theory of being shifted." "It matters not by what name a product may be known, the producer thereof must, by his labour, produce in it from the raw material an increased value, which shall equal the interest, the wages, and the taxes which he himself pays." From this follows the proposition which is the Alpha and Omega of all systems of taxation, namely, that "the sum total of all taxation must be *really produced* each year by the nation as an increased value of its production"—a proposition which contains the answer to the question as to where the hundreds of millions must come from each year which the various peoples pay in taxation. "Every buyer pays the price in which the seller's taxes are included *because* the product is worth that price to him; were it not worth that much to him, he would not buy it; but if he does buy it, then the seller of the article has produced his own taxes, and what is called the shifting of those taxes is nothing but the payment of that produced taxation-value of the article by the person for whom the article possesses value. Thus every

<sup>1</sup> Fifth edition, Part II. pp. 551-556; cf. pp. 556-561.

person who is subject to taxes is constantly occupied in calculating whether or not he can, by his labour, produce a value which shall equal the expenses of production plus the taxes ; and every purchase of his product, being a repayment to him of those taxes, is a proof that he has succeeded in producing that value.

It is good to read pages like these from the books of very able writers, if only because it enables us to realise that we do not engage in useless labour when we seek to determine exactly the concepts of value and cost. To subject VON STEIN'S theory to a detailed critical examination would take us over ground which we have already traversed. It need not detain us anything like so long to show that his theory is wrong. In the value of his product the producer must, according to VON STEIN, produce the value of the taxes which are imposed on it, if he is to make a profit on its sale. Quite true ; but has it never occurred to VON STEIN that the wages paid by the producer may be lower than they otherwise would be in consequence of the taxes ? In that case the producer, that is to say the *entrepreneur*, gets back all that he advances, and yet a part of the pressure of the taxes falls on the work-people. Again, has VON STEIN considered the simple truth that it is a disadvantage to every one to have to pay a high price ? You need a two-pound loaf and will, if necessary, pay  $2\frac{1}{2}d.$  for it. If there were no tax you would get it for  $2d.$ , but now you have to pay an extra  $\frac{1}{2}d.$  You pay this halfpenny. Because you pay it, can you say that you are subject to no pressure from the tax ? Lastly, by what right does VON STEIN assert that all taxes are passed on ? The *entrepreneur* still continues to work with profit when the State appropriates part of that profit. The landowner still continues to enjoy rent when he is obliged to part with 6 or 10 per cent. of his rent in the form of land-taxes. Without any attempt to prove his words VON STEIN says : " The landowner reckons out his land-taxes . . . the capitalist his taxes on interest, and each adds the amount of the tax to the price of what he sells. Which is equivalent to saying that the land-tax raises the rent of land, and that the tax on interest raises the rate of interest." We should like to see what proofs VON STEIN could have adduced to convince us of this.<sup>1</sup>

<sup>1</sup> Cf. Vol. I. pp. 98-99.

It is not to be disputed, we admit, that every community "produces" the taxes which it pays; to a great extent at any rate. A better way of putting it would be to say that the taxes are part of the general income obtained by means of production. This, however, affords no basis for conclusions as to the distribution of the pressure of taxation. Nor does it prove that every one passes his taxes on to his neighbour, the neighbour meanwhile being unconscious of having any burden transferred to him. With every respect for VON STEIN'S talent and wide knowledge, we are bound to say that we consider the half-dozen pages from which we have cited a few passages to be the weakest in his whole work, and that they prove nothing but what every one regards as axiomatic, namely, that the State derives its income from the income of the community. Except in so far as he has proved this his teaching is entirely erroneous.<sup>1</sup>

All this has no reference to the words used by MEES. But these also when subjected to further examination fail to satisfy us. We admit that taxation may be likened to "a corset," but we do not admit that the bruises which it causes "very often heal by degrees so that ultimately no effects remain beyond the painless stunting of the parts where the pressure was originally felt." The best that can happen is that the bruises will heal at the spots where they are caused, but as they do, fresh ones are formed in other parts; the trouble is by no means got rid of, it is only shifted. Even this may be a great gain, it is true, for it is possible that the parts that have been relieved are weaker than those which are newly attacked; still, the fact remains that all the while the trouble is only being shifted and not cured. Suppose that a particular trade is subjected to heavy taxes—taxes so heavy that only those concerns which are working under the most favourable conditions are capable of bearing the burden. Competition is now reduced within the trade; the labour and capital employed in it seek a new sphere of activity, and they succeed in finding it. When the period of depression has passed, there will be no less prosperity in this trade than in others; its aggregate output will simply be less than it was before.

<sup>1</sup> VON STEIN is also criticised by Mr. CORT VAN DER LINDEN in *Leerboek der Financien*, § 81.

But can this be called recovering? The special profits—the surpluses—of the manufacturers who have been able to bear up under the burden of the taxes will certainly have shrunk; rates of wages and interest will certainly have been depressed in other trades, that is to say in those in which new labour and capital have sought employment; the property of the manufacturers who have had to wind up their business at a loss will undoubtedly have been reduced, and there is nothing in the whole process to warrant our believing that at some future time they will be compensated for this loss. Certainly through the operation of taxes the community will have acquired a new shape; its growth will have been suppressed at one point and stimulated at another. Doubtless, too, the labourers and capitalists who have found a new sphere of employment are now better off than they were immediately after the taxes were introduced; the trouble has spread, and in so doing has afforded relief to some. But, we ask again, can this be described as a process of healing the bruises of the social body as a whole? Is it a process of getting rid of the pressure of taxation? We maintain that it is nothing but a process whereby that pressure is shifted, and not even completely shifted.

Or suppose that heavy taxes on food are imposed in a country where all wages are just sufficient for the support of a family of normal size. Now this is a case than which nothing could possibly be more favourable for the theory that we are examining; in fact, no case so favourable can ever really occur, for high mortality will now cause wages to rise by the full amount of the tax; in the economist's language, the bruise on that part of the social body to which the working-classes belong will be absolutely healed. But will not a fresh bruise be caused elsewhere? The tax on wages will become wholly a tax on profits, so that capitalists will suffer. The rise in wages will be detrimental to all who purchase personal services, as well as to all who use goods of which the prices contain a larger element of wages than of interest, unless the incomes of such people have also risen. The taxes will increase the cost of food not only for the working-classes but for all classes of society. In short, the burden of the taxes will not have been deflected: it will

simply have been shifted. The trouble will have been cured at the spot where it was doing most harm, but it will have broken out elsewhere and there continued to produce the same effects.

Take a third illustration. Taxes are levied on the gross return from the land. Crops which it paid to cultivate before those taxes were imposed can now no longer be grown at a profit. We will assume that, as regards growth and distribution, the population adjusts itself to the new conditions, and that capital which can no longer be invested profitably at home finds suitable investment abroad. But surely the rents of certain lands will now be depressed, also those of houses in certain parts of the country, and how can this depression be relieved so long as its cause is not removed? Suppose that in a certain town all houses, of which the lower parts are used as shops, have hitherto been exempt from taxes assessed on the rent. The Local Authority then decides that these houses shall no longer be exempt; obviously the rents of such houses will then decline, and when they have declined the shopkeeping class will have been relieved of the pressure of the taxes. But how about the owners of the houses? The burden of the taxes will have been passed on to them; they will receive less rent than formerly, so that here again the burden will only have been shifted and not deflected.

There remains only one thing more to be said before we pass on. The social body has this in common with the human body, that it suffers more pain from old wounds under some influences than it does under others. High duties on transfers of real estate, for example, are not very hampering in their effects in a period when prices of real estate are rising; in such a period they only diminish profits. I have bought a house or a piece of land for £1,000 and I sell it for £1,100. I have to pay, say, £60 or £70 as duty on the transfer, but after paying this I am still a gainer. But in a period when prices of such property are falling, these duties do not merely reduce profits, they increase losses, and they continue to do this so long as they remain in force. The fact that they are old will not have deprived them of their power to inflict harm. The return of a period of falling prices in the real estate market will bring a return of the pain caused by the duties. Once more these will be instrumental in pushing

nearer to the verge of insolvency many whose position was already precarious. In all this we fail again to discover any sign of what could be termed a healing process.

The popular theory that old taxes are better than new, a theory which conservatives are so given to invoking, and which, if it were true, would proclude all reform in taxation, seems to us to be untenable. We cannot accept it either in the form in which VON STEIN has stated it, or in the much better form which it is presented by MEES. If any one were to say that every nation grows accustomed to its taxes, just as it does to any other discomfort brought upon it by the inevitable course of events or by the ignorance of mankind, we should agree with them. Were any one even to go further and maintain that, in the case of some taxes, the effects are not the same in the long run as they were in the beginning; that the injuries which they inflicted at the outset are now scarcely felt, while those which they still inflict are so diffused that they can no longer be regarded as causing serious hardship; if any one were to put forward these views, and especially if he were to invoke the theory of the amortisation of taxes as reasons for guarding against hasty reform in the system of taxation, and if he were to urge the necessity for the fullest possible investigation before introducing any such reform, then we should not merely agree with him, we should most emphatically endorse his plea for caution. The results of abolishing an old tax are often quite different from those of abolishing a brand-new tax, and the Government that forgets this is liable to commit a grievous wrong in the name of right. We do not, however, mean to say that bad taxes, by the mere fact that they have grown old, have lost their bad qualities. Some taxes never do this, others only do so in part. When, owing to excise duties on food, the poorer classes have been forced to take to inferior kinds of provisions, the evil cannot be remedied unless the duties are abolished. When high taxes based on house rents have brought about overcrowding, the only way in which this state of things can be improved is by reducing the taxes in question. Production, when it has been forced into a wrong direction by protective import duties, cannot take a better direction until those duties are abolished.

When earned incomes are taxed too heavily in comparison with unearned, and frequently, too, when some kinds of wages and salaries are taxed too heavily in comparison with others, the only remedy is to reform the defective scale of taxation. If, after a long-continued decline of agricultural rents, the land-tax were not reduced by revising the taxable incomes from land; if, in this way, the tax, instead of being amortised for those who are paying it, has become for them a veritable tax, then a mistake has been committed which the Government must repair without delay. These truths cannot be too well remembered. In what science teaches us with regard to the amortisation and shifting of taxes there is much that should lead us to be circumspect, much that should prevent us from joining in every popular cry, but nothing which, if properly understood, could serve as a cloak for conservatism in the domain of public finance.

## § 5

### **Equality of the Pressure of Taxation**

By way of concluding this chapter as well as preparing for the next, we will now endeavour to explain what is meant by equality of pressure of taxation. The practical question whether all taxes should be so regulated as to ensure the utmost equality of pressure from their aggregate effect; in other words, whether equality of pressure is the only principle to be observed with reference to the distribution of the pressure,—this question we propose to leave unanswered for the moment. Just now we have another purpose in view. Almost daily we are being told by writers in newspapers and other publications that every effort should be made to ensure equality in the distribution of the pressure of taxation. As a rule, however, the writers omit to tell us what they mean by this expression. Most of them seem not to realise that it is capable of different interpretations and, therefore, needs explanation.

This explanation we now propose to supply. It will be necessary, however, to seek for an interpretation of the concept "equality of pressure" such as shall not only satisfy the

requirements of theory, but also serve, so far as may be, for the guidance of statesmen and legislators.

In the course of our inquiry we can avail ourselves of two excellent studies by Dutch writers, which have attracted attention abroad as well as at home. One of these is an article by Mr. A. W. MEES entitled "De Progressieve Inkomstenbelasting"<sup>1</sup> while the other is Mr. A. J. COHEN STUART'S academic thesis entitled *Bijdrage tot de Theorie der Progressieve Inkomstenbelasting*.<sup>2</sup> Of these two writers the latter, who handles his subject very comprehensively, deserves special mention for having shed some light on a number of matters which had previously been enveloped in obscurity. He shows us how to distinguish between concepts which it was customary to treat as identical, and, as a scientist, he was well fitted to do so. It may be doubted whether, in the whole range of economics, there is a single subject in the handling of which so much precision is needed in order to avoid serious errors, and Mr. COHEN STUART sets us a good example of precision.

Equality of pressure may signify, in the first place, *equality of the burden* imposed on each person. According to this signification equality is obtained when, the sum-total of the taxes being divided by the number of persons to be taxed, each person pays an amount equal to the quotient. The word is then used in an objective sense. But nobody interprets it in this sense. Such an apportionment of taxation would be regarded by every one as extremely unfair, and indeed unequal.

Equality of pressure may, in the second place, signify *equality of the sacrifice of enjoyment*. This calls for some explanation, which need not, however, detain us long now that the student may be assumed to be acquainted with MENGER'S theory of value.

Just as nobody attaches the same value to all parts of a

<sup>1</sup> "The Progressive Income-tax," printed in *De Economist*, 1889, pp. 437-462.

<sup>2</sup> *Contributions to the Theory of the Progressive Income-tax*, The Hague, 1889. The student desirous of being acquainted with the voluminous literature subsequently published on this subject, and in which appreciations and criticisms of Mr. COHEN STUART'S ideals occupy a prominent place, should consult R. A. SELIGMANN'S *Progressive Taxation in Theory and Practice*, New York, 1894, and also A. GRAZIANI'S *Istituzioni di scienza delle finanze* (Turin, 1897), pp. 278-308.

stock of goods which admits of being subdivided into equal parts, so also does nobody attach the same value to all the parts of his income. There are expenses which are absolutely necessary, and others which are necessary in a minor degree only. A man may have so large an income that he can afford not only to incur all kinds of expenditure on luxuries, but also to give large sums away, and yet have a large balance remaining. If I have an income of £4,000 a year it will certainly occasion me some regret to part with £100 of it. But if some one were to deprive me of £200 of my income I should feel the loss, not only twice, but something more than twice as much; and for each succeeding £100 taken from my income my sense of loss would be greater than for the preceding £100. As my income gradually declined towards the limit necessary for my mere maintenance—when, for instance, from £4,000 a year I had been reduced to, say, £400—the intensity of my sense of loss would increase in a very special manner. It is a very debatable question whether the income necessary for the support of life, the minimum on which it is possible to subsist, does or does not possess an infinite, an immense value. Mr. A. W. MEES assumes that it does. Mr. COHEN STUART says that its value is not immense, but immeasurable. We need not enter into that controversy; the value of the subsistence-minimum depends upon the value which we attach to existence itself. For the man who would not lose his life at any price, the income necessary to enable him to live possesses infinite value; for the man who is almost tired of life it possesses very little value.

Here we might again draw a diagram similar to the one which we employed when we were discussing value in the first chapter of this work.<sup>1</sup>

A person's income at a given time would then be represented by a horizontal line divided into a number of equal parts, and each of these parts would form the base of a figure representing the amount of enjoyment derived by the owner from that part of his income. In two respects, however, the diagram would differ from our earlier one. Above that part of the horizontal line which represented the subsistence-minimum we should find no enclosed space, for, if we did, it

<sup>1</sup> See Vol. I. p. 55.

would signify that the value attached to that part of the income which is absolutely necessary for the support of life was capable of measurement, which, as a rule, it is not. Again, the diagram would have to be drawn in such a way as to show that any increase of the income always afforded additional enjoyment. It is, of course, possible to conceive of a person's income reaching such a figure that any further increase might be regarded rather as a burden than a source of enjoyment, but in actual life such a case would be rare. We can always give away what we deem to be superfluous, and giving is itself a pleasure—a greater pleasure, in fact, than receiving if we are to believe the proverb.

All this, however, can be quite well explained even without the aid of diagrams. Let the minimum income for subsistence be £50 a year, and suppose the total income of three persons to be £150, £350, and £650 a year respectively. Suppose also that the relative degree of enjoyment afforded by each successive £100 above the subsistence-minimum of £50 is as shown below:—

For the first	£100—100 per cent.	=£100.			
For the second	£100—100 to 90 per cent., <sup>1</sup>	an average of 95 per cent.	=£95		
„ third	£100— 90 to 82	„	86	„	=£86
„ fourth	£100— 82 to 76	„	79	„	=£79
„ fifth	£100— 76 to 71	„	73½	„	=£73:10s.
„ sixth	£100— 71 to 69 <sup>2</sup>	„	70	„	=£70

Now if each of these persons were required to pay a tax of £5 a year, it is obvious that this tax would not represent an equal loss of enjoyment for all three. A man pays his taxes out of that part of his income which he uses for the satisfaction of the least urgent of his wants, and therefore out of that part of it to which he attaches the least value. From this it follows that the man who has £150 a year will lose an enjoyment of 100 per cent. of £5, *i.e.* £5; the man with £350 a year will lose an enjoyment of 82 per cent. of £5, *i.e.* £4:2s.; the man with £650 a year will lose an enjoyment of 69 per cent. of £5, *i.e.* £3:9s. Thus with equality as regards the amount of money paid, there will be no equality as regards the amount of enjoyment sacrificed, nor will there

<sup>1</sup> That is to say, 100 per cent. for the first and 90 per cent. for the tenth £10.

<sup>2</sup> That is to say, 71 per cent. for the first and 69 per cent. for the tenth £10.

be equality of pressure if the expression has to be interpreted in this sense. There could only be equality of pressure if the second man paid  $\pounds 5 \times \frac{100}{82} = \pounds 6 : 2s.$ , and the third man  $\pounds 5 \times \frac{100}{69} = \pounds 7 : 5s.$

Judging by this example, the rule as to equality of sacrifice would operate very favourably for the owners of large incomes, seeing that according to this rule our three tax-payers would have to pay as follows:—

First tax-payer,	£5,	on an income of	£150 = 3.33 per cent.			
Second	„	£6 : 2s.	„	„	£350 = 1.74	„
Third	„	£7 : 5s.	„	„	£652 = 1.11	„

The figures chosen are, however, arbitrary; were we to choose others instead, we should get results differing very widely according to the choice which we happened to make. Reverting to a terminology of which repeated use has already been made in this work, we will here speak of the marginal utility of the income as representing the enjoyment derivable from the last increments thereof, *i.e.* from those parts of it out of which the taxes are paid. And now we shall have no difficulty in proving the following proposition. Where the marginal utility of the income declines in the same proportion as that in which the amount of the income increases, then the rule which we are now explaining must lead to absolutely proportional taxation; where the marginal utility declines in a proportion greater than that of the increase of income, then under this rule there must be progressive taxation; and where it declines in a proportion less than that of the increase of the income, there must be degressive taxation.

Compare, for instance, two incomes, one of £50 and one of £500. Both are subject to a tax of 3 per cent., so that one pays £1 : 10s. and the other £15. Now, if the man who pays £1 : 10s. attaches to those parts of his income out of which he pays the tax a value represented by the figure 100, while the man who pays £15 only attaches a value of 10 to the corresponding parts of his income, we have equality of sacrifice with proportional taxation. On the other hand, to obtain this equality of sacrifice a progressive tax of from 3 to 6 per cent. would be necessary if the marginal utility of the larger income did not exceed 5; and a degressive tax of from

3 to  $1\frac{1}{2}$  per cent. would be necessary if the marginal utility were neither 10 nor 5, but 20.

GRAZIANI,<sup>1</sup> who advocates the principle of equality of sacrifice in the apportionment of taxation,<sup>2</sup> considers it beyond all reasonable doubt that the application of this principle leads to progressive percentual taxation. And he is right. Nobody can doubt for a moment that for the man with an income of only £50 a year it must be a greater sacrifice to pay a tax of £1:10s. than it is for a man with £500 a year to pay a tax of £15. But why is this so? Simply because the smaller income has to be used almost exclusively—perhaps even wholly—in procuring the necessaries of life.

The subsistence-minimum, which, as we have seen, possesses an unmeasured, or at anyrate an immeasurable, value, is represented in a much larger proportion in the £50 than it is in the £500 income. In order to prove that this is the sole reason for our being firmly convinced of the necessity of progressive taxation as the means of obtaining equality of sacrifice, let us take the following test. Suppose the minimum income for subsistence to be £45 a year, and that only what is earned *in excess of that income* is subject to a tax of 3 per cent. An income of £50 will then have to pay 3s., while an income of £500 pays £13:13s. Can it be said to be beyond all reasonable doubt that in this case there is no equality of sacrifice? The proportion between the amounts paid in taxation is now as 1 to 91; with a proportion of 1 to 10 between the incomes there is nothing that gives us such a feeling of certainty as we got from the first example that the smaller income pays too heavily. If any one were to have the same feeling of certainty in this case too, it would be because only £45 had been reckoned as the minimum for subsistence. At this point we must stop. It is altogether impossible to calculate the proportion in which the marginal utility of an income will decline with an increase in the amount of that income. All that seems certain is, that where we take a very small income for our starting-point, the decline of the utility line is

<sup>1</sup> *Istituzioni di scienza delle finanze* (Turin), 1897, p. 303.

<sup>2</sup> GRAZIANI regards this principle as something different from JOHN STUART MILL'S "Equality of Sacrifice." We think that in so regarding it he is mistaken; it is the same thing more clearly expressed.

at first stronger than the rise in the amount of the income. But how much stronger nobody can tell. It may be accepted as certain that the course of the utility line will not be the same for any two persons, for there will never be two people with equal incomes, and to both of whom an equal increase of income will bring the same degree of enjoyment. It would be necessary, therefore, to find a certain *mean* course for the line. But a mean cannot be reckoned from unknown quantities. In view of all this it is evident that, arguing from the principle of equality of sacrifice, no case can be established for any stronger progression than that obtained by deducting from all incomes a certain sum for subsistence.

Indeed, it is even questioned whether, after this deduction for subsistence has been made, the principle of *proportional* percentage taxation may, without conscientious scruples, be applied to the rest of the income, when equality of pressure is interpreted in this sense of equality of sacrifice. GRAZIANI assures us most emphatically that those parts of the income which are required for the satisfaction of wants that come next in importance after those which are the most urgent, also have a subjective value, and that up to a certain limit the value declines in a proportion greater than that in which the income increases above the minimum for subsistence; it is not possible to prove the truth of this proposition. Suppose the income of A to be £50 and that of B £75, while the minimum income for subsistence is £45, as before. What now will be the ratio between the marginal utility of A's £5 or B's £30 of taxable income? To justify proportional taxation it should be as 6 to 1, and to justify progressive taxation it should be greater still; but who can affirm with certainty that the assumed proportion of 6 to 1 is not too high? And when it comes to very large incomes one has more hesitation than ever in answering the question as to which method of taxation should be applied. A has an income of £10,000 and B an income of £30,000. Must we now reckon that every sovereign paid in taxes by A is equivalent to three sovereigns paid by B; or is the ratio different?

There is no answer, for nobody can tell.

There is a third interpretation of the concept equality of

pressure; like the previous one it is based on the decline of the marginal utility of the income which accompanies each increase of the income itself. If we divide the sum of the enjoyment obtainable from the whole income by the sum of the enjoyment forfeited owing to the tax, we get a quotient which, according to this interpretation, must be the same for all, if there is to be equality of pressure. What has to be aimed at, therefore, is not equal sacrifices, but sacrifices, the subjective value of which shall stand in the *same proportion* to the subjective value of the income for all those who are taxed. But since the part of the income which is necessary for subsistence has an immeasurable value, that part must not be included in the calculation, otherwise the desired equality of quotients would never be obtainable.

We see at once that in its application this theory involves us in the same difficulties as those just mentioned. So long as we are unable to make a correct, or at any rate a tolerably correct, estimate of the course of the line which indicates the decreasing valuation of the parts of the income, we shall be unable to discover whether the sacrifices entailed by the tax are proportional or whether they are equal. The scientific investigations of Messrs. COHEN STUART and A. W. MEES have revealed that it depends entirely on the course of this line whether the taxation should be progressive or degressive, or whether it should consist in a percentage (equal for all who are taxed) of income in excess of the minimum necessary for subsistence; various guesses can, of course, be made as to the course which this line will follow, but beyond that it is impossible to go. The doctrine of proportional sacrifice, therefore, even if it could be proved to satisfy all theoretical requirements, would never satisfy the practical requirement of being serviceable as a guide in devising schemes of taxation. No ideal is attainable in the domain of finance; all that is possible is to move a few steps in the right direction. Now none of the interpretations of equality of pressure which we have been discussing does even so much as to tell us which is the right direction; and that is what, in our opinion, constitutes their most serious defect. What could it avail the Chancellor of the Exchequer to be given rules of taxation concerning

which it was impossible for him to ascertain whether they were complied with or not?

There is a fourth interpretation of the concept equality of pressure. Those who adopt it hold that the equality lies in the proportional taxation of what is called the "free income"; the expression "free income" being here used in reference to what RICARDO and many of his contemporaries called the "net income." The expression "net income" was not accurate, for every income is "net" after deduction of the cost of procuring it; a person's "net income" is the whole of what that person can spend without encroaching on his property, whereas RICARDO had in his mind only a part of that income, namely, the part which remains after subsistence has been provided. His "net" income, therefore, is income in excess of the minimum required for subsistence, or what, by later writers, has correctly been termed "free income," since it represents the part of our income which we can dispose of with a certain amount of freedom. Now according to the theory under consideration, this free income is the true measure of each one's "faculty" or ability to bear taxation, and seeing that the concept equality of pressure coincides with that of faculty in taxation, it follows that any system of taxation which aims at equality of pressure must be based on a strictly proportional taxation of the free income.

It must be admitted that in point of simplicity this theory is all that could be desired. As Mr. COHEN STUART rightly observes,<sup>1</sup> the method by which it calculates ability to bear taxation reminds one of that applied by engineers in calculating the bearing capacity of a bridge. "They begin," he says, "by reckoning the total bearing capacity, which is determined by the composition of the entire structure, by the shape and sectional area of the parts and by the material of which they are composed respectively. But for the bridge to be able to bear the weight of a railway train, or even of a foot-passenger, it is first of all necessary that it should be able to bear its own weight. Consequently in considering whether or not the bridge will be able to bear a given weight, the question is not as to its total bearing capacity, but as to its

<sup>1</sup> *Op. cit.* p. 39.

capacity after allowing for the strain resulting from its own weight. Applying this metaphor to taxation, certain authorities on public finance speak of an *abstract*, as distinguished from a *concrete* or *real* faculty, the former being constituted by the aggregate resources of the person taxed, and the latter by that which remains after deducting what is necessary for subsistence."

Besides this abstract and this concrete faculty there is a potential faculty, which admits of being converted into a real faculty by the industry of mankind. We shall have to take this into consideration presently when we proceed to a critical examination of the theory. All we propose to do in the meantime is to defend it against certain objections which are groundless, and more especially against some which have been directed against its fundamental principle of exempting from taxation that part of the income which is necessary for subsistence. We find these objections set out both completely and concisely in GUSTAV KOHN'S *Finanzwissenschaft*;<sup>1</sup> and their substance is as follows:—

I. The exemption is an outgrowth of the Physiocratic doctrine of the net income (*produit net*).

II. It is based on a misconception of the State; the State belongs to the category of things that are indispensable.

III. It is impossible in practice; for who can reckon out in figures the minimum sum necessary for subsistence?

IV. It is likely to be abused; where the lower classes have a strong influence on legislation there is a danger of them always causing the amount of the exempted income to be raised.

To these objections we would answer as follows:—

I. The exemption of the subsistence-minimum has nothing in common with the Physiocratic doctrine of the net income (*produit net*). The net income of the Physiocrats is the rental value of the land; by "free income," on the other hand, is meant all income (irrespective of its source) which remains after deducting the part necessary for the support of life. Consequently, the theory which insists on the free income being made the standard for the apportionment of taxation cannot possibly be derived from the doctrine of the Physiocrats. It aims at something altogether different.

<sup>1</sup> Page 275.

II. Undoubtedly the State is one of the things that are indispensable. But so also are elementary education and public poor-relief. Does it follow from this, that no free schools should be provided for the poor, and that they themselves should pay for the relief provided for them in bad times? "The requirements of the State are a part of the necessary requirements of life," we read further on, but the argument founded on this thesis is a *petitio principii*. Necessary, in what sense? Not in the sense that the Treasury cannot be replenished unless even those who can scarcely provide for their own support are required to contribute their share towards the public expenses; for, so long as there are many others who have more, it will not be absolutely necessary to make the very poorest contribute. It is only necessary, therefore, where the State thinks it desirable that even the poor should be taxed. Certainly the needs of the State are part of the needs of the community as a whole, and they can only be provided for out of the total income of the community. It does not, however, follow from this that the needs of the State cannot be supplied unless *everybody* be made to contribute a part of his income. Any necessity which existed for such a course would be due, not to the natural order of things, but to some enactment of the Government. And it is on this very question of the desirability of such an enactment that opinions differ.<sup>1</sup>

III. The exemption is held to be impossible in practice because nobody can calculate in figures the minimum sum necessary for subsistence. The amount of this sum depends on a great variety of circumstances, nor is it the same for any two persons. This objection is of a practical, and not of a fundamental nature; its value must, therefore, be tested by practical considerations. The question is not, whether it is possible to state with scientific accuracy a sum which shall represent everybody's minimum for subsistence, but whether it is possible to find an amount which, in a given country and at a given time, shall come sufficiently near that minimum to warrant its being accepted by the Legislature; also, whether the error necessarily involved in the process constitutes so

<sup>1</sup> See Dr. VOCKE's observations on this question in *Die Abgaben, Auflagen, und die Steuer* (Stuttgart, 1887), p. 459.

serious a stumbling-block that every attempt to fix a certain sum for necessary expenses must be abandoned. In order to answer these questions correctly, we must bear in mind that when we speak here of necessary expenses, we use the word "necessary" not in a wide, but in a restricted sense. We often speak of various kinds of expenses as necessary, although they are not absolutely so, simply because we want to justify them; they are of the kind which we are *expected* to incur, having regard to our rank or position. Unless special circumstances should intervene to allow a man to act as he thinks fit, his neighbours regard it as his duty to maintain a certain style of living. None of us are bound to fulfil a duty of this kind, and our acceptance of it is altogether voluntary. But in the theory which we are now examining, expenses are "necessary" for wholly different reasons, and, as they are far less elastic than the other expenses, they are quite capable of being measured by a figure, which, although not scientifically exact, as we have already admitted, may nevertheless serve as a useful guide to the framers of Finance Acts. It is true that the minimum necessary for subsistence depends on a great number of circumstances; but for the most important of these, viz. the size of the family, due allowance can be made. The minimum can be calculated per head of each group of persons having to live together on a given income.

As a second practical consideration in this matter, we would suggest that for several reasons it is advisable that, in any scheme of taxation according to income, the smaller incomes be taxed lightly. By adopting this principle, the unavoidable error referred to above cannot entail any serious consequences in the application of such taxes. Moreover, under a system based on the principle of exempting the subsistence-minimum, import and excise duties would be so arranged that the absolute necessities of life were wholly, or almost wholly, exempt; taxes on house rents, hearths, and the like would be so arranged that lowest rents and single hearths were exempt.

The argument which we have been controverting sounds plausible when heard for the first time. One thinks at once of the great difference in the conditions under which people live, and one is inclined to reject a theory which seems not to give sufficient weight to that difference.

This impression fades as the theory is more closely examined. One then sees that the error is neither so great in itself nor anything like so serious in its consequences as it appeared at first sight.

IV. And now for the fourth objection. It is contended that, in countries which are governed on democratic principles, the exemption of the subsistence-minimum may lead to abuses.

The experience of certain of the Cantons and Communes of Switzerland, where the subsistence-minimum is being constantly raised, is held by KOHN to be a proof that the objection is not imaginary. Be it so; but can it be said that the objection as to incurring the opposite evil is imaginary? Do we not find that the necessaries of life are taxed in almost every country? Even Germany, where the raising of the standard of life among the lower classes has been set up as a fixed policy of government, has not refrained from levying import duties on corn. If we must choose between two evils, either to tax the poor, or to treat as poor those who, even if they cannot boast of wealth, can certainly not be called poor, then it seems to us that the former is the greater evil.

Besides these four objections of KOHN's, there is another which has sometimes to be encountered. It is, that those who would exempt the subsistence-minimum from taxation would place the individual before the community; that they would arbitrarily fix a boundary which the State must not overstep. Cases may occur in which the State cannot respect any boundary. Where the honour or independence of a country is at stake everything else must, if necessary, be sacrificed.

A sufficient answer to this objection would be to ask, what purpose could be served by taxing those who are poor? What we took from them we should have to return to them in the form of relief. But the best answer seems to us to be contained in the following passages extracted from Mr. COHEN STUART's book on the *Progressive Taxation of Incomes*.<sup>1</sup>

"I am quite willing to admit that a right-minded citizen, however scanty his means, ought to contribute towards the State, if necessary even to the injury of his health, and at the risk of his life. I admit, too, that the citizens of Leyden showed a proper sense of civic duty and patriotism, when, on

<sup>1</sup> *Progressieve Inkomstenbelasting*, pp. 43-44.

learning from the Burgomaster that the food-supplies were exhausted, they made the famous reply that, rather than surrender, each would eat his left arm, so that he might fight on with his right! But I should like to see it adopted as a rule that nobody need start eating his left arm so long as any provisions remained in the fortress. . . . By taking from a man a part of his possessions, the State may injure him in two very different ways; it may deprive him of some of his luxury, of his enjoyment in the widest sense; but it may also bring his life or his health into danger. Now the fundamental injustice does not consist in doing the latter, but in doing it to some whilst others are living in comfort. We do not wish to fix an absolute boundary which the State must never overstep; all we would claim is, that if that boundary must really be overstepped, it should be overstepped in respect to everybody at the same time."

We are in agreement not only with this argument, but also with the limitation of the theory of the subsistence-minimum contained in the passages quoted.

In agreeing with that limitation, we assume, of course, that the necessity for taxing the subsistence-minimum be held to have been reached so soon as the well-to-do classes have contributed, not the very last penny of their *property*, but the whole of their income with the exception of what is absolutely necessary for subsistence. For it would be a poor service indeed to the working-classes to exhaust the source from which they obtain their wages.

We can now return to our critical examination of the theory that, if equality of pressure be the aim, the free income must be taken as the standard for the apportionment of taxes. The strength of the theory lies in the fact that the free income really does, in very many cases, to a certain extent express in terms of money the individual's ability to bear taxation; its weakness lies in the undeniable fact that, in many cases, the free income is no monetary measure, and in no case is it a complete monetary measure of faculty in taxation.

Take two persons with equal incomes. One of them has to expend all his energies in earning his, while the other is a

man of independent means, a pensioner, or a retired merchant living on a share of the profits of his former business. Both are in the full vigour of life. If a tax were imposed which absorbed the whole of the income of each of these men, the first of them would be helpless. Not so the second; he would give up his life of ease and betake himself to some work which would bring him fresh income. We have intentionally supposed a case which never happens in actual life; we wished to show that even in that case these two people would be wholly different.

What is now being said also affects the theories which we have dealt with previously. What some want is equality of sacrifice; but if I am content to live on an income of £1,000 a year while I might have an income of £2,000 if I liked, this will represent a much smaller sacrifice than it will for a man who has the same income to live upon but who cannot increase it. Then let the sacrifices be proportionately equal, say some; but those who value the degree of accuracy involved in this demand should not forget that for most people there is enjoyment in comparative leisure, and that everybody finds enjoyment in doing work which he likes.

One cannot, of course, advocate taxation based on the income which a man could earn if he would. A lawyer with a very lucrative practice may accept a university professorship; a large manufacturer may give up his business on being elected a Member of Parliament. Who would think of taxing such people according to their former incomes on the ground that those incomes proved how much the men could earn if they would?<sup>1</sup> Nevertheless, if we take the free income as the

<sup>1</sup> FRANCIS WALKER, however, does not seem to disapprove of this idea. In his essay on "The Basis of Taxation" in the *Political Science Quarterly* of March 1888, he condemns all bases of taxation except faculty, or native or acquired power of production. He says: "It seems to me that the economists and financiers make a serious mistake, when they drop faculty as the theoretical basis of taxation. It is true that in a state of highly complicated interests and industries, a faculty tax is no longer practicable as a sole or chief form of contribution; but this constitutes no reason why it should not be held in view as furnishing the line from which to measure all departures from the equities of contribution, as one or another form of taxation, more suited to the exigencies of modern society, comes to be adopted for meeting the wants of government." WALKER concludes his essay with the foregoing passage. As to the way in which this view could be translated into practice he tells us nothing.

standard for applying the principle of equality of pressure, we must not be altogether neglectful of the point to which attention is now being drawn. The practical conclusions which result from giving due consideration to that point will be stated in the next chapter.

There is another reason why the free income affords us no absolute index of faculty in taxation. Even if we assume equality of incomes, and if we ignore the circumstance that one income is derived from property, another from labour, a third from pension, a fourth from various sources, there is great inequality as regards the necessity for saving. A man who fails to save may be neglecting a duty. His health may not be good, or the appointment which he holds may be only temporary, and he may be very uncertain of being able to find a new, or an equally lucrative one; or again, he knows that as he gets older he will no longer be able to compete successfully with younger men. Another man, on the contrary, is of sound physique; he holds an appointment at a salary which increases with the length of his service, and he is entitled to a pension after reaching a certain age; he may even be looking forward to a legacy. The one has weakly children who will find it difficult to face the struggle for existence; the children of the other are well developed both in body and mind, and have every prospect of being able to make their way in life. All this being so, absolute equality of pressure is not to be attained by choosing the free income as the sole and absolute standard of taxation. What is needed is a system which, without making full allowances for the special circumstances of each individual—for that would be impossible—will nevertheless be sufficiently flexible to admit of some allowance being made for those circumstances. As to the means for ensuring conformity with that requirement in any given system of taxation, that, too, is a question which we must reserve for later investigation.

There is, however, another important point which must at least be touched upon here. Assuming that the free income be taken as the standard for taxation, the question arises whether it is intended to serve as a standard for taxing on a strictly proportional basis, or on a *progressive* basis. It seems proper that we should examine this point now

rather than when we are dealing with income taxes, because the principle of progression, if sound, ought to govern the whole and not merely a particular part of the general system of taxation, if that system aims at equality of pressure.

The exemption of the subsistence-minimum in itself gives rise to a certain progression in respect to the whole income even if the tax be strictly proportional on all above that minimum. This scarcely needs demonstration. The BENTHAM system to which we are now referring (so named after JEREMY BENTHAM, by whom it was first suggested) may, if the deduction be large, involve a very strong progression. Suppose, for instance, that the income exempt from taxation is £100, and that all incomes above that amount pay a tax of 2 per cent., then an income of £110 will pay 4 shillings, or 0·18 per cent.

„	„	£150	„	„	20	„	„	0·66	„
„	„	£200	„	„	40	„	„	1·00	„
„	„	£300	„	„	80	„	„	1·33	„

of its amount. Thus the tax represents a constantly increasing percentage of the whole income, and although the growth of the percentage gradually slackens it never ceases.

This, however, is not the progression which we have now in mind. We are assuming that the subsistence-minimum is disposed of, and that the question before us is, whether the principle of equality of pressure inevitably entails *still further* progression. Must the progression extend even to the *free* income? The supporters of the BENTHAM system pure and simple say no. We think we can prove that they are not justified in doing so, that their own principle, in fact, would require them to answer in the affirmative; nay more, that the principle itself contains a sanction for progressive taxation being applied to the free income.

This sanction, as was demonstrated above, is sought in vain in the sacrifice theory, whatever the form in which that theory is presented. And the popular argument usually adduced in favour of progression provides no sanction for it whatever; indeed, if we examine it seriously we find that it does not even deserve to be called an argument. What it amounts to is this. Progressive taxation is equitable because a man with a large income “can pay a high percentage of his income with greater ease” than a man with a small income

can pay a low percentage of his. Nobody would think of denying this. The rich man pays everything with greater ease than does the less wealthy man, and therefore he pays his taxes with greater ease. To a man with an income of £10,000 a year it would be easier to pay 75 per cent. of that income than to a man with only £100 a year it would be to pay 4 or 5 per cent. of his. But nobody denies this. Each of two persons has debts to the same amount; the assets of one of them are very insignificant, but those of the other are very great. After both have paid their debts the former has nothing left, but the latter still has a considerable fortune. It is therefore incontrovertible that the latter would find it easier to pay the debts of both, than the former does to pay only his own. But what inference can be drawn from this? What rule can we construct upon it as regards, say, the law of debt? It is nothing more than a fact which may be invoked when the occasion suits, but the mention of which can never supply the place of a demonstration.

For combating the BENTHAM system, which forbids progression in any form being applied in the taxation of the free income, it seems to us that the most effective weapons are to be found in that system itself. The subsistence-minimum must remain exempt, we are told; and rightly so, for it is indispensable. Are we to understand, therefore, that that part of the income which is almost indispensable should be fully taxed? How could anybody reasonably argue that it should, after contending that the absolutely indispensable part must remain wholly exempt? Between the group of incomes which are just sufficient for subsistence and those which leave a margin for comforts and savings, are a series of other incomes; any system of taxation which failed to allow for this great diversity of circumstances would be faulty. Either there is nothing to be said for the fairness of wholly exempting the lowest incomes, or there is everything to be said for the fairness of partially exempting the somewhat higher incomes and for raising the limit of exemption as the income rises.

The process of reasoning which justifies the idea on which the BENTHAM system is based does not only lead to the admission that progressive taxation is necessary; it also affords

some indication as to the limits within which progression should be applied. The reason why a large income ought to be taxed proportionately more heavily than a small income, is not because it can bear the heavier pressure "with greater ease" than can the small income; if this were the reason, we should come to an absurd degree of progression, and ultimately (if we were strictly logical) to the equalisation of all incomes. The real argument for progression lies in the exemption of incomes which are just sufficient for subsistence; it is meant to provide an easy transition from total exemption to full taxation, and, therefore, should never go beyond what is necessary for that purpose. We do not mean that, in respect to a *particular tax*, the progression must never exceed this limit; for stronger progression might have to be applied in the case of one tax in order to neutralise harmful effects unavoidably entailed by other taxes; we are referring to the taxation system as a whole, in so far as it aims at ensuring equality of pressure. As regards the system as a whole, the progression must not exceed what is requisite for enabling it to achieve the object just stated.

In this matter, the requirements of practice and those of theory point to the same rules. Even for practical reasons it would not be desirable to pass direct from total exemption to full taxation; we have shown that to do so would be equally inconsistent with sound principles of taxation. And for practical reasons a strong and far-continued progression of the free income is certainly not to be recommended any more than it can be defended on theoretical grounds.

The conclusion to be drawn from all this is, that it is impossible to give any formula, the application of which would ensure equality of pressure in the sense of taxing according to faculty. It would be possible to give such a formula if the free income were a true index of faculty, but we have seen that it is not. Our concluding remarks emphasised the fact that the free income comprises parts which, in their nature, approximate very closely to income which is not termed "free." It has already been shown that, for the purpose of forming a true estimate of the faculty conferred by a given income, it is not immaterial to know the source of that income, and how the person who enjoys it is circumstanced in other respects.

It is impossible to devise a formula which will satisfy all these requirements ; no individual tax, therefore, can ever, by itself, possess the attribute of taxation according to faculty ; that attribute can only belong to a system of taxation, of which the various parts, differing widely amongst themselves in their nature and bearing, are mutually complementary. And even in such a system the attribute can never be found in perfection. Even with much fuller and more precise data than they have, a Government could never apportion taxation strictly according to faculty. They can, however, at least endeavour to do so ; when framing their measures they can keep that end in view, and endeavour to discover the best means of approaching it as closely as may be possible and compatible with other requirements by which they are bound. In order to be able to do this, the Government must in the first place know what taxing according to faculty connotes, and on this we have endeavoured to throw some light.

## CHAPTER III

### THE REGULATION OF TAXATION

#### § 1

#### **Introduction. The Method of Criticising Taxation.**

THE ground has now been prepared for answering a number of important questions which arise in connexion with the regulation of taxation. Taxation cannot be regulated in the same way in all countries. There is diversity in manners and customs, in degree of advancement, in legal standards, in political condition, as between one country and another; and all these things have to be kept in mind. Nor must one fail to pay due regard to what has acquired historical sanction; rules that have been in operation for a long time may have become deeply rooted in the national life. But neither in this nor in any other matter is it the business of science to provide a complete set of rules for the guidance of legislators. Its chief business in the present case is to show with the greatest possible accuracy the point of view from which the various problems of the art of taxation must be approached.

Let us begin by inquiring which are the great canons to which every system of taxation must, as a whole, conform. All taxes are levied with the object of providing the State and its subdivisions with revenue; this object must be completely attained; there must be no annual deficit, no permanent shortage. Before this canon, which arises out of the purpose of every system of taxation, all the others must, if necessary, give way. X An annually recurrent deficit is both politically and economically so great an evil that it must be prevented at any cost. Y If there are circumstances which, for

the time being, prevent the levying of relatively good taxes, then recourse must provisionally be had to taxes which are less good. In a country with an imperfect system of taxation, the reform of that system is a solemn duty, and one that becomes more binding where, in order to meet deficits, it has been necessary at the outset to introduce or to increase taxes of an inferior kind; this duty must not, however, interfere with the observance of the canon mentioned above. Taking one year with another the budget must not result in a deficit. ✕

✓ In what has been said so far it has been assumed that the financial equilibrium cannot be preserved by retrenchment of expenditure. We need hardly say that this is a point which calls for full investigation in every case. When proposing expenditure, it is not enough to be able to prove that it will be useful; until perfection has been reached in most branches of the public service, there will, as a rule, be little difficulty in proving the utility of any proposed expenditure. Very much may yet be done in the domains of education, public health, public works, national defence; above all, much may yet be done for the improvement of social conditions before it can be said that further expenditure in any of these directions would be superfluous. But the advantages which the expenditure will procure, must be weighed against the burden which it will entail. This is the only way in which it is possible to form a correct judgment of what is proposed. ✕

✕ There is a second canon to which every system of taxation should conform; it would have to take precedence of the one just mentioned, were it not that the latter too has a moral bearing. The system must be such as will obviate corruption in public life. It must give evidence of an honest striving after equity and humanity. For, the Finance Acts are part of the institutions of the State, a part which increases in importance with every extension of the activities of the State, and those institutions, both as a whole and in their various parts, must be such as will inspire respect. ✕ The Finance Acts must be such as to convince any one who examines them with discernment and knowledge, that a serious effort has been made to render them consonant with ethical ideals.

✕ Nothing seems more obvious, and yet this is far from being generally recognised as one of the most important of

the canons to which any system of taxation must conform. Even in circles where it is customary to accentuate the high value of the moral welfare of mankind, people, when discussing fiscal measures, sometimes express opinions which are based mainly upon the consideration of how those measures will affect their own particular desires or interests. Although matters have improved in this respect (otherwise many radical reforms now in operation could never have been brought about), we are still far from having attained the high standpoint that yet remains to be reached. Not until it has become the universal practice, when judging the merits of a system of taxation, to ask first of all how far that system, in the interrelation of its parts, can be said to conform to an ethical standard; not until then will it be possible to say that there exists a living sense of community instead of a moral sense of which one side only is developed.

In order to know what this implies, we brought together in the last chapter certain data, which, however, it still remains for us to elaborate and to supplement. We shall confine ourselves here, as we did in dealing with the first point, to the mere stating of a canon; without entering upon any investigation of the course to be pursued in order to conform to it, without even setting out the canon in detail. To say that the financial equilibrium must, at all costs, be maintained is not enough, the very expression itself needs considerable explanation. And when we insist that taxes should be regulated according to principles of equity we have to make it clear wherein equity consists in this matter. But this we shall deal with presently. The question of the means to be adopted for maintaining the financial equilibrium will be dealt with in the chapter on loans.

From the consideration of systems of taxation as a whole, let us pass to that of the component parts of such systems, and let us see what are the canons to which these various parts must conform respectively.

✕ All taxes, as we know, have their defects. ✕ Taxes assessed according to income or property lead to evasion. Land-taxes are based on imperfect valuations. Taxes according to house rent and paid by the occupiers cause many to choose inferior dwellings. Excise duties restrict the consumption of the

articles on which they are imposed. Import duties, when levied on a large number of articles, always give rise to a certain degree of protectionism. Stamp, mortgage, and registration dues are a burden upon trade; registration dues are indeed often in reality a tax on capital, that is to say, a tax paid out of capital. Death duties are noteworthy for the hardships which appear to be unavoidable incidents in their application, to say nothing of other objections which may be urged against them.

The one requirement which it must never be expected that any particular tax shall fulfil is that of being perfect. Much less is it to be required of a tax that it shall produce no disadvantageous results, for that is a demand which not even a perfect tax could satisfy; to have to part with something is always a disadvantage. We are, however, entitled to require of the tax that those disadvantageous results should be restricted to a minimum; that the Legislature should render the tax as free from objection as possible. Ambiguities, vexatious regulations, from which the Exchequer derives little or no benefit, can be removed from the law; the period of payment can be fixed in such a way as shall be most convenient for the taxpayers: for the Exchequer can always obtain money by the issue of Treasury Bills. All these things—and whatever else any of us might, on reflection, be able to add to the short enumeration—are implied in the canon stated above.

But when the defects which it is desired to obviate can only be avoided by rendering the taxes less productive, their enumeration gives rise to a difficult question. It must be reckoned as a defect in a tax if the cost of its collection is excessive, or if it imposes tedious formalities upon those who have to pay it, or if it induces them to act dishonestly. But one or more of these defects it is sure to have, if not others. Now what ought the legislator to do? Ought he to weigh the various defects one against the other, in order to determine which is the greatest? In doing this, will he be doing all that is necessary in the way of seeking guidance as to the course he should pursue?

Here the comparative method is, in truth, the only useful method, but with regard to its application certain points

have to be noted. There must be comparison of different things.

✓ First of all, one has to compare the various defects inherent in the taxes, and in very many cases this alone will help much towards a clear view. ✓ All defects are not equally serious. Compliance with tedious formalities, for instance, is an inconvenience when it is a matter of almost daily recurrence, but not when it is required of the tax-payers on rare occasions only. Some defects do not become serious until the taxes in which they are inherent are raised to a high point; this should be a reason for always maintaining those taxes at a low level. This would apply to taxes on property or on income; to import duties on articles which are also produced in the home country when there is no possibility of abolishing the duties; it would also apply to excise taxes which, if they are high, have the effect of restricting consumption too much, unless indeed such restriction were desirable, as, for instance, in the case of spirits. The most serious economic defect which a tax can have is that of hindering production. ✕ we shall revert to this subject at the end of the present section.

But this comparison between the various defects, however useful it may be in itself, and however calculated to yield material for practical conclusions, will not suffice. It is not enough that we compare the defects among themselves; we must also compare them with the special attributes of the taxes of which they represent the less favourable aspect. A defect when it is associated with something which is commendable in itself, is seen in a wholly different light from that in which it would appear if it were associated with something barely justifiable.

It is impossible, however, to form a true estimate of the good qualities of a tax without a thorough investigation of its *special purpose*, of the place which it occupies in the general system of taxation. ✕ To construct a system of taxation out of taxes of one kind only is impossible, just as it would be to form an army with one particular class of troops; different categories or groups of taxes are needed for the purpose which a Chancellor of the Exchequer has in view. ✕ In order, therefore, to be able to form a true estimate of a particular

tax, we must classify it. To which group of taxes does it belong? What are the functions of that group? Are those functions useful, irrespective of the money which they bring to the Treasury, and if so, is the place assigned to the group in the general system of taxation such as it should be, or is it too small or too great? And as regards the particular tax itself, how does it appear when regarded in this way; is it wholly or only partially successful in achieving its special purpose? By finding the answers to these and similar questions, we obtain results which may have value both from a theoretical and from a practical standpoint.

This method of inquiry is especially suitable in the case of Government proposals for introducing or increasing taxes. Merely to expose their defects is useless, unless indeed these are so grave that their mere mention will suffice to ensure the rejection of the proposals. If we would critically examine such proposals, we must be prepared for hard work. We must find out to which group the proposed tax belongs, and whether that particular group ought, or ought not, to be enlarged relatively to the others. If the new tax is to be in complete or partial substitution for another, then we shall require to know what position the latter occupies in the general scheme of taxation; it may be that it ought to find no place in any sound system of taxation. Lastly, and assuming that the Government has hit upon the right group, we shall require to know whether it has made the best choice within that group. To point out the defects of a proposed tax is not superfluous, but, except in the case just mentioned, it does not provide all the data necessary for enabling us to reach a final verdict. That final verdict must be based on considerations, of which the range must, in most cases, be very wide. If it be a question of a State tax, then provincial and communal taxes also must be kept in view; and similarly, when it is a question of communal taxation, the State and provincial taxes must be held in view.

X The method which we are here advocating is also that which the Statesman must apply when drafting schemes of public finance. It will not save him the trouble of weighing and considering, but it will enable him to see clearly what questions he must ask himself, and it will safeguard him

against the error of resorting to the first plausible-looking expedient that suggests itself. He will doubtless find that science does not yield him all that he seeks, but he will also find that it can afford him some help. Ordinary knowledge derived from experience can never suffice to enable a man to determine the place which each tax should occupy in the fiscal system, or to ascertain how the group to which the tax belongs is represented in relation to other groups, the latter having first been accurately determined, not according to their outward characteristics, but according to their nature. For those who undertake such a task as this, it will not be a waste of time to consult the works of scientific writers. X

In conclusion, we have a word to say respecting a matter on which we touched above, namely, the way in which production is affected by taxation. When choosing and regulating taxes it is hardly possible to pay too much attention to this matter. Not only is it true that production in the aggregate is the source of material welfare; it is also true, as we have already shown, that the increase of production tends to procure for labour a larger share of the total return. That especially is of importance here. There may be forces at work which neutralise this favourable tendency—and a great increase of production usually enables some people to acquire large fortunes with very little effort on their part; this, however, has more bearing upon the proportions in which the rich participate in the product amongst themselves, than it has on the proportions in which the product is divided between the rich and the poor, and the change in the scale of apportionment amongst the rich in no way weakens the beneficial effect on wages, which follows automatically from the increase of production. If this effect does not outweigh that of other factors, at least it prevents wages from falling, or, at any rate, from falling so low as they would otherwise have done.

If this view is correct, then a conclusion of great practical importance may be deduced from it. The attainment of the principle of equality of pressure is obstructed by the deflection, the shifting, and the amortisation of taxes; but the immediate effect of a tax on production may in many cases be measured, or if not measured, at any rate estimated with great certainty.

It is only when one is concerned about the remote as well as the immediate effects, that difficult questions here arise. In the nature of things, therefore, a Chancellor, when choosing his taxes and framing the laws for their imposition, or in deciding what taxes he should first abolish (supposing him to be bent on fiscal reform), will be inclined to reject, in the first place, those taxes which he knows will hinder production. Will he be wrong if he yields to this inclination? Having regard to the results to which we alluded above as being likely to possess both practical and theoretical value, we may, indeed we must, say that he will not. The Legislature can never violate the principles of justice and humanity by giving priority of consideration to so far-reaching an interest as that of production. For what does this imply? Excessive respect for capitalists, and a desire to spare large incomes? We have shown that just the opposite is the case.<sup>1</sup> What it implies is that the Legislature shall impose no taxes which might prevent labour and capital from developing their highest degree of productivity; that, in the choice and regulation of customs and excise duties, it shall pay close attention to whatever might be prejudicial to the prosperity of commerce and manufactures; above all, that the necessaries of life be exempt from taxation. Can any reason be urged why, in formulating requirements for individual taxes, these considerations should not be accorded the foremost place?

From these remarks of an abstract nature, which are intended to show the direction in which the art of taxation should move, we now pass to more concrete issues. First of all we must define more clearly the canon of equity. In regard to the apportionment of burdens, ought we to be guided by one standard only, or are there several standards? This must now be our first point of investigation.

## § 2

### **Taxation irrespective of Faculty**

The question with which we concluded the last section is one of great importance both in theory and in practice; in

<sup>1</sup> Cf. *ante*, pp. 388, 389.

theory because its consideration is indispensable for a proper understanding of the concept taxation ; in practice because the Legislature should know what principles it ought to apply in apportioning the burden of taxation. There are people who hold it to be a distinguishing characteristic of all taxes to have due regard, in one way or another, for the faculty of those on whom they are imposed ; just as it is held to be among the distinguishing characteristics of all fees to be regardless of faculty. Both of these opinions are too absolute. It is true that fees usually neither do nor can have any relation to faculty, but it is a mistake to suppose that this is always the case, and to regard it as an imperative requirement to which every fee must conform.<sup>1</sup> Similarly it is true that for the great majority of taxes, in their interrelation, faculty is the correct standard ; but there are taxes of which this is not true at all, or only partially so, since they have to conform to other canons. When we treat such taxes as if they belonged to the same category as those which must be proportioned to faculty, we give the Legislature a false standard for judging what course it has to pursue.

I. This mistake has been made more especially in connexion with the *taxation of land*. When, some thirty odd years ago, the conviction had begun to prevail in Holland that the Dutch system of taxation needed reforming, it was held by many that the reform should consist primarily in the expansion of the land-tax. It was considered that a new tax was needed in order to reach the incomes which escaped the land-tax, and in substitution for the defective tax on occupations. These two taxes were then to operate as a complete income-tax. The old tax was to reach incomes from real estate ; the new tax was to reach incomes from movable property, or from trades or professions, where these were not subject to a separate tax.

The objections to which this idea was open on technical grounds alone were enough to ensure its rejection. A land-tax takes no account of debts, it is a *real* tax, and therefore cannot well be supplemented by taxes which have a personal character, and which, for that reason, can take account of debts. It was not the expansion of the land-tax, but its

<sup>1</sup> Cf. *ante*, pp. 374-377.

total abolition in favour of a general income-tax, that would have fitted into the proposed scheme. The scheme itself was, however, unjust in its entire misconception of the land-tax. The whole history of that tax, the laws which regulate it, the economic effects which follow from it, all prove that it occupies a position apart. Being a real tax, it adheres, as it were, to the things on which it is levied, so that every one who owns such things must pay it, no matter who or what he may be, whether native or foreigner, rich or poor. In levying this tax the State shares in the return from the land just as if it were part-owner of the land. Those who incline to the belief that all land was originally held in common, may say that the community has not abandoned all its claims. Those who reject that view, or consider it incapable of proof, may speak of a right which has lapsed by prescription. Besides these two views there is room for a third—the view of the wise statesman, who emphasises the unity of land and people, and for that reason regards landownership in a light different from that of the ownership of movable property. There is room even for a fourth view; it is only necessary to mention amortisation and to ask how a tax which need not cost the owner anything can be treated as if it were personal. By so treating it the State would be making a valuable present to the landowners, for which there is no occasion. The value of the land would rise by practically the full amount of the capitalised land-tax.<sup>1</sup>

It has already been shown<sup>2</sup> that land-taxes should never be assessed on any basis other than the real economic—*i.e.* full, competitive rent of land. The curve of such a tax should coincide roughly with that of the economic rent. The tax should—at any rate when imposed by the State—be uniform, not as regards amount, but as regards the percentage which it

<sup>1</sup> "The land-tax is simply what the State reserves for itself as against those to whom it guarantees exclusive rights, not only in the produce of the soil, but in the soil itself. It is a fee for the exclusive possession of the soil, and therefore rests upon the land itself. It passes from the one owner to the next, and the purchaser knows what he will have to pay to the community for his exclusive rights. By that amount the land is of less value to him than it otherwise would be; and so the community retains permanent possession of the return from a part of the soil." See Mr. A. J. DE SAVORIN LOHMAN'S last work, *Onze Constitutie*, p. 320.

<sup>2</sup> Cf. *ante*, pp. 403-405.

represents of rent. To explain this proposition seems unnecessary after what we have already said about it. Two things are absolutely necessary in order to ensure the amortisation of land-taxes being as exact as possible, *i.e.* neither excessive nor inadequate. One is, that all rents be taxed at the same percentage rate; the other is that there be regular revaluations of the taxable rents.

To this there is little to add from a theoretical, but all the more from a practical, standpoint. We have also to criticise the way in which land-taxation has been dealt with in almost all countries. In no single country is land-taxation quite what it might and should be.

We will confine our criticism to Holland and France. It is not necessary to write the whole history of Dutch land-taxation in order to show the mistakes that have been made in the laws that have regulated it. On the completion of the real-estate register, the compilation of which began in 1808, a law was passed (January 2nd, 1832) providing for the gradual introduction of the new valuation; it provided that, in the years 1832 and 1833, the tax should be assessed to the extent of one-fourth according to the new, and to the extent of three-fourths according to the old register. Then, however, arose loud complaints from those provinces where this meant increase of taxation, and Parliament was persuaded to enact (December 19th, 1834) that the new valuation should be applied in the provinces where it would have the effect of reducing the tax, but not in the provinces where it would have the opposite effect. This law cost the State a sum of £37,000. Yet a further step was taken. For each province the amount of land-tax to be raised was fixed at a certain capital sum; the whole (exclusive of Limburg) was £665,300. A result of the first law, of course, was that the percentage of the assessment differed in the different provinces; the disparity was further increased by the second law, for the larger the number of new properties affected by it in a province, the smaller would be the yield of the tax on each property in that province. This condition of things was, however, remedied by a law of April 24th, 1843; new properties were in future to be taxed at the rate of 12·13 per cent.,<sup>1</sup> so

<sup>1</sup> If, on the completion of the new register, the total amount of the tax had

that from that time onwards, there was nothing to prevent the growth of the yield of the tax. In the same year, the new register was applied to the province of Limburg. It was found that there only 6·51 per cent. was being paid; that rate remained in operation until December 31st, 1865, when the law provided that it should be gradually raised to 9·65 per cent.<sup>1</sup>

All this refers to land irrespective of its being built upon or not.

On May 26th, 1870, a new law relating to land-taxation was enacted. For the most part it consisted of a codification of existing enactments; it contained one article, however, which went further than this: article 59 related to properties on which buildings had been erected. It provided that, before January 1st, 1875, the taxable rents of such properties should be revalued in accordance with rules to be fixed by law, and that the valuation should be repeated every twenty years. The rules were issued on July 22nd, 1873, and the first revaluation took place. The result was to show that the aggregate value of the taxable rents from land on which buildings had been erected was £6,208,000, as against £2,628,000 according to the old valuation. The capital sum of the tax then fell to 5·2039 per cent.

But this very result showed once more that the rents from land which had not been built upon ought to be revalued. Provision was made for such revaluation by a law dated April 25th, 1879. The result of the work carried out under this law was to bring the total taxable rent from land of all kinds in the kingdom up to £8,512,000, or, after deducting charges in respect of dike rates, to £8,012,000, as against £3,873,000 in 1878.<sup>2</sup> In order to obtain a yield equal to the existing one, the assessment ought

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been distributed equally over the total yield of the land, the proportion would have been 12·797 per cent. But since the undertaxed provinces, under the law of December 19th, 1834, were only increased to the extent of one-half, the average rate of the tax came to 12·13 per cent. only, and this figure was adopted in 1843 for the new properties. Cf. W. VAN KONIJNENBURG, *Wet van den 26 Mei 1870 betreffende de grondbelasting*, The Hague, 1870 p. 27.

<sup>1</sup> The mean between 6·51 and 12·797 per cent.

<sup>2</sup> The statement by provinces is given in Vol. I. p. 122.

now to have been fixed at 7 per cent. irrespective of the additional cents. levied for the benefit of the State. This, however, would have resulted in a considerable increase in many cases, for the revaluation had brought to light many inequalities. By the law of December 31st, 1892, the tax on unbuilt land was fixed at 6 per cent.; while, in respect of certain communes, a period of ten years, ending with 1902, was at the same time allowed for the gradual application of the new assessment. By fixing the assessment at 6 instead of 7 per cent., the State forfeited about £83,000 a year in revenue.

We alluded just now to the additional cents. levied for the benefit of the State; the number of these has not always been the same. It stood at 5 in 1831, at 22 the two following years, at 14 in 1834, at 10 in the years 1835-1840, at 20 in the years 1841-50, and at  $21\frac{1}{2}$  in the period 1851-92. After that the additional cents. were merged in the capital sum. As regards land having buildings upon it, the levying of additional cents. by the State had, however, already ceased in 1866. A law of July 7th, 1865, empowered the Communes to levy additional cents. on land having buildings upon it, besides 10 additional cents. in the case of unbuilt land. The additional cents. to be levied by the Provincial Administration are sanctioned by law from year to year.<sup>1</sup>

<sup>1</sup> The following statement shows the number of additional cents. allowed by law of December 30th, 1901, to be levied in 1902 by the various Provincial Administrations:—

	Built Lands.	Unbuilt Lands.
North Brabant . . .	22 cents.	24 cents.
Gelderland . . .	7 "	5 "
South Holland . . .	11 "	11 "
North Holland . . .	8 "	9 "
Zeeland . . .	28 "	36 "
Utrecht . . .	$8\frac{1}{2}$ "	$8\frac{1}{2}$ "
Friesland . . .	27 "	27 "
Overijssel . . .	14 "	14 "
Groningen . . .	32 "	32 "
Drenthe . . .	34 "	34 "
Limburg . . .	17 "	$20\frac{1}{2}$ "

In France land-taxation, in the form in which it exists there at the present day, was introduced by a law enacted in the year 1790, which, however, was amended on November 23rd, 1798. A very rough estimate was made of the aggregate taxable income from all land, whether built upon or not, and the figure arrived at was £57,600,000, of which it was thought that one-sixth, or £9,600,000, could be obtained in taxation. It was accordingly decided that this sum should be raised and that it should be raised by the system of *apportionment*. The difference between this and what is known as the *quota* system is, that instead of determining by certain rules what each individual, or each separate property, should pay, and deducing therefrom what sum the tax is capable of yielding, the Government determines, each year, or at longer intervals, what sum shall be raised, and then apportions that sum amongst the provinces or departments. Each department then apportions among its various *arrondissements* (where such exist) the sum for what it has been declared liable; the *arrondissements* act similarly as regards their component communes or municipalities, and so at last the individual is reached. In this way the sum of £9,600,000 was apportioned, the basis of apportionment being the amount which each department had been paying in direct and indirect taxation.<sup>1</sup>

That this provisional system should ere long give place to something better was certainly intended. But what happened? To begin with, some years were spent in disputing as to what was the best system of land valuation registry. This controversy having been settled by a law of September 15th, 1807, the work of valuation was begun in 1808. By 1850 it was almost finished. Meanwhile, however, it had already been decreed (in 1821) that the valuation registry should only serve for the purpose of apportioning the land-tax within the boundary of each commune; that is to say, once the amount for which the commune was liable had been fixed, the register should show for how much each individual in that commune was liable. This was followed in 1850 by a further decree (which has seldom been invoked) that, as soon as the valuation register of a commune had been in use

<sup>1</sup> O. KÖBNER, *Die Methode der letzten französischen Bodenbewertung*, Jena, p. 6.

for thirty years, the commune, with the consent of the Departmental Council, might demand its revision at the cost of the said commune. But beyond this nothing has been done. The sum of £9,600,000 originally levied has, however, undergone repeated reductions. By 1821 it had declined to £6,160,000. Owing to certain properties decaying and others becoming taxable, as also through gains and losses of territory, this sum suffered further change in later years. For the year 1902 it was fixed at £4,124,000 in respect of unbuilt land and at £2,980,000 in respect of land with buildings upon it. Here it should be noted that, by a law of August 8th, 1890, the taxation of land with buildings upon it had been divorced from that of unbuilt land, it having been resolved five years previously to have a revaluation of the former. The tax on this kind of land, which is levied on the *quota* system (at the rate of 3·2 per cent. on the rental value), is now quite an independent tax.<sup>1</sup>

For the taxation of land that has not been built upon, *i.e.* land-taxation in the strict sense of the term, the system of apportionment was maintained. Naturally it gave rise to great inequalities. While some departments were paying at the rate of only 2·5 per cent., others were paying at the rate of 7·21 per cent. of the real rental value, and between one commune and another were found differences of 0·47 to 30·03 per cent. These facts were brought to light by an inquiry, of which the results have been alluded to in an earlier part of this work,<sup>2</sup> and which was connected with a scheme adopted by the French Chambers in 1875.<sup>3</sup>

<sup>1</sup> Many details concerning the history of the French land valuation registry will be found in the *Dictionnaire des finances* (article "Cadastré"), and, as regards the history of the French land-taxes generally, in *Les Impôts en France*, by J. CAILLAUX, Paris, 1896. See also *Revue politique et parlementaire*, October 1904. In France, as in Holland, it is possible for the land-tax to be increased by additional cents. (centimes) levied by the Local Authorities for local purposes. Each year the law fixes the number of additional centimes that may be levied. For the year 1902 the departments were allowed to levy 25 additional centimes for ordinary purposes, besides 12 for roads and 10 for other purposes. The communes were allowed to levy 5 for ordinary and 20 for extraordinary expenses. In certain cases the department may levy a further 2 and the communes a further 10 centimes.

<sup>2</sup> Vol. I. p. 121.

<sup>3</sup> The funds for carrying out this scheme were not provided until the passing of the law of August 9th, 1879.

It was felt that something must be done in the direction of equalisation. It was not proposed to construct a new registry of land values, but to make a summary estimate of the rental values of the various kinds of lands in each commune.<sup>1</sup> The estimate was to be made with all possible care but without taking detailed note of each piece of land. After this a new apportionment was to be made; each commune was to be assessed for a sum proportionate to its share in the aggregate taxable yield of the land. The registry of land values was then to serve for the purpose of apportioning this sum amongst the landowners of each commune.

The execution of this scheme cost only £40,000, as the whole of the work was done by the regular State officials for a special remuneration. The whole thing was finished in the course of two years and the results gave general satisfaction.<sup>2</sup>

The method of estimating adopted in this case was that known as the "direct" method, which consists in valuing the gross return from the land in money and deducting therefrom the "expenses of production"; but the Government instructions<sup>3</sup> enjoined that the result of the inquiry instituted in this way should be tested by the terms of a large number of contracts of tenancy and sale, and with the aid of these and of particulars obtained on the spot the rental values were finally determined. No fewer than 532,402 documents, for the most part tenancy agreements, were consulted. Uniformity of procedure, too, was provided for; not a difficult matter where the whole thing was done by Government officials.

This work, too, proved fruitless. At first it seemed as if it might yield better results than those of a similar work undertaken in the years 1851-54; for, on December 19th, 1883, the Chamber of Deputies resolved to put the new valuation into force, at least as regards the apportionment of the tax among the departments. The Senate, however, on

<sup>1</sup> Seven kinds of land were distinguished, viz. garden, arable, pasture, vineyard, forest, moor, and land not falling within any of these categories.

<sup>2</sup> Cf. KÖBNER's work referred to above—*Die Methode der letzten französischen Bodenbewertung, ein Beitrag zum Kadasterproblem*, Jena, 1889. (KÖBNER was a student at INAMA STERNEGG's Statistical Seminary at Vienna.)

<sup>3</sup> Published *in extenso* in the *Bulletin de Statistique* of 1879. Part II. pp. 317-323.

January 27th, 1884, rejected this proposal, after a protracted discussion, with the result that matters remained on the old footing; except indeed that, as an outcome of the inquiry, the capital sum of the tax was reduced by £600,000, which enabled some reduction to be made in the sums at which the 38 most heavily taxed departments had been assessed. From these experiences, and from those of many other countries, we see that, unless the law enjoins periodical revaluations, and provides guarantees for their application, the Legislature always finds itself faced by a difficult dilemma: it has to choose between (a) neglecting its duty in respect either of revaluation, or of applying newly ascertained values, and (b) performing its duty in both of these respects, but entailing a considerable monetary sacrifice on the Exchequer as a result. The average percentage-rate of assessment obtained through dividing the aggregate sum hitherto raised by the tax into the total rental value of the land, cannot be taken as a standard, if by doing so the land-tax were to be considerably increased in a great many cases; and this is always the result where a very long period has elapsed since the last valuation. In that case one must either leave things as they are, or else reduce the percentage-rate of assessment to an extent sufficient to ensure its not being too burdensome for any one. The Dutch Government chose the latter alternative, and by doing so sacrificed £83,300 per annum. What it would cost the French Government to act in a similar spirit can scarcely be calculated.

Meanwhile Holland can claim to have made at least one effort to equalise her land-tax assessment; it may be that the valuations on which the process was based were not perfect, but they were not so imperfect as to make their periodical revision in the future a matter of great difficulty. And periodical revision there will have to be. The Equalisation Acts of April 25th, 1879, and December 31st, 1892, have determined — one might almost say officially — the real character of Holland's system of land-taxation. How would it be possible to defend a measure which, at a given moment, made the proportion between tax and known rental value the same all over the country if, at the same time, it had not been decided to take the steps necessary for ensuring permanent

equality of the proportion between tax and real rental value? Without enjoining the periodical revaluation of lands on which no buildings were erected, the Legislature nevertheless committed an act for which it had no justification unless it admitted the principle of periodical revaluation to be sound. Which was the land-tax intended to be: a State ground-rent or a proportional charge or imposition? If the former, then no reason existed either for the Act of 1879 requiring the land to be revalued, or for the Act of 1892 requiring that the results of the revaluation should be applied. But if a proportional charge or imposition was intended, a further step must now be taken and periodical revaluation must be secured by law.

It will probably be found best so to regulate it that the cost may be as nearly as possible the same each year. This, as well as the purpose mentioned above, may be achieved by dividing the country into a number—not too large a number—of districts, and revaluing the lands of one such district each year; when the revaluation of the whole country had thus been completed, the process would recommence from the point at which it originally started. It is true that under this system the valuations in one district would always be more up-to-date than those in another; *per contra* the possibility of all valuations growing more and more out-of-date together would be obviated.

For the working out of these ideas in detail we must refer the student to other publications.<sup>1</sup> All that we would point out here is that, in the event of their being translated into practice, special measures would have to be devised against weakening the interest which landowners have in the permanent improvement of their property. No great weakening of this interest is likely to result from such an assessment as obtains in Holland, namely, 6 per cent.,<sup>2</sup> but the mere prospect of having perhaps in the near future to pay a heavier tax might deter some from spending capital on improvements, and it is necessary to guard against this. To do so is by no means difficult.<sup>3</sup>

<sup>1</sup> Cf. Bill laid before the Dutch Parliament in June 1893 (No. 193 of Series of Printed Documents for 1892-1893), explained and defended in detail by Mr. J. J. VAN KONIJNENBURG in his academic thesis published at The Hague in 1896.

<sup>2</sup> Cf. Vol. I. p. 106.

<sup>3</sup> Cf. Articles 93 and 94 of Bill referred to in footnote (1) above.

And now a last word with regard to the taxation of land on which buildings have been erected. On more than one occasion already we have discussed the effects of such taxation ;<sup>1</sup> we have shown that the effects are not always the same. Taxes on the two kinds of land—built and unbuilt—have this in common, that the principal effect of abolishing either is that of a free gift to the owners ; for, in so far as a tax on land with buildings upon it has not been amortised, it is shifted to the occupiers or users of the buildings. This does not apply at first in respect to land-taxes falling upon newly-developed plots, of which the rental value turns out to be less than what the builders had anticipated ; but so soon as these plots have passed into other hands, or their rental values have risen to the level that was expected, their condition will have become the same as that of all other plots. From this point onward, however, the effects of the two kinds of taxes differ widely. If the tax on unbuilt lands were to be abolished, the rental values of such lands would remain exactly as before ; if the tax on built lands were abolished, the rental values of many such properties would be affected. How they would be affected our inquiry has shown. Instead of always permitting the State to share in the incomes yielded by land, the taxation of built land often permits the State to share also in the incomes of those who rent the taxed plots.

By these remarks a tax on built land—considered as a State tax—is made to appear in a light which is the reverse of favourable. Being a real tax in the sense already explained,<sup>2</sup> an impost of this kind takes no heed of the faculty of those who are required to pay it. Such a tax needs special justification, and how is it to be justified ? If the State wishes to tax dwellings, it need not resort to this method of doing so. If it desires to tax only the value of the area actually built upon, then in resorting to this means it achieves far more than it intended. If it seeks a recompense for special services rendered to owners and occupiers of buildings, then we should like to know what those services are. It is by the communes and not by the State that large sums are expended on streets, canals, squares, recreation grounds,

<sup>1</sup> Vol. I. pp. 152-154 ; also pp. 403, 404 *ante*.

<sup>2</sup> [See footnote, p. 398 *ante*.—A. A. W.]

lighting, sewer construction and the like. And yet the communes may only levy a limited number of additional cents. on the capital sum of the State tax; and these yield comparatively little. In 1898 the amount in Holland was £217,000 as against £1,154,000 obtained from poll-taxes, and £371,000 from additional cents. on each of the six bases of assessment for the personal tax. In the same year the communes spent no less than £373,000 on fire brigades, public lighting, and disposal of refuse alone.<sup>1</sup>

This shows a state of things for which a remedy will have to be found in some way, and how this can best be done may be gathered from what has been said. We have yet to prove, however, that the objections which can be urged against a tax on built land, as a State tax, do not apply, or that they apply in a less degree, to such a tax when it is imposed by the Local Authorities. We have also yet to explain how the State could be indemnified were it to forgo this source of revenue. We shall deal with both these points when we come to examine the question as to how far the services which are rendered by the Government may be accepted as the standard for apportioning the burdens of taxation among the inhabitants.

II. Another form of a tax which occupies a prominent place in the group under consideration in the present section is that of death duties.<sup>2</sup> In Holland these duties are levied upon the value of all that is inherited or obtained from the estate of an inhabitant of the kingdom through the death of such inhabitant; any person having his or her place of residence within the kingdom in Europe, is an "inhabitant" for purposes of this tax. Certain things are exempt; but, on the other hand, certain things are treated as part of the inheritance for purposes of the tax, chiefly in order to prevent evasion. Money obtained from a policy of life-assurance,

<sup>1</sup> All these figures are taken from *Bijdragen tot de Statistiek van Nederland, Nieuwe Volgreeks*, vi. issued by the Central Bureau of Statistics.

<sup>2</sup> For the history of these duties the student would do well to consult Mr. A. D. VAN ASSENDELEFT DE CONINGH's work on the nature and development of stamp, registration, and death duties in France, England, and Holland (Leyden, 1874); also the two exhaustive articles by G. SCHANZ entitled "Studien zur Geschichte und Theorie der Erbschaftssteuer" in *Finanzarchiv*, vols. xvii. and xviii.

however, does not rank as "part of the estate" so far as succession duty is concerned.

In respect of property inherited or acquired "by blood relations in the direct line of descent from blood relations in the direct line of ascent, or by wife from husband, or husband from wife, if there be any child or children of the marriage, or descendants of such child or children," the rate of succession duty is 1 per cent. It rises with the degree of remoteness of relationship to 3, 4, 6, and lastly to 10 per cent., the latter rate being also paid where there is no relationship whatever.<sup>1</sup> Besides this, however, there have to be paid certain additional cents. (their number, which is fixed every year by the Finance Act, has stood at 38 ever since the year 1842), as also a reversion duty on securities and interest-bearing bonds. The amount of the duty is one-fourth per cent., in the case of reversions in the direct line between a married couple, and "any child or children of their marriage or descendants of the latter"; in all other cases the rate is 2 per cent. besides the usual additional cents. For purposes of this reversion duty (concerning which we shall have something more to say before we conclude these observations) no deduction is made in respect of liabilities.

There is in Holland a second reversion duty in connexion with which no deduction is made in respect of liabilities; it is not, however, supplementary to the succession duty, because it is levied "on all real estate which is situated or established within the kingdom in Europe, and of which either the life-interest or the ownership is acquired through the death of some person not being an inhabitant of the Kingdom," *i.e.* some person whose estate is not subject to the Dutch succession duty. The rate of this second reversion duty is 6 per cent. of the estate.

Succession duty, as well as the first of the two reversion duties alluded to, has to be paid by every person who obtains or inherits anything out of property left in Holland, no matter

<sup>1</sup> Ten per cent. is also paid in respect of anything acquired by brothers or sisters from brothers or sisters, or by nephew or niece, grand-nephew or grand-niece, from uncle or aunt, grand-uncle or grand-aunt; and conversely, by uncle or aunt, grand-uncle or grand-aunt, from nephew or niece, grand-nephew or grand-niece, in excess of the share that would have accrued to such persons through death.

where that person may be residing. In this respect the succession duty resembles the land-tax, which has to be paid by every person, who as owner, or in virtue of any other title, is in the enjoyment of property of the kind on which the tax is imposed. By means of the land-tax the Dutch Government shares, in a special manner, in the income yielded by real estate; by means of the succession duty it enjoys a share in all that is inherited or otherwise acquired, no matter by whom, out of the estate of an inhabitant of Holland. How far the latter should also be regarded as being a separate tax falling upon those who, in other ways, are already subject to the Finance Acts of Holland, and not as being, in part, merely a necessary complement of those Acts, is a question which we shall presently examine.

Upon whom the financial pressure of the succession duty shall rest depends upon the testator himself. Having the tax in mind, he may have restricted his expenditure, so that when he dies his estate is greater than it would otherwise have been. Or, he may have taken out, in favour of his legatees, a life-assurance policy for a sum equal to the probable amount of the tax; in England this course has been pursued since 1894, when the death duties were greatly increased in that country.<sup>1</sup> Assuming that he was correct in his calculation as to its amount, the testator himself will then have borne the full burden of the tax. In all other cases the full burden of the tax must, in the nature of things, be borne by the beneficiaries, each to the extent of his share, unless the will contains special dispositions as to the payment of the duties.

We have now shown, in rough outline, how death duties are regulated in Holland; in other countries they are regulated differently in some respects. Thus, as regards the persons who are required to pay the duties, the legal provisions are not everywhere the same. In all the German States, except Hamburg, Lübeck, and Alsace-Lorraine, we find that those in direct line of descent are exempt; in France, the estate on which duties have to be paid includes capital and interest due from a life-assurance company in respect of the testator's death; again, in France—under a law of February 26th, 1901, which altered the existing legislation

<sup>1</sup> Cf. *The Statist* of October 27th, 1894, p. 501.

on this subject in other respects as well—the scale of the duty is graduated according to the amount inherited or obtained. In other countries too the duties are graduated, as, for instance, in the United Kingdom, in certain of the Swiss cantons, in most of the Australian colonies, in the United States of America. In order to be able to judge what is the best mode of regulating death duties, we need to know what those duties really are.<sup>1</sup>

Ought they to be regarded as a tax, or—to use ADOLF WAGNER'S expression—as “that part of the nation's wealth to which the State, as a representative of the nation, and in virtue of its laws of inheritance, is entitled out of the private fortunes which are transmitted by inheritance”?<sup>2</sup> Have we, therefore, to regard them as being “an essential and organic part of the whole system of inheritance, and not primarily as a tax in the true sense”?<sup>3</sup> The latter view has been strongly contested.<sup>4</sup> It has been observed that the State ought, by right of inheritance, to receive a part of the aggregate of property left by deceased persons, whereas under the existing laws each individual heir or legatee is required to contribute a portion of his or her share to the State; also that the State's share of the inheritance should not depend upon the dispositions which testators happen to have made, as is the case with succession duties, but that it should be entirely independent of such dispositions. It has been demonstrated too that the whole idea of the State having any rights of inheritance is inadmissible, inheritance being a matter

<sup>1</sup> There is an abundant literature on this subject. For countries other than Holland, the bibliography will be found in SCHANZ'S *Studies*, to which allusion has already been made. As regards Holland the student is referred to the introduction to J. P. SPRENGER VAN EYK'S Monograph, *De Wetgeving op het recht van successie en van overgang bij overlijden*, 3rd edition, The Hague, 1892.

<sup>2</sup> *Finanzwissenschaft*, 1st edition, vol. ii. p. 476. Cf. 2nd edition, vol. ii. pp. 568 *et seq.*

<sup>3</sup> [“Als notwendiges Glied der ganzen Erbordnung, gar nicht unmittelbar als eigentliche Steuer.”—A. A. W.]

<sup>4</sup> See Dr. MAX WEST, *The Inheritance Tax* (New York, 1873), p. 119; SELIGMAN, *Essays in Taxation* (New York, 1895), p. 125; Mr. M. W. F. TREUB, *Successiebelasting*, in *Vragen des Tijds* (1891), Part I. pp. 291-293. (The two first arguments there used by Mr. TREUB, however, support the view which he is contesting. Cf. also ESCHENBACH'S article entitled *Erbrechtssteuer* in the 1st edition of the *Handwörterbuch der Staatswissenschaften*, and J. P. SPRENGER VAN EYK, *op. cit.* pp. 8 *et seq.*)

affecting the relations between individuals, and not between the individual and the community (*i.e.* a matter of private, and not of public law). This is the view taken by Dr. WEST, who maintains that the theory which he is refuting is based upon a confusion between inheritance and escheat,<sup>1</sup> but himself declares that the distinction is chiefly one of words.<sup>2</sup> Confining our attention to the two first-named objections, we find, when we have properly considered them, that they are valid only in the case of succession duties regulated according to the degree of consanguinity, and consequently not in the case of the English estate duty, which, with a highly graduated percentage-rate, is levied on all estates of £100 and upwards. But why adhere to a view, against which, admittedly, serious objections may be urged? If we study WAGNER'S thesis we fail to find in it anything that could be regarded as a defence of death duties. If the State has no right to tax property inherited or acquired by will, then neither has it a right to declare itself a co-heir.

Where, then, must we look for the defence? That there is one has been proved in various ways. That it cannot be the same for every part of the death duties, and that regard must be had to the nature of the fiscal laws of the different countries, are propositions which have also been proved. What may be justifiable in one country is not necessarily so in another.

Some hold that death duties should be regarded as deferred taxation of incomes which the State has neglected to tax during the lifetime of the testator. One does not quite dispose of this view by merely observing that it is not by the deceased, but by their survivors, that the tax is paid. The Exchequer, of course, can only deal with the living; but the survivors are bound to meet any debts which are chargeable to the estate, and, according to the theory which we are now considering, the death duties should be regarded as one of those debts. We alluded just now to the English estate duty, which is levied on a scale ranging from 1 to 8 per cent.<sup>3</sup> on

<sup>1</sup> The Dutch Civil Code does, in fact, say in Art. 879, that, where there are no claimants, the property shall *lapse* to the State; cf. Art. 576. The German Civil Code, on the other hand, in Art. 1936, declares the Federal State to be the legal heir (*gesetzlicher Erbe*) in such cases. This is explained in § 1974 of the *Exposé des Motifs* of the said Code.

<sup>2</sup> *The Inheritance Tax*, p. 119.

<sup>3</sup> [Now altered.—A. A. W.]

every estate of the value of £100 or more left by a deceased person, including those parts of the estate on which succession or legacy duty will also have to be paid by reason of their passing to persons whose relationship to the testator was other than that of wife, husband, or direct descendant.<sup>1</sup> This estate duty in particular, which, in its disregard of degrees of relationship, differs from the succession duty, has often been described as an accumulated debt, doubtless owing to the nature of the English income-tax regulations. In our opinion there is much to be said for this view. In the first place, the English income-tax is not progressive throughout. Progression is applied only in respect to incomes of £500 or less (those of £400 or less have an abatement of £160, and those over £400 but not exceeding £500 an abatement of £100), but on all other incomes the same percentage-rate is charged. Then again—and the point is of special importance here—earned incomes are taxed at the same rate as unearned. The estate duty really serves as a corrective for these two things. England does not want to alter her income-tax system, and yet she wants to indemnify the Exchequer for the revenue which the latter forgoes by not applying the principle of progression to incomes exceeding £500, and by not taxing unearned incomes at a higher rate than earned. And she succeeds in doing so by the means which we have indicated.<sup>2</sup>

But by having the estate duty presented in this light one sees reasons rather for criticising the income-tax than for defending the estate duty. There is little to be said in favour of a system of income-tax which calls for such a corrective as this. For the corrective is crude, and therefore defective. No regard is had to the length of time during which the testator has had possession of his property, or to the length of his residence in the country; for these reasons alone, apart from any other considerations, the deferred taxation can only operate very imperfectly. Certainly the man whose income has, for the most part, been drawn from property, will have derived great advantage from the fact that it has been taxed at the same rate as incomes earned by

<sup>1</sup> For particulars of the English system see C. F. BASTABLE, *Public Finance*, 2nd edition (London 1895), pp. 555-559.

<sup>2</sup> [The above was written in the year 1902, and the basis of taxation both of income and property has since been considerably modified.—A. A. W.]

labour; but proof of something more than this is needed in order to justify deferred taxation—it must be proved that the deferred taxation is commensurate with that advantage.

Nor is it certain that every testator will have refrained from spending the money which he has not been required to contribute in taxation. In many cases the position will be that the Exchequer, after allowing the testator an advantage of which he has availed himself to the full, seeks to recoup itself at the cost of another person who has derived no benefit whatever from its previous generosity. There is, of course, a possibility of that person having benefited by this generosity—as, for instance, in the case of his having belonged to the testator's family—but there can be no certainty of his having benefited. And there ought to be this certainty before the estate duty could be justified.

It is hardly necessary to say that, at most, this theory supplies a defence only for that part of the death duties which all are required to pay—in Holland, for instance, only for the 1 per cent. charged on property inherited in the direct line; a defence has still to be found for all the rest, *e.g.* for succession and legacy duty as charged in England in respect of property inherited collaterally. This, by itself, does not suffice to condemn the theory; it does, however, show that the theory needs some further support. Where must we look for this further support?

This question brings us to an important subject, namely, that of increasing the rate of the tax according as the degree of consanguinity becomes more remote, and charging the maximum rate where consanguinity ceases. Various opinions have been expressed in defence of this system. J. P. SPRENGER VAN EYK holds that the progressive percentage-rate results directly from the motive with which the tax is levied. “No man who finds himself—as does every legislator—obliged in practice to accept various taxes which are either bound up with, or levied in consequence of, all kinds of facts and circumstances, will ever, we feel sure, be able to find any fact or circumstance more worthy of selection as a reason for the levying of a tax than the fact that a person is enjoying, in a higher degree than his neighbours, the privilege of seeing his property grow, without his having to do or to risk anything

for that privilege. . . . He who enjoys such a privilege ought to allow the community to share in his profit.”<sup>1</sup> According as the relationship is more remote, or when there is no relationship whatever, “the privilege—or accident, if that term be preferred—is the greater.”<sup>2</sup> In other words, profits like these, which a person obtains without doing or risking anything, ought to be taxed more or less heavily according as they are more or less fortuitous, thus according as the privilege conferred by their possession is more or less great.

This defence, however, fails to carry conviction. Which is the greater accident or privilege: to receive a small legacy from an uncle or aunt, or to inherit a very large estate from a rich father? Who are the more numerous, childless uncles and aunts, or very rich parents? These are questions for statisticians. It is certainly accidental when one's co-heirs are not numerous; still more so when the person from whom one inherits has been lucky in his speculations. If the privilege, in the sense of degree of fortuitousness, were the standard for determining the percentage-rate of the tax, then the Chancellor of the Exchequer would have a very difficult problem indeed to face!

An equally unsuccessful attempt to elucidate this question has, it seems to us, been made by F. W. TREUB in his article on Succession Duties, published in *Vragen des Tijds* in the year 1891, an article which contains some observations well worth remembering, but fails to be convincing on this particular point. According to this writer, the case for death duties rests entirely upon the increased ability to bear taxation which the inheritor of property acquires at the time, and by reason, of his inheritance. There accrues to him a gain, whereby his financial position is improved. “From this he derives an exceptional increase in his ability to bear taxation, which increased ability lasts until he has brought his style of living into conformity with his altered fortunes.” And this increase of faculty does not depend solely upon the amount of the inheritance, it is also influenced by the degree of consanguinity which existed between inheritor and testator. “Children share in the enjoyment of their parents' fortune

<sup>1</sup> *De Wetgeving op het Recht van Successie*, 3rd edition, pp. 10-11.

<sup>2</sup> *Op. cit.* p. 14.

even during the lifetime of the latter. The son of wealthy parents adopts even during their lifetime a style of living more or less in accordance with their wealth, and he counts and is entitled to count upon their enabling him to maintain after their death the position in which they have brought him up."

"But," continues this writer—adopting the words of Dr. BERGHOFF-ISING,<sup>1</sup> "even beyond the children, and to the utmost limit of the legal right of inheritance, the social position of the heir is found to be affected, even before the testator's death, by an influence, less marked of course, according as relationship with the testator is more distant and the intercourse less intimate. It may be said that the more accidental—the more unexpected—the circumstances under which the heir acquires the legacy, the more does that legacy, in its entirety, constitute for him a new gain (*Einkommen*); the more is his ability to bear taxation increased and *vice versa*. Near relations know that sooner or later they will inherit a part of the property of a childless member of the family; they rely upon this and take it into consideration in regulating their style of living."

When we read this argument attentively (apart from what is said as to the advantages enjoyed by children during the lifetime of their parents, a point to which we shall return presently), we find it to be based upon an interpretation of the faculty theory which the writer himself would on further consideration reject. If your property is increased by a legacy and the testator's death deprives you of no income which you enjoyed before, your faculty in taxation is increased by the full amount of that legacy, irrespective of whether it reaches you through the direct line or collaterally, and irrespective of whether you did or did not count upon getting it. If it were the duty of the Exchequer, when determining a man's faculty in taxation, to consider what expectations he has, and what style of living he maintains, then there would be no justification for a proportional, to say nothing of a progressive, income tax. The taxpayer who was assessed on a high income might then object on the ground, for instance, that his "position" obliged him to keep carriages, or to live in a very expensive

<sup>1</sup> *Das Staatliche Erbrecht und die Erbschaftssteuer* (Leipsic, 1885), p. 26.

house. "There accrues to the heir through the death of the testator a gain whereby his financial position is improved. From this he derives an exceptional increase in his ability to bear taxation, which increased ability lasts until"—Until he has lost what he gained? No—"until he has brought his style of living into conformity with his altered fortunes." This means that a man who inherited £10,000 would cease to derive increased faculty from the inheritance so soon as his yearly expenditure had risen by about £400.

It is nothing new, as the writer himself states, to base the argument for the graduation of this tax according to degree of relationship upon the faculty theory. This has been attempted recently by SELIGMAN<sup>1</sup> and also by GRAZIANI<sup>2</sup>; they have not deemed it necessary to expend many words on the argument, except so far as it consisted in the criticism of systems other than their own. They seem to have regarded the correctness of their own opinions as almost self-evident. We cannot agree with them in this. Graduation according to degree of relationship stamps the death duties—in so far as these exceed a certain minimum—as taxation regardless of faculty. The defence for such graduation must therefore be sought elsewhere than in the faculty theory.

It is to be found in the national instinct of equity on which are based articles 899-908 of the (Dutch) Civil Code regulating the legal order of inheritance for descendants, ascendants, and collaterals. After reviewing the history of succession duties in the last three centuries, SCHANZ, in one of the articles already alluded to, says:<sup>3</sup> "The facts are so overwhelming, that one cannot help wondering at the time that had to elapse before Fiscal Science would admit the connexion which exists between death duties and the law of inheritance." He then further signifies his acceptance of WAGNER'S theory. That, however, is not necessary; it is quite possible to recognise death duties as being a tax, without denying that there is any connexion between that tax and the law of inheritance. It is not necessary to invoke the theory of the co-heirship of the State in order to hold that

<sup>1</sup> *Essays in Taxation* (New York, 1895), p. 133.

<sup>2</sup> *Istituzioni di Scienza delle Finanze* (Turin, 1897), p. 530.

<sup>3</sup> *Finanzarchiv*, xviii., Part II. p. 171.

our fiscal legislators should, like others, respect those principles which find their expression in the laws of inheritance. Those laws fix a certain order of precedence. They provide who shall rank first and who next in the order of inheritance. Then comes the fiscal legislator and says, the lower your position in this scale of precedence, the higher the rate of succession duty you shall pay.<sup>1</sup> What it comes to in practice is, that succession, whether by inheritance or otherwise, to property left by a deceased person, is subject to a fiscal condition which bears more heavily on the recipient the more distant his relationship to the testator. In every country where this system is applied—and where is it not applied in these days?—it is in complete accordance with the national sense of equity. Against death duties on property inherited by direct lineal descendants many people still entertain objections, and, as we have seen, these duties are as yet not everywhere levied on property so inherited; in Holland they were not levied before the year 1878. But who, we would ask, has any fundamental objections to urge against the other death duties? There is a universal feeling that to inherit from a parent is not the same thing as to inherit from a brother or sister; that the difference is greater when the inheritance is from an uncle or an aunt, still greater when it is from more distant relatives, and greatest of all when it is from absolute strangers; and nobody finds fault with the Legislature for bearing these differences in mind when fixing the rates of death duties. SCHANZ is quite right when he says that fiscal science has been far too late in recognising the connexion between death duties and the law of inheritance; he might have added that, when at length the connexion was recognised, the character of the death duties as a tax was needlessly assailed. But in the national consciousness this connexion had existed all along.

Has, then, the faculty theory nothing to do with the

<sup>1</sup> There is a deviation with respect to husbands and wives; for, according to Article 879 (of the Dutch Civil Code), a surviving husband or wife ranks after all legal and natural blood-relations (to the twelfth degree!), while the succession duty charged in the case of a husband or wife is only 1 per cent. where there are children, and 4 per cent. where there are none. It will hardly be contended, however, that Article 879 of the Civil Code accords with the Dutch national sense of equity.

death duties? The answer to this question will at the same time explain why, at the commencement of these considerations, we mentioned only an important part of the death duties, and spoke later of those duties *in so far as they exceed a certain minimum*. The death duties are, in fact, merely an amplification of the income-tax; and that part might very properly be separated from the rest. It might even be included with the income-tax (in Holland with the tax levied under the law of October 2nd, 1893), if this were desirable—which we do not believe it to be.

A merchant or manufacturer has prospered greatly in a given year; he has earned £5,000 above his normal profit. This will affect the sum for which he is liable in respect of income-tax; that sum will, in fact, be affected by the full amount of the extra profit, although probably not at once (this will depend upon what the law of the country provides in such a case). If he puts this sum by, it becomes new property, and so (where there exists a property or general income-tax) the amount of his yearly liability for taxation will be increased. But it is *qua* income that the sum becomes taxable in the first instance. Whether he saves it or whether he spends it, our merchant has to pay on it.

But suppose that, instead of having been earned, the £5,000 had been inherited, would this be a reason why it should be exempt from taxation? And yet it would be exempt if no succession duty had to be paid.

We are so in the habit of associating the expression income-tax with the idea of something periodical, something that recurs, though perhaps in varying amounts, every year, that many will hesitate to accept this line of argument as correct. They will say that an inheritance, at any rate a large one, is not income, but property, of which only the interest may be spent. Undoubtedly, the person who inherits a large legacy will do well to regard it in this light. It is also true that it comes out of somebody's property, and that its proper destination is to produce other property. In spite of this the fact remains that, for the person who inherits it, the property constitutes a gain which, from the point of view of the Exchequer, is like any other gain, in that it has been acquired without effort or risk. The fact, however, remains

that, for the person who has obtained it, the legacy represents a gain which, so far as the Exchequer is concerned, stands in the same category with all other gains, and possesses, in at least the same degree as any of these, the quality of being suitable for taxation. The manufacturer or merchant, too, who has realised an unexpected profit of £5,000, will do well to put this sum by; for, after a few years, he may have a great loss to set against it. For all that, the Exchequer will at once take the £5,000 into consideration in calculating the amount of income-tax for which the manufacturer is liable. The inherited sum may have come out of the property of the testator; but for the inheritor it really does, in the year in which he inherits it, represent income, for whatever we can spend without impoverishing ourselves is income. What he does with that income is his own affair; he may buy works of art with it, or put it into his business; or he may spend it in liberal gifts such as the endowment of a fund for the benefit of workpeople or others. The one fact which the Exchequer keeps in view is, that a certain gain has accrued to this man, and that for the year in which it has accrued, the man's ability to bear taxation has been increased by the full amount of the gain. With what other fact could the Exchequer concern itself in such a case without acting unfairly? It taxes<sup>1</sup> "income derived from temporary work," even though the income accrue but once; such income "shall be included with the income of the year following that in which it has been received." Would it then be fair if incomes for which not even "temporary work" had been performed were exempt from taxation? Under the Dutch law, at any rate, all such incomes without distinction (above a certain figure) are reached by the death duties. Instead, therefore, of having no connexion with the principle of taxation according to faculty, these duties actually serve as a means of applying that principle. Only one part of them, however; and for the healthy development of that part its separation from the duties based on degree of relationship is to be desired. We will call the latter death duty A.

<sup>1</sup> *I.e.* in Holland, under § 2 of Article 4 of the law of October 2nd, 1893, concerning the taxation of incomes from business and other sources (*Belasting op bedrijfs- en andere Inkomsten*).

The part which was separated from it—death duty B—should then be treated as an amplification of the income-tax; its percentage-rate would have to be regulated approximately on the basis of the income-tax, so that, in a given year, there would be paid, in respect of death duty B and income-tax together, the same amount as if all sums inherited or obtained in that year through successions had been classed as incomes accruing in that year. The law would, therefore, as regards its administrative form, be something like that introduced in England in 1894, but would differ from that law in essence. For the death duty B would not be an estate duty, inasmuch as it would not be charged on the property as a whole, but on the share or legacy which accrued to each of the beneficiaries. It would not be in the nature of “deferred taxation” or “accumulated debt”; it would not be an imperfect antidote for a faultily devised income-tax system. It ought—we repeat once more—to be a means for giving effect to the principle of taxation according to faculty.

When we take this view, the question of graduation according to the amount (*i.e.* taxing at a higher percentage-rate the greater the sum inherited)—a question of great difficulty otherwise—finds its natural solution. To have insisted on such graduation was quite right, and levying the death duty B enables this demand to be complied with. There must, however, be graduation only as regards the amount of the inheritance; if there were also graduation of the duties according to degrees of relationship, there would be a *bis in idem*; these duties have a basis in no way related to faculty, they have a progression of their own, as every one knows. Then, as regards the basis to be adopted in the scale for succession duty B. In countries which have a graduated income-tax, that tax already provides the basis. If the graduation of the income-tax be imperfect, then let it be amended; if it be not designed so as to tax such large sums as are sometimes inherited, then let this defect be remedied. But really we can see no reason whatever why the scale of graduation for death duty B should, on principle, be a different one from that adopted for the income-tax; the latter might indeed be adhered to, with a certain amount of freedom, of course, where practical reasons render this desirable.

It is necessary to discuss separately the taxation of property passing in the direct line. The objections which are still urged against such taxation are based upon the consideration that there is a fundamental difference between inheritance in the direct line (more especially the direct line of descent) and all other inheritance. As regards the *pars legitima*, this difference does in fact exist, for of that portion of his estate the testator is not free to dispose as he may think fit. Apart, however, from this consideration, it must be admitted that the close bond which exists between parent and child does confer a special character upon inheritance in the direct line, and that the dislike which many people feel for a tax which, in their opinion, refuses to recognise that special character, is not difficult to understand. But death duty on inheritances in the direct line does not really ignore this special character, although it may appear to do so. The two parts of the death duties which we desire to see separated from each other now form one whole; when the separation shall have been effected, the duty which many people now condemn will be seen in a better light. The tax according to degree of relationship—a tax which is based upon our consciousness that there is a difference between inheritance through the direct line and inheritance through collaterals—will then be restricted to brothers and sisters and all the other collaterals; on the other hand, the tax according to faculty, or death duty B as we have called it, will be applied to all without distinction. Why should there be any discrimination in regard to the latter? If I inherit a property, it matters not from whom, that property represents for me a gain in the year in which it comes into my possession. The fact that, in respect to a part of that gain, I had legal claims of which no one could deprive me, is irrelevant; these claims are no stronger than those which a manufacturer or merchant might urge in respect to the money which he has earned, and yet that money is counted as income for purposes of the income and business taxes.

To be strictly logical, even the fact (should it happen) that the cause which brings me the gain in question, at the same time obliges me to forgo a certain addition to my yearly income, might be disregarded. For the tax which I am now

called upon to pay is not annual; it consists of a single payment exacted from me in the year in which my ability to bear taxation has been increased, and it is based on that increased ability.

The yearly addition to income, which I have to forgo, might, however, be said to possess a certain capital value, which ought to be deducted from the amount of the inheritance. Should it be desired to lighten the death duties in the case of property descending in the direct line, this could be done by enacting that, of each amount inherited in that line and now subject to taxation, a certain sum shall be declared exempt.<sup>1</sup> The higher yield obtained by applying the principle of graduation would render this concession possible, and at the same time afford the opportunity of removing or mitigating certain hardships entailed by the existing laws.

But, it may be asked, are the foregoing arguments compatible with the maintenance of one of the fundamental principles of the Dutch law—a principle laid down in the very first article of that law? Can the succession duty be allowed to retain its character of “a tax levied upon the value of all that is inherited or obtained from the estate of an inhabitant of the kingdom,” so that, whereas the inhabitant of a foreign country has to pay, an inhabitant of Holland escapes taxation when he or she inherits property left in another country? Practical questions are determined by practical considerations; if these could be quite ignored here, which indeed they cannot, then both of the above questions would have to be answered in the negative. Once we have freed our minds from the concept of “accumulated debt” or “deferred taxation”—and it has been shown that this concept is only applicable to a tax like the English estate duty—once we have brought ourselves to regard the death duties wholly in the character of a tax on what accrues to people in virtue of their claims to the property of deceased persons, we see directly that only the inhabitants of the country where the death duties are levied ought to be required to pay

<sup>1</sup> The law in Holland now provides for exemption when the sum inherited is less than 1,000 guilders (about £83). Of sums exceeding that amount, but less than 1,500 guilders (£125), 500 guilders (£42) is exempt. Cf. Article 56 of the law concerning succession or reversion duties.

them; we see, too, that the inhabitants of that country ought to pay upon all that accrues to them from such property irrespective of where it may be situated. So far as we know, however, this principle has not found acceptance in any country except Sachs - Gotha. "Succession duties," said SCHANZ, in his interesting study *Zur Frage der Steuerpflicht*,<sup>1</sup> "have, up to the present (in fiscal legislation), not lost the character of 'deferred taxation.'" And he was right. In most countries, it is true, real estate situated abroad is exempt (such property situated within the country, but forming part of the estate of an inhabitant of another country, then comes under the usual succession duty): practically everywhere, however, we find, in all other respects, the same principle observed as in Holland, namely, that every one, without distinction, who inherits or acquires property from the estate of a deceased inhabitant of the country, is subject to the tax. Prior to the year 1891 Prussia still considered the testator's political nationality. Other German states did the same, although some of them took account of domicile at the same time. The Prussian law of May 24th, 1891, however, concerns itself only with the testator's domicile, and this example has been followed by most of the other German states in their later laws.

So long as this state of things remains unchanged, we, in Holland, must continue to be resigned to the two imperfections stated above. They are interrelated. Were we to exempt foreigners, they, being also exempted by their own Government, would pay nothing at all. On the other hand, were we to tax property inherited from estates abroad, the result would be that in many cases the same property was taxed twice over.

Another defect in the Dutch law might be more easily remedied. We are thinking of the reversion duty, which is levied *without any deduction being made for liabilities*, on securities and interest-bearing bonds; a duty which may, in some cases, be very oppressive, and for which there is no justification whatever. It is to be desired that, when the law of 1859 next comes up for general revision, the opportunity may be taken to effect a fusion between this duty and

<sup>1</sup> *Finanzarchiv*, ix. (1892), p. 421.

the succession duties, as was proposed in 1893 in a Bill, the discussion of which was prevented at the time by political causes. There is no reason whatever why the sum for which a person shall be liable in respect of death duties should be made to depend in part upon the form in which the testator happens to have left his property. There are some people who, in extenuation of this, point to the transfer duties which are levied on real estate; but it is precisely when the transfer takes place owing to death that these duties are not levied; and the testator himself has enjoyed equal immunity from them, for, either he has inherited the estate, or he has bought it, and in the latter case he will have allowed for the transfer duties in determining the purchase price. The existence of the transfer duties is no valid defence for the reversion duties on securities and bonds; on the contrary, it aggravates the unfairness of those duties. The man who exchanges his real estate for securities, himself bears the pressure of the transfer duties; notwithstanding this his heirs have to bear the burden of the reversion duty.<sup>1</sup>

It is not our intention to enter into details here with regard to this and other matters connected with our inquiry. It only remains to mention the economic objection urged against all death duties, the objection being that such duties are a tax on capital. Other duties, it is said, come out of the nation's income. They may be calculated according to the amount of each person's capital, but this does not alter their character: capital is then only (to use the German technical terminology) the *Steuermasstab*, not the *Steuerquelle*, that is to say, the standard and not the source of taxation. But in the case of the death duties it is also the source of

<sup>1</sup> It is here assumed as axiomatic that the transfer duties always reduce the selling price. This is held to be doubtful by J. P. SPRENGER VAN EYK (*De Rijks en Gemeentebelastingen in Nederland*, p. 148). "There are," he says, "exceptions to this rule, owing to the strong position which the vendor occupies in relation to the person who desires to purchase." Let us work it out in figures. A man is prepared to spend, on the purchase of a house or a plot of land, *if necessary*, £2,000 purchase-price and £43 transfer duty. If there were no transfer duty, he would be prepared to spend, *if necessary*, £2,043. From this it is argued that, owing to the existence of the transfer duties, purchasers are prepared to pay more for their purchases of real estate than they would be prepared to pay if there were no such duties. An entirely baseless assumption.

taxation ; in this respect these duties differ in an unfavourable sense from all other taxes.

Those who employ the foregoing argument forget certain things which are relevant to the matter. In the first place they forget that the death duties are levied, not on capital, but on property, which comprises a number of things which are not capital. " If, in a country which possesses instruments of production and securities, taxes are levied which are paid out of property, it is quite possible that the result will be to reduce that country's stock of *securities* only. The nation will then, indeed, have lost some of its wealth and some of its income, but it will still possess the same quantity of instruments of production as it did before." These words occur in the first section of the chapter dealing with the " Pressure of Taxation,"<sup>1</sup> and we there used them as the text for certain observations intended to prove that what they stated to be a possible effect of levying taxes which are paid out of property was, in fact, as a rule, the actual effect. The unfavourable effect which death duties exercise upon the welfare of a security-owning country must be judged in that light. The effect is confined to particular classes, and does not extend beyond those classes. The wages fund suffers no diminution ; existing businesses are not obliged to restrict their operations, only the country's stock of securities is diminished. This will also be the case, as a rule, even when the estate comprises no securities. A person inherits a factory together with the necessary working capital, and no more. If he cannot pay the death duties out of securities already in his possession, he will borrow money for the purpose from a bank, and, either indirectly or directly, the effect of this will be that securities leave the country in exchange for some form of capital. And so, in the end, the aggregate capital of the country will suffer no diminution.

Some people might criticise this argument by saying that it meets the objection mentioned above only when the effects of the death duties are considered in relation to a particular country. The people of England really sell a portion of their stock of securities to the people of Holland, but mankind cannot sell a portion of its securities to anybody ;

<sup>1</sup> P. 389 *ante*.

for mankind, therefore, the death duties represent a tax in which capital plays the part of *Steuerquelle*. It must, indeed, be admitted that the argument which we employed above possesses but a limited value; by itself it does not serve to refute the proposition that the sum of all the death duties that are levied annually in the different countries (in so far as they are not used for productive purposes) represent so much capital lost to mankind. The more extensive the area over which the death duties operate, the less efficacious is the action of the antidote, which consists in exporting securities. This antidote is especially effective so long as these duties are levied in one country only; it is still more effective when that country is small. But with every extension of the area over which the duties operate, the antidote loses some of its efficacy. Country A then endeavours to dispose of part of its securities to country B in exchange for capital; but B is anxious to do the very same thing as regards A, and it is conceivable that, in the result, one of the two countries finds its stock of securities increased instead of diminished.

Even this consideration, however, affords no adequate grounds for an out and out condemnation of death duties; in very many cases the inroad made by these duties on the property of the nation is exceedingly transitory. In such cases all traces of it disappear very quickly because the recipient of the legacy has not immediately altered his style of living to suit his increased income, and has, in the interval, effected some savings, the amount of which probably equals that of the duty paid. Nor must it be forgotten that the ordinary taxes affect the *formation* of capital. According to RICARDO, the tax-payers have to restrict their expenditure by an amount exactly equal to what is exacted from them by the State; but is this always the case? People with large incomes, for instance, who put by large sums every year, would, no doubt, put by more than they already do if they were not obliged to pay any taxes; but if the death duties were to be abolished, some other kind of taxes would have to be substituted, and it cannot be supposed that these would have no prejudicial effect upon capital.

Finally, we would observe that the strongest objections

which are urged against death duties will be found on close examination to have reference, not to the duties themselves, but to the use that is made of those duties. Even if it were certain that the million and some odd hundred pounds sterling which the Dutch Government derives annually from death duties reduce the capital of the people of Holland by that amount yearly, the only conclusion that could legitimately be drawn from the fact would be that this sum ought to be used each year for the extinction of debt and for defraying expenses which it is now thought right to provide for out of loans. There is nothing peculiar to the character of death duties which can properly be urged as a reason why they ought to be treated as ordinary income.

III. To continue our inquiry. Besides the taxes already mentioned, there are others which have their origin in certain exclusive rights conceded by a Government or Local Authority. In the interests of the public it is sometimes found desirable that, in the whole or part of a country, or in the whole or part of a town, a particular branch of industry shall be carried on by a single company. The State or Municipality could, if necessary, carry on the enterprise itself, but for one reason or another deems it inexpedient to do so; public interests are not always safest in the hands of public authorities, who are often apt to be guided too much by consideration for the interests of the Public Exchequer alone, and who do not always succeed in giving to their rules that elasticity which is so necessary in commercial affairs. From the circumstance that an institution has to be conducted for the national advantage it does not by any means follow that it must be conducted by Government officials, for Government officials are not always the best judges of what is necessary for the national well-being in a particular domain. It sometimes happens that the State, just because it desires that a public utility enterprise shall be managed in a manner calculated to promote the national well-being, and at the same time placed beyond the reach of political influences, finds it advisable to entrust that enterprise to a joint-stock company and to supervise the dealings of that company.<sup>1</sup> There are, however, other reasons, too,

<sup>1</sup> In this connexion it is necessary also to note what GUSTAV SCHMOLLER

which render this course desirable, such as the fear of unduly extending the sphere of public administration, or the danger that the profits of the enterprise may be very uncertain, or owing to some new invention it may be rendered to a great extent superfluous. Professor E. SAX, in his well-known treatise on transport facilities, makes use of an expression which seems to us to be very well chosen, when he describes as "delegated public undertakings," those undertakings which are carried on in virtue of a special concession. By this he means it to be understood that such undertakings have for their object the public interest, and that they are carried on by private individuals "delegated" for that purpose by the Public Authority.

An unmistakable drawback of such "delegation," however, is, that the State or Local Authority loses the profits afforded by the "delegated" undertaking. In order to make up for this, a special tax is levied upon those profits. One of the best examples of a pure tax on monopoly profits is the tax which the Netherlands Bank is required to pay under the Law of August 7th, 1881,<sup>1</sup> for, even if the tax were not imposed the rates charged for discounts, loans, and overdrafts would

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says about joint-stock companies in his *Grundriss der allgemeinen Volkswirtschaftslehre* (Leipzig, 1900), Part I. p. 444; how they have "introduced a new and, to some extent, higher factor into the economic mechanism of the nation. The large-scale business undertaking, in the hands of trusted agents and officials (of a joint-stock company), approximates to the State or Municipal Administration; it acquires the character of a public office; its chiefs become more and more imbued with the sense of having public duties to perform. . . . Where the State or Local Authority owns part of the capital, or where it has the appointment of the principal directors and officials, or can indirectly influence their appointment, the joint-stock company assumes the character of something between a department of the public service and a private business."

<sup>1</sup> "The profits of the Bank, up to an amount equal to five per cent. of the capital, shall accrue to the Bank.

"If, in any year, the profits shall amount to less than five per cent. of the capital, then the deficiency shall be made up from the reserve fund, provided that fund be not thereby reduced below a sum corresponding to fifteen per cent. of the capital

"If the profits amount to more than five per cent. of the capital, then ten per cent. of the excess shall be assigned to the reserve fund until that fund shall have reached the amount fixed by Art. 6 *bis* (*i.e.* one-fourth of the capital). Of the balance one-half shall accrue to the Bank and one-half to the State until the Bank's share of the profits (irrespective of the statutory assignment to the reserve fund) reaches seven per cent. of the capital. Of the balance still remaining (if any) one-third shall accrue to the Bank and two-thirds to the State."

not be any lower. Not only the tax itself, but also the basis on which it is levied—*i.e.* the net profits exceeding a certain minimum—is commendable. Another basis might have been chosen. An attempt might have been made to distinguish the profits realised by the Bank as an ordinary joint-stock company from those which it realised as a note-issuing institution, with the object of taxing the latter class of profits only. This, however, would have created an inducement for the Bank to develop that branch of its business which was exempt from taxation. Or, again, the amount of notes in circulation might have been chosen as the basis; but this might have proved an incentive to inadequate “covering” of the note issue, for no immediate profit accrues to the Bank from the issue of covered notes. Both evils were avoided by following the example of the German Bank Act of 1875 and taking as the basis of the tax the net profit realised in excess of a certain percentage.

We said that even though the tax were not levied, the rates of interest charged for discounts and loans would be none the lower. The Bank has, it is true, a monopoly as regards the issue of notes, but it has to face keen competition in the matter of giving credit, and, moreover, the tax on profits was so regulated as to create no inducement for the Bank to depart from the principles by which it had always been guided in fixing its rates of interest. Thus the tax is not shifted on to anybody; it is not a disguised excise duty. We therefore suggest that, in the framing of any fiscal measure of this kind, the chief consideration should be to prevent what is intended to be a tax on monopoly profits from becoming wholly or partly an excise duty. Where the tax is intended for some other purpose, or, where those who propose it are indifferent as to its effects, and have no objection to its being shifted, this suggestion will be superfluous. It will always be necessary, however, to consider carefully what the effects of the tax will be, for it is impossible for any fiscal legislation to satisfy rational requirements unless it be designed for a specific purpose. That purpose may be to tax either exceptional profits or certain kinds of expenditure, or both, and the mode of regulating the tax must vary to suit the purpose. If, as must be assumed in this case, the purpose

is to tax exceptional profits only, then the amount of sales should under no circumstances be adopted as the basis. Here the best basis will be the net profits in excess of a certain percentage, and in the case of a new undertaking, of which the owner hopes that some losses borne at the outset will be covered by extra profits realised later, the tax must not be applied too soon, and had better be deferred until the enterprise has yielded an average dividend of, say, 6 per cent. per annum for five years. Otherwise the tax on the profits must have an effect upon the prices paid by the public and must therefore, at least to some extent, operate as an excise duty, no matter what precautionary measures may be adopted to prevent its doing so.

This is one of the mistakes that have to be guarded against in connexion with the taxation of monopoly profits; excessive "fiscality" is another. In many cases the system of delegating the execution of public services is open to the objection that its application will entail upon the State (or Local Authority) the forfeiture of certain material gains. Where it is believed that there will be no counterbalancing advantage whatever, the principle should, of course, not be applied. Care should, however, be taken not to exact so large a share of the profits as might prevent the *entrepreneur* from taking any further risk, because he fears that if the venture succeeds he will have to part with the bulk of his profit, while if it fails he will have to bear the whole of the loss. The Public Authority must abide by the consequences of its choice. If it wishes to incur no risk, or if it considers that the public interest will be safer in other hands than in its own, let it delegate the particular service; but if it then finds that it has to forgo some profit, it must accept the situation and not endeavour to make up for the loss by means which would endanger the successful working of the delegated enterprise.

It is quite possible, however, that even when this mistake is avoided, the delegating of the enterprise may cost the State or Local Authority nothing. This will be the case when, even financially, a public utility service can be better managed by a joint-stock company than by public officials. The more industries a Public Authority takes over, the more

difficult will it be for that authority to give each of them the requisite care and the greater, therefore, the likelihood of more successful financial management being obtained by entrusting a particular service to private enterprise.

IV. There is a fourth kind of tax; its purpose may be likened to that of a fee. It may happen that a particular item of public expenditure, while primarily incurred for the advantage of the country or county as a whole, is nevertheless intended, at the same time, to promote the interests of certain individuals. In such a case there is no fundamental objection to the levying of a special tax intended to defray a part of the expenditure incurred under this head. Taxes of this kind are to be defended on the same grounds as fees.

For this reason it has been sought to establish a relationship between taxes such as we are now discussing and fees; ADOLF WAGNER goes so far as to maintain that both not only belong to the same family, but also have the same character.<sup>1</sup> In this he seems to us to be wrong; they are intended for the same purpose, they have the same object, but as regards the means by which that purpose or object is achieved they differ widely. A fee is always paid for the use of some service, and those who make no use of that service pay no fee; but the taxes of which we are speaking are imposed, they are assessed, and the basis of assessment is the assumed, not the real, benefit. The Provincial Authorities construct a canal. In doing so they are partly influenced by the consideration that a special advantage will accrue therefrom to the land-owners, and thus increase the number of additional cents derivable by the Province from the land-tax. But, if the Provincial Authorities should happen to have been mistaken, or if their calculations, although correct on the whole, should prove not to have been correct as regards the land owned by A or B, A or B will nevertheless have to bear their share of the burden. The circumstance that none of the produce of a man's land will ever be borne on the canal will make no difference in the amount for which he is assessed. It is just this that constitutes the most serious objection against such

<sup>1</sup> He criticises NEUMANN for paying too much attention to the fact that taxes have a form peculiar to themselves, and for failing to emphasise the fact that they are related to—indeed identical with—fees.

taxes; an objection which never applies in the case of fees, provided they be properly regulated and therefore not mixed up with taxes. Such imposts can never be very much more than a device for taxing the people in groups, and on a scale roughly corresponding to the benefits which accrue to the group. Between fees and taxes such as we are now discussing—*Beiträge*, or contributions, as the Germans prefer to call them<sup>1</sup>—there exists this further difference, that the former, being the price charged for the use of a thing, check that use; the fact that they do this will be an advantage or the reverse according to circumstances, but in any case it imparts a special character to the fees.

There was a time—not so very long ago—when the services performed by the State were regarded as being not merely a tolerably correct standard to be applied in apportioning the burden of an occasional tax, but as the standard *par excellence*. Note, for example, what P. LEROY-BEAULIEU said in his *Science des finances*, when he was arguing against a progressive income-tax.<sup>2</sup> “What can have given rise to the idea that the State, by means of its taxes, should impose an exactly equal burden upon all its citizens? Would not strict fairness suggest that the tax should be so apportioned that each one paid the fair price of the services which he enjoyed, and his fair share of the indebtedness of the community? What should we say of a baker, a grocer, or any other tradesman who, instead of charging all his customers the same price for a given quantity of goods of a particular quality, were to graduate the price according to the customer’s ability to pay? Should we not say that his system was absurd? . . . It is no business whatever of the State to impose equal or unequal sacrifices upon its citizens, but it certainly is the business of the State to insist that each of its citizens shall pay the fair price of the services which he has received at its hands, and his fair share of the interest and sinking fund of the National Debt.” The writer goes on to show that it costs less in proportion to protect a large than it does to protect a small property, and he points

<sup>1</sup> Cf. NEUMANN, *Die progressive Einkommensteuer*, Leipsic, p. 65, and *Die Steuer und das öffentliche Interesse*, Leipsic, 1887, p. 336. Also, G. COHN, *System der Nationalökonomie*, vol. ii.; *Finanzwissenschaft*, Stuttgart, 1889, pp. 121 *et seq.*

<sup>2</sup> Book II. chap. ii. p. 145 of the 3rd edition.

to the course pursued by insurance and railway companies as an example to be followed by Public Authorities in regulating their taxes.

LEROY-BEAULIEU does not work out his ideas in detail; what he raises is more in the nature of a banner than a part of the structure. Not only does he ignore some serious objections of a political nature, but he also omits to suggest any solution of the special difficulty which arises from the fact that the State cannot, like the baker or the grocer, weigh its services on the scales and determine their exact value by consulting a price list. LEROY-BEAULIEU'S fiscal system shows but little relationship with the theory on which it purports to be based; wherefore we believe it to be not really, but only apparently, based on that theory.

From the rejection of this theory as a general basis for apportioning taxation, it does not, however, follow that, in fixing the amount of the tax to be imposed, the State ought never to consider the value of the service performed. A Dutch Dikes Survey Board, or *Waterschap*, as it is called, taxes each person owning land within its district in proportion to the benefit which accrues to that person from the service which the Board performs for the advantage of the general body of landowners of the district; and, although a communal or municipal authority cannot be likened to a Dikes Survey Board in respect to the whole, or even the greater part of the operations in which it engages, certain of its operations are, nevertheless, analogous to those of a *Waterschap*. The Communal Authorities construct and maintain roads; they provide public lighting and drainage; in short, their activities are to a great extent purely economic. "The value of a house would be very small indeed," says F. S. VAN NIEROP,<sup>1</sup> "were it not situated on a road which was serviceable for traffic and lighted by night, and if there were no drains for carrying off its waste water. The public utility services of the Municipality, the attention which it gives to the construction, lighting and cleaning of the public roads and streets, and to the organisation of a fire brigade increases the value of the buildings and lessens the cost of fitting them for occupation." The services which help towards rendering the various properties

<sup>1</sup> *De Economist*, 1890, p. 525.

habitable must not be forgotten, for we have to think not only of the owners of the houses, but also of those who rent them; indeed, the latter ought to be considered first. A house is a source of income to its owner only because those who occupy it derive enjoyment and benefit from doing so. To those who have mastered the principles of the theory of value it will at once be clear that the occupier must actually value this enjoyment or benefit more highly than he values the rent which he pays, otherwise he would not agree to pay that rent. To rent a house is to exchange money for something else, and nobody exchanges unless he gains by the transaction. By engaging in the various activities just mentioned, the Local Authority is promoting the interests of all; not merely those of owners, but those of occupiers as well. To occupy a house would afford very little enjoyment indeed if there were no well kept and well lighted streets leading to it, and if there were no means of removing its refuse. The services performed by the Local Authority in this respect may very properly be likened to those performed by the Dikes Survey Boards, and in apportioning their cost the same principle may—and indeed should—be applied as is applied by those Boards.

According to the writer whom we have mentioned and who is an expert on this subject,<sup>1</sup> it is desirable that “the maximum tax imposed on real estate, at any rate on house property, should not be expressed as a percentage of the land tax, but should depend upon the cost entailed by the public utility services executed by the Local Authority.” He expresses his preference, however, for a separate local communal tax on house property, for which the requisite valuations might then be made as often as the Local Authority should deem necessary.

It would not be difficult to carry out this idea, and there is all the more inducement for doing so now that its underlying principle has been expressly sanctioned by Article 12 of the Law of 1897, which has added a new clause (240 *v*) to Article 240 of the Dutch Local Government Act.<sup>2</sup> The tax on

<sup>1</sup> *I.e.* Mr. F. S. VAN NIEROP.

<sup>2</sup> The clause in question provides that Communes may levy “special taxes” in respect of house property contiguous to public streets or highways, such taxes

house property might be ceded by the State to the Communes, a corresponding reduction being at the same time made in the sum payable to each Commune by the State under Articles 1 to 9 of the aforesaid Law of 1897. If this were done the Communes would at first, of course, lose as much as they gained, the law would have been improved, and, subject to general rules enacted by the Legislature, each Commune could regulate the house-property tax according to its own needs. Should some prefer not to do this—which, for several reasons, is conceivable—then the State might continue to collect the tax, with this difference, however, that it would now collect the whole tax, including such additional cents. as were allowed by the law and fixed by local statute for the benefit of the Communes. This is what is done in Prussia in accordance with two laws dated July 14th, 1893. There the State has ceded *both* parts of the land-tax to the Communes; it would not be necessary to go so far as this in Holland. There is much to be said in favour of retaining the tax on undeveloped land as a State tax, for what the Communes do for the benefit of such property bears no comparison with what they do for the benefit of house property.<sup>1</sup> In other respects, however, the Prussian example is well worth following.

It might be asked whether a tax on house property, when it takes the form of a communal tax, is not open to the objection that a part (in most cases a considerable part) of it is shifted on to the occupiers of such property. We hold that it is not. All that concerns the Commune here is the fact that the extent, and therefore also the cost, of its public utility services is determined by the number, size, and situation of the houses in respect of which those services are performed. A real tax based on the house rent is, therefore, quite justifiable here.

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to be based on principles which shall ensure that each person liable for the same shall contribute in fair proportion to the cost incurred by the Commune for the construction and maintenance of streets and roads, for the lighting of the same, and for drainage of water and sewage from the property subject to the tax." By this clause legal sanction was for the first time given to what are known as *straatgelden* (street rates). If the tax on house property were to go wholly to the Commune, the street rates might be absorbed in it.

<sup>1</sup> Mr. VAN NEIROP expresses the same opinion in his article in *De Economist*, 1890, pp. 524-525.

There is no more reason why the Commune should be concerned as to who ultimately bears the burden of its tax in this case than there is for a Dikes Survey Board to be concerned as to who ultimately bears the burden of its rates; the matter may be left to the free play of demand and supply. Once more let it be remembered that the only reason why the public utility services of the Commune benefit the house-owners, is that those services are undertaken primarily for the benefit of those who occupy the houses. There is therefore nothing inequitable in the fact that the latter contribute a share of the tax for which the former are held liable.

The idea has been suggested that the tax might be based not on the full rental value of the property, but on that of the land comprised therein; then the tax could not be shifted. This might also be done in respect to a part of the sum due. The subject is fully discussed in the Final Report of the Royal Commission on Local Taxation<sup>1</sup> appointed by the British Government in 1896. The majority were opposed to the idea, but a minority of five members took a more favourable view of it.

Amongst its opponents some gave very high estimates of the cost; one suggested that £2,000,000 would have to be spent on valuing the 590,000 hereditaments of London; it was urged that the difficulty of arriving at correct valuations would be very great owing to the only sure basis—that of prices actually paid—being so seldom available. The advocates of the idea maintained that both the estimated cost and the difficulties had been greatly exaggerated. They pointed out that, even now, the sure basis of prices actually paid was frequently lacking. What, for instance, was the true rental value of a railway station, or a large banking house, hotel, or other similar property, which is never, or hardly ever, let on lease? In the case of properties of this kind (which, as a matter of fact, are very numerous) it was contended that the new system would yield certain advantages in comparison with the old. In the case of a railway station

<sup>1</sup> *Final Report of His Majesty's Commission appointed to inquire into the Subject of Local Taxation*, London, 1901; cf. chapter ix., and the separate report on *Urban Rating and Site Values*, pp. 149 *et seq.*

or banking house it is easier to calculate the value of the site than to tell the rental value of the building.

There is much that is attractive in the idea, but it is not possible to advocate it warmly in a country like Holland, where house property seldom reaches very high prices. Suppose the assessment were at the rate of 5 per cent. of the annual value of the site, then, on a property containing 2,000 square feet, which was worth 6s. a square foot, and therefore could not have a rental value of more than about £24, the tax would not exceed 24s.; and in the large towns of Holland, apart from business streets and other specially eligible quarters, 6s. per square foot is a fairly high price. In places like London, where land is very much dearer, the idea would have more to recommend it. The minority of the Royal Commission demonstrated clearly that its adoption might result in a more equitable incidence of local taxation.

There are other ways, too, in which the principle of taxation according to services may be applied.<sup>1</sup> When the population of a town increases, there arises a demand for the erection of additional houses, and this demand cannot be met unless new streets are laid out. In Holland it is a very common thing in such cases for the Local Authority to enter into agreements with builders whereby the latter not only provide, free of cost, the land required for the laying out of the streets, but also undertake to refund to the Local Authority any other expenditure incurred by that body in respect of paving, draining, and the like. It may happen, however, that, instead of awaiting proposals from builders, the Local Authority proceeds to lay out the streets on its own account; in such cases its expenditure would not be refunded to it unless it were empowered to shift the burden later on to the owners of houses erected along those streets. In order to meet this difficulty a further clause (Article 240 *j*) was added to Article 240 of the Dutch Communal Law in 1897, whereby the Local Authority is empowered to levy a special tax "in respect of house property and appurtenances thereof, situated in

<sup>1</sup> See F. SLEUTELAAR's interesting thesis entitled *Belasting van Waardevermeerdering* (Taxation of Unearned Increment), published at Groningen, 1900, where a very full bibliography of the subject will be found.

*particular parts* of the Commune, "such special tax to be assessed according to principles calculated to obtain from the tax-payers a contribution fairly proportional to the cost incurred by the Local Authority *in respect of the laying out* of the aforesaid parts." Provisions similar to this, and even wider in their scope, are to be found in the laws of various foreign countries, more especially those of Germany. Article 9 of the Prussian Local Taxation Law (*Kommunal-Abgabengesetz*) of July 14th, 1893,<sup>1</sup> empowers the Communes to levy contributions (*Beiträge*) intended to defray the cost of providing and maintaining services which are required in the public interest, from the owners of land, and from persons carrying on businesses which derive special economic advantages from the said services. So far as we know, however, very little use is made of these powers. The most recent statistics mentioned in the *Finanz-Archiv*<sup>2</sup> relate to the years 1895-96. These show that in that year, out of a total expenditure of 236,000,000 marks incurred by 1,169 towns, only 5,000,000 marks were defrayed out of "contributions" (against 58,000,000 marks defrayed out of land and buildings taxes). In Holland, Article 240 *j* of the Local Government Act (referred to above) has, for the most part, remained a dead letter; the Local Authorities prefer the system of agreements with builders, which, in the nature of things, offers them greater security.

That such agreements—and also such assessments as are permitted under Article 240 *j* of the Dutch Local Government Act—have the effect of retarding more or less the commencement of new buildings, is a fact which we cannot pretend to ignore. In so far as the Local Authority promotes or undertakes the laying out of streets, it encourages building; in so far as it shifts the cost on to the builders, or recoups itself by the imposition of real taxes on the new properties, it does the reverse. The latter result will do little harm to owners of building sites if the demand for house-room is increasing continuously, and especially if it is increasing rapidly. These people must then exercise a little more patience, they must wait a little longer for the demand, because house rents must now rise before building operations will

<sup>1</sup> *Finanz-Archiv*, Part X. pp. 816 *et seq.*

<sup>2</sup> Part XII. p. 828.

be entered upon. The saddling of site-owners with the cost of laying out the streets is usually defended on the ground that the plots do not acquire value as sites until the streets have been laid out. But if we carefully think out the consequences of that policy we shall perceive that the taxes are not borne by the site-owners; they fall upon the lessees of existing dwellings, whose interests are, of course, promoted by the extension of the built area of the town, but at the same time prejudiced by the onerous condition subject to which that extension has taken place. And in whatever measure the interests of lessees are prejudiced by that onerous condition, in precisely that measure will the house-owners benefit thereby. As regards the latter the position will be this. The extension of the built area of the town is contrary to their interests; it may even result in a considerable fall in the rental value of houses in neighbourhoods which were formerly regarded as very eligible. The more building is retarded, the better is it for them (speaking generally). And there can be no doubt whatever that the onerous condition already referred to does retard building.

The taxation of site-owners in respect of expenditure incurred in the laying out of streets and the like is, nevertheless, taxation according to services. It operates as such directly for the house-owners themselves, and indirectly for the general body of lessees in the town; as regards the latter the service has consisted in rendering possible the supply of new dwellings. This is no small service, for, had the supply of house-room continued the same while the population increased, housing accommodation would have become very defective for most families. And it is hardly possible to overstate the evils of defective housing. But every Local Authority which demands payment for the service which it performs in the laying out of streets, must know very well that by doing so it reduces the net value of that service. It must not imagine that the burden will ultimately be borne by the owners of building sites. These payments operate in precisely the same way as a tax on house property erected on new plots.<sup>1</sup> If the tax is to be purely local, the

<sup>1</sup> Cf. Vol. I. pp. 154, 155.

fact just mentioned will have to be borne in mind by those who are responsible for its regulation.<sup>1</sup>

In this connexion one cannot avoid saying a word concerning the taxes which are levied in England and other countries on the increased value acquired by property as a result of improvements made by the Local Authority—*i.e.* what are called “betterment taxes.” They are sometimes referred to as being identical with the “Special Assessments” which constitute a very important feature in the local taxation of the United States of America; it is necessary, however, to distinguish between the two. To the “betterment taxes,” we wish, for the purpose of the following demonstration, to assimilate only those special assessments to which, not future, but existing, house property is subjected in respect of expenditure, for which, if a municipal tax were levied on such property, that tax alone would not adequately recoup the Municipality. A “betterment tax” in this restricted sense was, for example, sanctioned by law in England in 1895. The *Tower Bridge Southern Approach Act* of that year contains a provision empowering the London County Council, for the purpose of meeting the cost of widening a couple of streets and providing more room for traffic, to levy what is called an “improvement charge” on all properties within a certain defined area, which shall acquire an increased value as a result of these improvements. The increase of value must be “substantial and permanent,” and must actually have accrued at the time of making the charge. This consists of a yearly payment at the rate of 3 per cent. on half the increase of value (only half of the increment was considered in order to provide against possible error in the valuation). An owner who prefers not to pay the charge can avoid doing so by disposing of his property to the County Council for the sum at which it was valued before the improvement was carried out (option clause). This sum, however, does not include the value of the business carried on in the building. There is also a clause which provides that if an owner of property within the area in question has both gained and lost by the improvement, he can claim compensation in respect of the loss.

<sup>1</sup> On this subject, too, full particulars are to be found in Mr. SLEUTELAAR'S academic thesis, referred to on p. 526 *ante*.

It will be seen that in this case we are dealing with expenditure of a kind altogether different from that which we have hitherto been discussing in this connexion. Streets are not widened and new approaches constructed in order to benefit particular plots of land. The expenditure which such works entail is not "expenditure for the purpose of development by building" (to use the words of the Dutch Law of 1897). Its purpose is to provide more room for traffic, to prevent its becoming congested. It may have the effect of improving the appearance of the neighbourhood, and certain properties may acquire increased value; these things were not intended, they are incidental results of the expenditure. Therefore a special tax is held to be justified.

Obviously, however, the justification can only hold good where there is acceptance of the principle on which this special tax is based. In London they had to do with a case in which a public work yielded special benefits, but various cases are conceivable in which injury might result; as, for example, "where the level of a street is raised or lowered; a viaduct is built whereby both the view from, and the approach to, a house are obstructed; a street is rendered wholly or partly inaccessible to traffic, a bridge is demolished or removed; a railway station is transferred, whereby great loss is sometimes inflicted upon hotel and restaurant keepers; a canal is filled up, and the owners of warehouses and other structures along its banks are deprived of its use for the transport of their goods; the traffic of a street is wholly diverted by the construction of a parallel thoroughfare. Or it may happen that, owing to temporary works carried out in a street, such as paving, asphaltting, the laying of sewer pipes, or the building of a bridge, although the properties on either side acquire no increased value, the owners of those properties suffer a serious loss."<sup>1</sup> And why should not public enactments, too, be mentioned in this connexion? State, provincial, and municipal laws frequently entail consequences which are prejudicial to a particular district or neighbourhood, or to a particular group of inhabitants, just as they frequently cause others to grow richer, though they were not framed for that purpose.

<sup>1</sup> F. SLEUTELAAR, *op. cit.* pp. 211-212.

Now, what did the British Legislature do in 1895? Did it begin by enacting a general law providing for all the various cases that might arise, and defining the rights and duties appropriate to each? Nothing of the sort; it simply provided for one particular case. The London County Council, proposing to undertake certain works which involved a rather heavy expenditure, was anxious to shift as much as possible of the burden from its own shoulders, and Parliament was willing to help it to do this. And how did Parliament help? By sanctioning certain provisions in an Act, including one whereby compensation for "worsement" was only to be allowed in respect of property owned by a person who had been taxed in respect of "betterment." In this provision the lack of principle which characterises the whole Act may be said to reach its culminating point.

Taxes of this kind are not an invention of our times; they were levied in Amsterdam so long ago as the year 1601.<sup>1</sup> It seems to us that they must give just cause for dissatisfaction if they stand by themselves, that is to say, if they do not form part of a general system which provides for the different cases that may arise and prescribes reasonable rules for each. To devise such rules is no easy matter, it is true; especially is it difficult to determine the border-line at which there ceases to be any *raison d'être* for the imposition of a tax on the one hand, and for the granting of compensation on the other. But until a solution has been found for this difficulty let no proposal be entertained for the imposition of "betterment taxes" in the sense in which that expression has here been used.

These reflections naturally lead us to the consideration of an idea which is, in a special way, identified with the name of ADOLF WAGNER, who advocates the taxation of what are called "conjuncture profits" as a means for mitigating economic inequalities.<sup>2</sup> The word "conjuncture," unless we are mistaken,

<sup>1</sup> Cf. Dr. JOH. C. BREEN'S article entitled *Amsterdam's Geschiedenis in 1601*, published in the *Amsterdamsche Jaarboekje* for 1901, pp. 29-30, where also the rate of the impost was mentioned. Owners who found it difficult to pay the tax in money were allowed to constitute bonds at 6½ per cent. as an alternative.

<sup>2</sup> See *Grundlegung*, 3rd edition, § 166. *Finanzwissenschaft*, Part I., § 143, and Part II. § 150. Cf. also WAGNER'S two articles in *Zeitschrift für die gesammte Staatswissenschaft*, 1887, pp. 37-122 and 675-746.

was introduced into the language of German science by FERDINAND LASSALLE. What does it mean? WAGNER gives the following definition, which is not remarkable for its lucidity: "The sum total of the technical, economical, social, and juridical conditions, which, in a society based upon the principles of division of labour and private property—*i.e.* in respect of material instruments of production—(private ownership of land and capital)—largely help to determine, and in concrete cases actually by themselves determine, the production of goods for commerce, the demand and market for those goods, consequently the value, especially the value in exchange, and the price of goods in general, as also of each separate finished good, as a rule wholly (or at any rate almost wholly), regardless of the will of the individual, or of anything 'he may do or leave undone,' and so on. Under the system of free competition 'conjuncture' assumes great importance, and that is what constitutes the characteristic feature of modern commerce and industry. It is through the operation of 'conjuncture' that some people acquire fortunes which they have not earned, or only partly earned, just as others lose fortunes through no fault of their own. Taxes should be used as a means of mitigating this evil; the task is a difficult, but not an impossible one. All that is necessary is to supplement existing business taxes, or arrange them so that they may reach 'conjuncture' profits, especially those derived from the ownership of land." For the attainment of his object WAGNER also advocates a tax on stock-exchange transactions. All this he regards as "a postulate of the distributive justice of the nation."

But what is to be done with the yield of such taxes? Is it to be divided amongst those who have lost by "conjuncture"? The author does not say. Their yield, like that of all other taxes, is to go into the Exchequer to meet expenditure. This must be clearly understood. Owing to the same cause A is a gainer and B a loser. The State provides a corrective for the resulting inequality. That corrective consists in taking from A a certain sum out of his unearned profit and not giving that sum to B, but keeping it for its own use.

For that reason alone the corrective operates imperfectly, but there are other reasons which render its operation still

more imperfect. Tell any merchant or manufacturer that he must classify his profits for a given year exactly according to whether they have been the result of chance or of his own wisdom, his own foresight. He will not be able to do so; the two kinds of profits cannot be distinguished in this way. A spinner has ordered cotton from the United States; the price appeared to him to be low at the time when he bought, and he expected it to rise. He had no idea, however, that it would rise to anything approaching the figure which it actually reached. If you were to ask him how high, precisely, he expected it to rise, he could not tell you; he has not reduced his expectations to figures. This is but one illustration amongst a thousand, nay a hundred thousand, that might be given. And what should the State do in order to carry out WAGNER'S idea? Should it treat all profits without distinction as "conjuncture" profits? Or all profits in excess of a certain percentage on capital? Or should it exempt all commercial and industrial profits, and deal only with those which accrue accidentally from a rise in the purchase-value of land? This, together with the taxation of stock-exchange transactions, is, we imagine, what the whole scheme would amount to.

It must be admitted, however, that while no clear line of demarcation can be drawn between "conjuncture" profits and other profits, cases do occur in which special gains are realised without any effort on the part of the person to whom they accrue. Through the growth of a town, land in its neighbourhood acquires a high value for building purposes. Through a failure of crops, great advantages accrue to owners of certain kinds of goods. The market prices of securities rise owing to a variety of causes over which the holders have no control whatever. Let it not be forgotten, however, that there are few capitalists whose gains from "conjuncture" do not alternate with losses; to whom, indeed, "conjuncture" does not bring both losses and gains simultaneously. One investment turns out well, the other badly, and investors are usually quite content if they obtain a reasonable rate of interest on the average. The man who owned land near a flourishing town may, perhaps, also have held American Railway Stock, of which the coupons remained unpaid, or he may have invested

in a land-reclamation scheme which has turned out to be a failure. The many vicissitudes of which WAGNER speaks do not always have the result that one man becomes rich and the other poor, frequently the same people experience the favourable as well as the adverse effects. We should always bear this well in mind when we speak of "conjuncture" profits. Any taxation scheme which did not make allowance for these facts would be most unfair.

And again, which of the two ought the State (or the Local Authority) to tax—the estimated profit or the profit actually realised? If the latter only, there would be obvious injustice; for, whether a profit were converted into money or not, it would have been made all the same. Professor NEUMANN kept this in mind when he was sketching his plan for imposing a special tax on increments in the value of house property. In order to make quite sure that no taxation was levied upon increment resulting from improvements, he would adopt the following plan: let all houses, together with their land, be re-valued every fifteen years; then if, for the whole of the houses taken together in a given street or group of streets, it be found that there has been an increase of value, assume that the same increment, but no more, applies to each house in that street or group of streets. Professor NEUMANN'S demands are very modest; he does not wish for a tax of more than 8 per cent. of the value-increment, and he would allow the payment of this 8 per cent. to be spread over a period of fifteen years.<sup>1</sup>

But why should profits derived from this particular source be singled out for taxation? Is it because, as demonstrated by WAGNER,<sup>2</sup> a practically constant rise is taking place in the value of house property? This may be true of some large towns, or in certain periods, but it is not true in general; and even in towns where the average value of house property is rising, there are sometimes neighbourhoods in which it is depreciating owing to the demand for house-room having shifted to other neighbourhoods. What ought the Exchequer to do in such cases? Compensate the owners of the depreciating properties? To do so might be

<sup>1</sup> See F. SLEUTELAAR, *op. cit.* pp. 322-323.

<sup>2</sup> *Grundlegung*, 3rd edition, p. 394.

found to be costly; to refuse to do so would certainly be unfair.

There is a certain relationship between the idea of taxing "conjuncture" profits and that of "betterment taxes"; both proclaim the view that the very source of the increase of value sufficiently justifies a special tax on that increase. The imposition of "betterment taxes" certainly postulates that the increased value should be due to public expenditure, but, as we have already observed, that expenditure has not been incurred for the sake of the properties whose value has risen—it has been incurred for an entirely different purpose; the increase of value is in such cases an incidental result. A very important difference, therefore, exists between the taxes which we have just been discussing and those spoken of earlier; the first are largely justified on grounds which cannot be urged in defence of the second, namely, the grounds of service rendered. Land situated in a district reclaimed from the sea is rendered more valuable by the laying out of good roads. Paving, lighting, and draining operations have the same effect upon property situated in a town. But when a Land Reclamation Board (*Polder*) levies rates to cover the cost of constructing roads, or when a Municipality imposes a real tax on house property in respect of similar expenditure, the justification for these imposts does not lie in the fact that properties on which they are levied have increased in value, but in the fact that they have acquired increased value in consequence of public expenditure incurred partly for their benefit. In this way the impost assumes wholly the character of a *contribution* towards meeting expenditure incurred (although not exclusively) with the object of promoting individual interests. Taxes on "conjuncture" profits never possess this character. Neither do "betterment taxes," which should be relegated to a separate group occupying a position between "conjuncture" taxes on the one hand, and, on the other, the imposts levied by Land Reclamation Boards, together with the real taxes levied by Municipalities for services performed for the benefit of house property; while, moreover, akin to both, they must not be treated as identical with either of these two groups. There is nothing in the nature of "betterment taxes" which could

suggest the character of *fees*, and in this respect they differ from the land reclamation taxes as well as from the corresponding municipal imposts.

Before leaving this subject, we wish once more to call attention to the weak side of such communal imposts in respect of services as are not *wholly* of the nature of fees; their weakness is, that they can never be more than very roughly proportioned to the service performed. We do not state this as a reason for never having recourse to such imposts, but as a reason for keeping them within moderate limits. To see that this is done is one of the duties incumbent upon all Communes which have authority to levy taxes of this kind.

V. We should really like to regard these last remarks as the conclusion of our review of the principal kinds of taxes which are unrelated, or only remotely related, to ability; for what remains to be added has reference to a thing which constitutes a defect in every fiscal system in which it occurs, but which, for that very reason, we must not omit to mention. We mean taxes which resemble fees, for the most part in outward form only; taxes to which the words cited above from EHLERS are more or less applicable. "The State, hungering for taxes, copies the outward semblance of the fee, so as to render the proposed impost more acceptable; that which constitutes the essential element of the fee—some useful service—it puts aside."<sup>1</sup> In short, we are thinking of registration duties, where these are anything more than compensation for real services; also of many stamp duties. It might be possible to excuse the retention of such taxes, if they were moderate, on the ground that their burden was very slight. Or it might be demonstrated that their abolition would give rise to great difficulties, because nothing could be devised as a substitute. But to justify them is impossible. They subserve no principle whatever; they are nothing but fiscal legerdemain. Attempts have indeed been made to defend them. Duties on transfers of land, for instance, have been defended on the ground that profits are sometimes realised on such transfers. What a very poor defence! What would be thought of a tax on house removals? And yet who will deny that people, when

<sup>1</sup> Cf. p. 377 *ante*.

they acquire an increase of fortune or income, usually move into a new dwelling ?

There are taxes which possess very great and unavoidable drawbacks, but which we nevertheless tolerate, because they help, however imperfectly, towards the attainment of certain fiscal ideals. No such plea can be offered in defence of the taxes which we are now discussing. Instead of helping towards the attainment of any ideal, they often do the very opposite. The breadwinner of a family dies ; he leaves his survivors nothing but a very heavily mortgaged house. Conveyance duty is charged on the sum for which the house is sold, and this duty, although apparently paid by the purchaser, is really paid by the testator's family. What is the underlying principle in such a case ? Before a testator's estate can be divided, any real property which it comprises must be converted into money. Succession duty has already been paid on the estate ; why should a part of it be burdened with conveyance duty as well ? We might go on asking many other similar questions to which there is no satisfactory answer. Consider the duties charged on the renting and letting of houses and many others which have nothing essential in common with real fees, or in which the fee element is comprised only to a limited extent. Now the state of the Exchequer may be such as not to permit of the abolition of these taxes. The demands on the various branches of the public service are heavier nowadays than they have ever been before ; much money is needed for education of various kinds, for public works, social reform, national defence ; higher salaries have to be offered now than formerly in order to attract men of ability to the Government service ; Local Authorities need State grants to enable them to do all that is required of them. Owing to all these things it is far from easy nowadays to preserve equilibrium between revenue and expenditure in the sense of not allowing the latter to outrun the former. But if such reasons render it necessary to adhere to forms of taxation that are wrong, or at least not based on sound principles, let us, at any rate, not fail to recognise the unsoundness. Everything crooked cannot be made straight at once, but so long as things are crooked let us not call them straight. The taxes of which we are now speaking ought not to be highly

obnoxious. Only upon this condition can they be tolerated, otherwise the Legislature must reduce them considerably. Even then they will be unsound taxes, but their burden will not be so great that their abolition must necessarily be placed in forefront of any scheme of fiscal reform.

### § 3

#### **Taxation according to Faculty. I. Taxes on Expenditure**

We have now considered in succession various taxes, or kinds of taxes, which have to be levied according to some standard other than that of faculty, or ability to pay. But, although the sum which these taxes are capable of bringing to the National, Provincial, or Municipal Exchequer is considerable, it is far from sufficient to meet the whole of the public expenditure. What course should be pursued in order to obtain the further supplies that are necessary? The question really comes to this: What should be the standard or criterion for apportioning the burden of taxes which are not imposed for some specific purpose, as, indeed, is the case with the great majority of taxes?

Strange as it may seem, we must begin by proving that this question really needs an answer, for there are those who deny that it does. Their argument is something like this: There is not, and never can be, any criterion for apportioning the burden of taxation. It would have to be a standard, the application of which secured some sort of equality; but equality in social matters is quite unattainable—to strive for its attainment is hopeless. Regulate taxation so that it shall be least obnoxious, and having done this, do not trouble yourself with the pursuit of ideals which it is almost certain that you can never attain!

There is no better way of showing the flaw in this argument than to take a problem by which framers of fiscal legislation, both State and Municipal, are being constantly faced. The revenue has to be increased, and there is a choice of means. One way would be to increase the taxes based on

house rents; other ways would be to impose some new excise duties, or to introduce an income or property tax, or to increase the existing taxes of this kind. Whatever course is taken, it will be obnoxious. People find it disagreeable to have to pay more taxes on their dwellings or on their consumption of a particular article; they find it equally disagreeable to have to part with a larger share of their income than before. The doctrine of obnoxiousness, therefore, cannot serve as a guide in this case. What then shall be the criterion? The adoption of any standard for apportioning burdens has been ruled out. Are we, therefore, to conclude that it really does not matter which of these courses the State or Municipality selects?

Take another illustration. A Local Authority proposes to graduate its income-tax. The well-to-do members of the community object on the ground that this would be unfair to them. An inquiry will then, of course, have to be undertaken in order to discover whether they are right in their contention, and how is this to be done if there be no criterion for determining whether a fiscal law is just or unjust? Or, again, a proposal is made for an abatement in the income-tax in favour of persons with large families. How is it possible to judge of the proposal unless some standard exists whereon a judgment can be based? And so we find ourselves repeatedly confronted with practical problems, the solution of which is quite impossible unless we know what course we ought to pursue in apportioning the burden of taxation. Even when we possess this knowledge the solution remains difficult. But then we have at least something to guide us, and we are not left to grope our way in absolute darkness.<sup>1</sup> The objections

<sup>1</sup> We should like at this point to have entered into a detailed examination of the ideas set forth by Mr. J. P. SPRENGER VAN EYK on pp. 165 *et seq.* of his work on State and Communal Taxation in Holland (*De Rijks-en Gemeentebelastingen in Nederland*) published at The Hague in 1891. We had to abandon our intention, however, because, after repeated reading of his pages, we came to the conclusion that it would be too difficult to do full justice to the writer's opinion. Questions keep constantly arising for which one seeks in vain for an answer. In the writer's opinion "there exists no theory whatever which is capable of application, least of all the faculty theory. . . . It is not necessary, for all that, to proceed, without any guiding principle whatever in framing fiscal legislation." But the question then arises, What principle are we to follow? "There are various taxes in existence," he says, "which, either by design or not,

against choosing any rule for apportioning the burden of taxation do not usually diminish when it is proposed to adopt the only rule which is possible in the present case, namely, that of taxation according to faculty. Then we find a disposition to enlarge upon the difficulties of applying that rule; difficulties which we ourselves certainly did not belittle when we were discussing "equality of pressure," and which we have no intention of belittling now. Let us, however, try to form a clear conception of what the legislator who would conform to this rule is recommended to do. Nobody expects him to start with a clean slate and introduce a brand-new system. All that is required of him is that he should test the existing system by that rule, and where it is clear that it needs modification and that it can be modified without violating higher canons of taxation, that he should modify it. In such matters the onus of proof rests with the advocates of reform. But when a scheme of reform has to be considered, let those who propose it and those who have to consider it be at least agreed on the question of what is sound and what is not.

STUART MILL once said that, in any interchange of ideas on practical questions, the first aim should be to discover where perfection lies. This very true remark has sometimes been misunderstood by people who regard it as the dictum of an idealist who does not know that perfection is unattainable.

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do, in fact, represent the practical application of some theory or principle, and if that theory or principle is sound, its application can be approved." But in order to judge of the soundness of a theory or principle we must have some criterion, some theory in fact, by which we may test it. With regard to Municipal taxes we are told that they should be apportioned so far as possible according to the "advantages"; but with regard to State taxation we are left to grope in the dark. The obligation to pay taxes, we are told, must be dependent upon "facts and circumstances," and the only question is whether the legislator has "made a good choice." Undoubtedly, that is the question, but how are we to find the answer to it without a standard? Over and over again the writer invokes the "instinct of justice and fairness." But is that instinct so unerring a guide that there is no need to formulate its rules, if only in order to see how far they constitute a code which is capable of practical application? Mr. SPRENGER VAN EYK is an advocate of the general income-tax; he says that the annual sum which a person has to pay in respect of such tax should not depend entirely upon his own choice or upon a variety of fortuitous circumstances. But then one would like to know on what it ought to depend.

It certainly is unattainable, but the removal of imperfections from the laws of a country is not impossible of realisation, and the first step towards effecting their removal is to learn how to recognise them as being imperfections.

That was what MILL'S words were meant to convey, and when we commend the principle of taxation according to faculty we are only acting as he suggests. We provide the legislator with a standard to be used along with others; we tell him the point towards which he must steer his course so long as no valid reasons compel him to alter that course—reasons which he must be prepared to explain to us in each particular case. We wish to keep him from being content with whatever happens to be most readily attainable, and therefore we direct his view towards something higher which, we know only too well, can never really be attained, but the contemplation of which will stimulate him to remove or mitigate injustices.

After the foregoing explanation the reader will probably be prepared to admit that the principle of taxation according to faculty does not mean giving way to a false idealism, but that to reject this principle would be as unpractical as if the captain of a ship were to set sail without compass and charts. And we shall learn to judge still more favourably of this principle if we examine in detail what obedience to its dictates really implies. People who have given little thought to fiscal questions sometimes believe that according to the teachings of pure theory all taxes should be abolished in favour of a single tax which, of course (unless one were a supporter of the strange system advocated by HENRY GEORGE and his disciples), would have to be an income-tax. One of the first of the things that have to be learnt with reference to the subject which is now engaging our attention is that this belief is entirely groundless. The single tax undoubtedly must be condemned for practical reasons, but it is also, and indeed not less, to be condemned for theoretical reasons. It leaves no room for all those separate taxes which we discussed in the last section, and of which the majority are indispensable. Moreover, and this is particularly important here, it would not adjust itself to individual circumstances. Equality of

pressure can never be achieved by either a strictly proportionate, or a graduated income-tax, however well it may be regulated. NEUMANN, as we know, has said that in every tax based on income "there is something hard, one might almost say brutal." NEUMANN is an ardent supporter of the income-tax, but he is also conscious of its defects, and he knows that it can only be accepted as part of a system. As a means of rounding off or completing a fiscal system the income-tax is indispensable, but it can never form the basis of the system. That purpose can only be fulfilled by *taxes on expenditure*.

Such taxes when wisely chosen possess a quality which taxes on income lack, namely, that of adjusting themselves to the circumstances of individuals. "It cannot, as a rule, be attributed to chance or caprice that one man spends less than another; even between people with equal incomes, inequality of expenditure is usually quite justifiable. A merchant, for example, has a very fluctuating business and, judging by experience, he thinks it quite possible that after a succession of prosperous years he may suddenly meet with heavy losses. Is it mere caprice on his part if, in view of this contingency, he should save a large part of his income?—A doctor has had to study for many years, after which he has been obliged to live on a very modest income for many more years before his practice became lucrative; in the interval he has perhaps had to make repeated inroads in his capital. Would he have acted irrationally if, instead of treating the whole of his takings as clear income, he had set a portion of them aside each year to replenish his depleted capital?—A Government official has a good salary but no private means. Would it be strange if he should save a large part of his income every year in order that his family might be provided for after his death? We believe that the more closely we acquainted ourselves with the circumstances of individuals and families, especially among the middle classes, the less evidence should we find of the influence of caprice in determining the relation between their expenditure and their means. The craving for enjoyment is strong enough, especially in these days. When people subdue this craving, we may take it, as a rule, that they have good reasons for doing so."

These words<sup>1</sup> may be said to express the opinion of all economists. Writers of the present day, who contend that taxation should not consist wholly, or even primarily, of charges based upon income or property, are not advocating anything new; the importance of taxes on expenditure is universally admitted, so also is the rule that such taxes should constitute the principal component of every fiscal system. To a certain extent the individual's expenditure is the spontaneous expression of the degree of comfort which he permits himself to enjoy. It is not a perfect index, and for that reason taxes on expenditure alone do not suffice. It is, nevertheless, a very good index, and taxes on expenditure may therefore be said to be indispensable.

In so far as they consist of excise and import duties, such taxes possess, moreover, the advantage that, being comprised in the prices of the goods, they are paid along with those prices. Thus they reach the tax-payer at the very moment when he has money to spend; whenever he gets credit for the goods he also gets credit for the taxes. Against these advantages have to be set certain disadvantages, it is true. Tradespeople do not give credit for nothing, and the severance of direct relations between Public Exchequer and tax-payer, however convenient it may be for both, has its drawbacks. This, however, only proves that a fiscal system consisting wholly of taxes on expenditure, and more especially of taxes of the kind just referred to, would be bad; not that it would be wrong to levy such taxes along with others. The principal constituent of any fiscal system should possess a character of lenity. Within certain limits the amount which the Exchequer shall demand of the individual tax-payer may—in fact must—be left to the latter. He is the best judge as to the style in which he ought to live, having due regard to his means, his domestic circumstances, and his prospects; and by living in that style he proclaims himself the possessor of a certain ability to bear taxation. This ability the legislator adopts, to begin with, as the basis for levying taxes on expenditure. What further remains to be done will be seen later, but that is how he must begin. Such is the practice in all countries,

<sup>1</sup> Extracted from an article by Dr. N. G. PIERSON on Fiscal Reform, which appeared in *De Gids.*, Part IV., of 1881 (p. 9).

and so far it has not been found to be wrong, however much it may need to be improved before it can be regarded as a perfect application of the sound principle on which it is based.

The taxes on expenditure levied by the State in Holland are the Personal Taxes,<sup>1</sup> the Import Duties, and the Excise Duties.

For the Personal Taxes, six criteria of material welfare are applied. Of these the first three—house rent, fireplaces, and furniture—pertain to the dwelling, and the last three—servants, horses, and bicycles—to other indications of comfort. For purposes of taxation according to house rent, fireplaces, and furniture, the Communes are divided into nine classes. House rent is exempt when the annual value of the dwelling does not exceed a certain sum (£10 : 8 : 4 in the Communes of the first, and £2 : 1 : 8 in those of the ninth class); fireplaces and furniture are exempt when the annual value of the dwelling to which they belong does not exceed £16 : 13 : 2 in the first, and £3 : 6 : 7 in the ninth class of Communes. There is, moreover, a strong element of progression, for the statutory 8 per cent. is not paid on the full annual value, but on that value less a certain sum which amounts to £9 : 3 : 2 in towns of the first, and 18s. 4*d.* in those of the ninth class. The occupier of a dwelling in which there is only one fireplace is not taxed in respect thereof. Where there are two, the tax on each is 10*d.* With every additional fireplace the tax is increased, so that the occupier of a dwelling in which there are nine, pays 6s. 8*d.* in respect of each, while for every fireplace beyond that number the sum of 13s. 4*d.* has to be paid. The tax in respect of furniture is also graduated. When the value does not exceed £11 : 13s. no tax is paid; on furniture worth more than that sum, but not more than £16 : 13s., the tax is one shilling. Furniture worth £375 but not more than £417, pays £5 : 10s.; for value exceeding £417 but less than £500, the tax is £6 : 2 : 6, and increases by £1 : 5s. for every further £83. The servant tax ranges from 10s. for a single servant to £23 : 15s. for ten, with an extra £4 : 3 : 4. for each servant beyond that number.

<sup>1</sup> Remodelled by law of April 16th, 1896; supplemented (as regards bicycles) by law of July 14th, 1898; and amended in certain respects by law of June 2nd, 1900.

Similarly the tax for a single horse is £2:1:8; for three horses it is £8:15s., with an additional £4:3:4 for each horse in excess of that number. In respect of a bicycle, no tax is paid by the occupier of a dwelling of which the annual value falls below the limit for the house-rent tax; only one-fourth of the full tax is charged where the annual value of the dwelling does not exceed twice the exemption limit; only one-half is charged so long as the annual value does not exceed four times that limit; the full bicycle tax, therefore, only becomes chargeable when the owner of the machine occupies a dwelling of which the annual value exceeds four times the exemption limit for the house-rent tax. The principle of graduation is further accentuated by abatements in respect of unmarried children, grandchildren, and wards of less than 20 years of age. This abatement diminishes as the annual value of the dwelling increases; it amounts to 12, 10, 8, 6, 4, or 2 per cent. for each child, grandchild, or ward, and ceases when the annual value of the dwelling reaches £73 in towns of the first, and £14:11:7 in those of the ninth class. There is still further graduation in towns where the number of cents. added to the State taxes for local purposes is high.

Under the Local Government Amendment Act of 1897, the number of these additional cents. must not exceed 50 for persons occupying dwellings of which the annual value does not exceed twice the exemption limit for the house-rent tax; where the additions for local purposes exceed the rate of 50 cents. they must be graduated so that the full number is paid only by persons occupying dwellings whose annual value is five times the exemption limit for the house-rent tax. Thus in Amsterdam a person who occupies a dwelling of the annual value of £20:16:8 never pays more than 50 additional cents. In order to become liable for the full number of additional cents. he must occupy a dwelling of which the annual value amounts to five times £10:8:4 or £52:1:8.

We cannot, of course, give a detailed account here of all the fiscal laws of Holland. Their rough outline has been sketched for the purpose of showing by a concrete example that the faculty theory, far from being an unpractical doctrine, does actually afford useful guidance in the framing of fiscal legislation. Holland, at any rate, has followed this guidance in

that she takes into consideration the size of the family, and applies various means for ensuring graduated increase of the pressure of taxation.

With *excise and import duties* the same careful consideration for individual ability to bear taxation cannot be observed. The means which the legislator must in their case adopt, in order to comply with the faculty theory, is to choose his articles well, and to place the heaviest taxes on those which are of least use. As to the utility of any given article, opinions will differ. Sugar is considered by many to be mainly an article of luxury; others again regard it as a valuable food not only for children but for adults. Vegetarians and non-vegetarians, of course, think differently as to the utility of meat. There are those who think it a good thing to encourage the drinking of beer and wine—especially the former—as a means of combating excessive spirit drinking; this opinion is controverted by others who invoke statistics to show that the consumption of spirits does not, as a rule, decline with an increased consumption of beer.<sup>1</sup>

These differences of opinion do not, however, affect the principle, and it is generally admitted that customs and excise duties on superfluous, and especially on injurious articles are

### <sup>1</sup> CONSUMPTION PER HEAD.

	Beer.	Wine.	Spirits.		Beer.	Wine.	Spirits.
<b>UNITED KINGDOM (gallons)—</b>				<b>RUSSIA (vedros)—</b>			
1885 . . . . .	27.1	0.38	0.06	1885 . . . . .	0.27	..	0.54
1900 . . . . .	31.7	0.39	1.12	1898 . . . . .	0.33	..	0.40
<b>NORWAY (litres)—</b>				<b>SWEDEN (litres)—</b>			
1885 . . . . .	17.1	..	3.5	1885 . . . . .	20.3	..	8.4
1899 . . . . .	23.2	..	3.8	1898 . . . . .	50.0	..	8.6
<b>DENMARK (tønder, potter)—</b>				<b>GERMANY (litres)—</b>			
1892 . . . . .	0.62	..	16.1	1885 . . . . .	90	8.8	7.2
1899 . . . . .	0.76	..	15.9	1899-1900 . . . . .	125	6.6	8.8
<b>BELGIUM (litres)—</b>				<b>FRANCE (litres)—</b>			
1885 . . . . .	162	3.4	9.2	1885 . . . . .	21	97	7.72
1899 . . . . .	213	4.1	8.6	1900 . . . . .	23	94	9.20
1900 . . . . .	219	?	9.6	<b>ITALY (litres)—</b>			
<b>SWITZERLAND (litres)—</b>				1885 . . . . .			
1885 . . . . .	32	?	?	1885 . . . . .	0.8	81	2.82
1894 . . . . .	51	73	6.3*	1888 . . . . .	0.8	104	0.69
1899 . . . . .	70	67	6.1	1899 . . . . .	0.6	88	1.16
<b>AUSTRIA-HUNGARY (litres)—</b>				<b>UNITED STATES (gallons)—</b>			
1885 . . . . .	33	26	9	1884-85 . . . . .	10.62	0.39	1.26
1899 . . . . .	46	15	11	1899-1900 . . . . .	16.01	0.40	1.27

\* 1890.

preferable to any other forms of taxation on expenditure. And so in fact they are; nobody has reason to complain when he is heavily hit by such duties, for he can avoid their incidence if he likes.

Calculations are sometimes made as to the taxation levied per head of the population in the shape of customs and excise duties, their purpose being to show that the poor are too heavily taxed; we hold that such calculations are erroneous whenever they include all customs and excise duties without distinction. It is an essential characteristic of all taxes on expenditure that the faculty on which they are based is not one calculated or estimated by the Exchequer, but one which the tax-payer imputes to himself. Whoever lives beyond his means, or, without the least necessity, spends a large part of his income on things that are heavily taxed, will experience excessive pressure from the taxes. But in that case he must blame himself and not the Exchequer. It would be impossible to alter this without abandoning the entire system of expenditure-taxes, and so giving rise to difficulties, and, indeed, entailing great hardships on most people.

Moreover, where the article is one of which the use must be considered to be injurious, there exists a special reason for taxing it heavily, for then the tax operates beneficially apart from bringing money to the Exchequer. Practically all civilised states have taken this view, a fact which accounts for the high customs and excise duties imposed almost everywhere upon spirituous liquors. And, except among the classes who are interested in the production and consumption of such liquors, this view scarcely meets with any opposition. People recognise it as being at once just and desirable.

This was the opinion generally entertained in Holland too, until quite recently; a tendency towards the opposite opinion has, however, been observable of late. And, strange to say, this opposition comes from the camp of the ardent temperance reformers, many of whom condemn the excise duty on gin. Let us see whether their reasons rest upon any solid foundation.

They say, in the first place, that the tax ought to be abolished on moral grounds; secondly, that its retention prevents the State from vigorously combating the drink evil.

The tax is said to be immoral because it fills the Exchequer "at the price of the misery and tears of many unhappy wives and children. The State which levies taxes on drink demands money which is withheld from these defenceless ones."<sup>1</sup>

This argument rests on the assumption that, if the gin tax were to be abolished, the consumption of gin would remain the same as before, so that the whole of the money which now flows into the Exchequer would then be spent for the benefit of the families. If this assumption is not valid, and if the probability rather is that the consumption of gin would increase considerably after the tax had been abolished, then the argument lacks a secure basis, and there seems more reason for supposing that the State levies the duty, not at the cost of the unhappy wives and children, but at the cost of those who have an interest in the consumption or sale of gin.

It must be admitted that a person who has become a slave to strong drink does more harm to his family when liquor is dear than he does when it is cheap, if he consumes as much of it in the one case as he does in the other. But if the high price should cause such a person to reduce his consumption in proportion, then he himself would be benefited, and his family would at least be unharmed thereby. Sometimes, of course, the raising of the price fails to operate in this way; but this certainly cannot be the rule. The majority of drinkers have relatively small incomes; unless they and their families are to do without absolute necessities, they must devote a part—as a rule the greater part—of that income to household expenses. The labourer pays for his drink out of what he keeps for himself as pocket-money; the more he is addicted to drink, the larger this sum will doubtless be; but it has its limit, and that limit will also determine the limit of his liquor consumption so long as the price of liquor remains the same. If the price of liquor declines, however, the latter limit will extend, just as it will contract when liquor becomes dearer. It is the immoderate drinker with a small income—just the kind of person who was in the mind of the writer of the passage about the misery and tears of wives and children—for whom it is eminently salutary that liquor should be

<sup>1</sup> These words are cited from p. 81 of Dr. J. W. BELINFANTE'S academic thesis on *The Attitude of the State towards Alcoholism* (The Hague, 1898).

dear. Such a person will keep on drinking so long as he has any money; give him cheaper gin and he will drink much more of it. Then, instead of less, there will be more misery and tears.

In this connexion the following figures are worthy of attention.<sup>1</sup> In working-class taverns in Holland, a small glass of gin almost everywhere costs 5 cents;<sup>2</sup> there is great inequality both in the size of the glass and the alcoholic strength of the liquor sold. An inquiry undertaken in different parts of Holland in the month of January 1902, showed that the glasses varied between 32 and 52 thousandths of a litre, and the strength of the liquor between 24 and 42 per cent. alcohol, the price being in all cases the same, namely, 5 cents. Consequently there is a great difference in the number of "drams" obtainable from a litre of gin of a strength of 50 per cent., not only in different localities, but in different taverns in the same locality. At Amsterdam, for instance, among seven different taverns where the dram costs 5 cents, the number that went to the litre was found to average  $30\frac{1}{2}$ , but that average was based on the numbers 19, 23, 26, 26, 27, 33 and 36. Among a total of 48 taverns which were visited, and at which the dram cost 5 cents, the average number to the litre was 31·8. Allowing for loss from evaporation and spilling we may take it that a dram of gin of 50 per cent. alcoholic strength represents about  $\frac{1}{30}$  of a litre. The excise duty is 63 guilders per hectolitre; the price of 5 cents may therefore be taken as consisting of about 3 cents for the gin and 2 cents for the duty. Consequently, if the duty were to be abolished the price would certainly be reduced to 3 cents. In all probability it would be reduced even further. For, by far the greater part of those 3 cents consists of profit for the tavern-keeper, seeing that  $\frac{1}{30}$  of a litre of 50 per cent. gin can hardly cost him half a cent, so that the vendor earns a gross profit of  $2\frac{1}{2}$  cents. This gross profit would certainly be brought down by competition if the consumption were to increase owing to the considerable fall in price. We do not think it an exaggeration to say that after the duty had been

<sup>1</sup> They have been supplied to me by Mr. J. C. VAN MARKEN of Delft, who kindly collected them at my request.

<sup>2</sup> The equivalent of one penny, as the florin or gulden (*i.e.* 100 cents) = 1s. 8d. —A. A. W.]

abolished, the 5 cents now charged for the dram would, on the average, be reduced to  $2\frac{1}{2}$  cents. Does any one really believe that this would not greatly increase the consumption of gin?

It is contended that statistics do not support this conclusion. The law of July 7th, 1865, raised the State excise duty per hectolitre from 35 to 50 guilders, and at the same time abolished most of the local excise duties; the law of April 9th, 1869, fixed the duty at 53 guilders, and that of April 6th, 1877, at 57 guilders; nevertheless, the *per capita* consumption rose from 7·55 litres in 1866 to 9·85 litres in 1878. In 1880 it actually reached 9·87 litres. After that, it is true, there followed an almost uninterrupted decline until the year 1901, when the *per capita* consumption was just over 8 litres; but are we justified in attributing this to two successive increases of 3 guilders in the duty made by the laws of July 20th, 1884, and September 27th, 1882, respectively? Should not the reduced consumption rather be attributed to the Drink Law of June 28th, 1881?

Such are the arguments frequently used; but the causes which influence the consumption of drink are so manifold that it is impossible to trace the influence of any particular cause by means of statistics. Even the evidence of comparative statistics is not conclusive in this matter. We do, indeed, find that in Denmark, where the excise on spirits is only 6 guilders per hectolitre (besides a customs duty of 16·12 guilders), the *per capita* consumption is 15·17 litres—a remarkably high figure as compared with that of the United Kingdom which has an excise duty of 127 guilders, and a *per capita* consumption of 5 litres; but a comparison between different countries affords no evidence of any relation existing between excise duty and consumption in the sense that wherever the former is high the latter is low. And how can any one expect that it should? Here as elsewhere in the domain of economics we can only reason deductively; but here, too, we have a point of departure, a truth which experience has repeatedly confirmed, and which we can invoke, namely, that a rise in the price always moderates the demand for an article, sometimes to a great, sometimes to a less, but always to a certain extent. There is nothing more baneful for a people than cheap alcohol.

Note the excessively high figures of wine consumption in

countries where wine is cheap; in France 94, in Switzerland 67, in Portugal 91, in Spain and Italy 88 litres per head (as compared with 1·8 litres in Holland). Note also how prevalent drunkenness used to be in Norway at the time when everybody there had the unrestricted right to distil spirits from potatoes and grain produced on his own land. Spirits were very cheap there in consequence, and their consumption (now 3·3) was then estimated at 16 litres per head of the population. The first step towards improving this state of things was the law of 1840—which forbade the distillation of spirits for domestic use.<sup>1</sup> Practically all measures against the use of strong drink consist in making the article difficult to procure; and surely to make it dear is to do this. It is certainly not the only means, but as to its being an effectual means there can be no doubt.

The various other means cannot be discussed here in detail. Spirit drinking is due to different causes and must, therefore, be attacked in different ways. One factor of considerable importance in this matter undoubtedly is the imitative instinct implanted in mankind, an instinct to which must be attributed the persistence of much that is good, but also that of many bad customs, until some movement originating in high moral considerations becomes too strong for them. Amongst other important factors is the craving for some form of stimulant, a craving which is promoted by the exhaustion due to excessively long hours of labour. Defective feeding<sup>2</sup> operates in the same direction, and defective feeding must not be attributed to poverty alone, but also in some measure to the fact that the children of the working-classes are not trained from infancy to distinguish nutritious from malnutritious food, and to choose the former rather than the latter. The provision of meals for children at the school—regarded, one might almost say, as part of the education, and regulated from that point of view—may possibly improve matters in that respect. Many people also expect that good results will follow from the rigorous enforcement of the provisions as to restrict-

<sup>1</sup> Dr. J. W. BELINFANTE'S *The Attitude of the State towards Alcoholism*, p. 154.

<sup>2</sup> This and the previous cause are discussed by F. S. NITTI in his interesting article on "The Food and Labour Power of Nations" in the *Economic Journal*, 1896, pp. 57, 59.

ing the opportunities for obtaining drink contained in the law of 1881;<sup>1</sup> they wish for vigorous measures to be taken against the clandestine sale of drink, and believe in the success of such measures. To discuss these and other points connected with the important national interests involved in combating the drink evil would entail too much of a digression. The war cannot be waged too relentlessly, and it is certain that high excise duties are amongst the weapons with which it must be waged.

Some people, however, contend—and this brings us to the consideration of a second objection against excise duties on liquor—that other means of fighting the drink evil will never receive effective support from the State so long as its Exchequer benefits to the extent of millions per annum from the consumption of spirits. The State which imposes heavy taxation on spirits—so we are told—places itself in a curious position. From the point of view of the moral welfare of the people it must desire that this heavy taxation should have the effect of reducing the consumption of spirits; at the same time it cannot fail to be apprehensive of the financial results which may follow from such a reduction. Not until it has ceased to look for any pecuniary advantage from the consumption of liquor can the State join whole-heartedly in the fight against the drink evil.

Contrary, therefore, to the first principles of internal revenue taxation, the State ought to exempt alcohol and devise some other means for obtaining the revenue yielded by the spirit tax—some  $2\frac{1}{4}$  million pounds sterling per annum in Holland. A moment's reflection must convince any one that the new means would have to consist for the most part in taxing useful things; where else is the money to come from? An argument which leads to such conclusions as these must be wrong somewhere.

The State can never wage effective war against the drink evil, we are told, so long as it maintains the excise duty on

<sup>1</sup> Cf. *inter alia* the Report of the Committee of the *Volksbond*, printed in *De Economist* of 1898, pp. 437-494; also Dr. J. W. BELINFANTE'S work already cited; also the polemic by Dr. W. A. PAAP entitled, "The Dogma of the Drink Law, being a petition to the Second Chamber, with explanatory memoranda by a large number of Brewers and Distillers against the Bill of 1900 for amending the Drink Law."

spirits. We would ask whether this assertion is confirmed by experience, say in Holland. When by degrees a public opinion had been formed in that country—whether well formed or not is immaterial—that restriction of the opportunities for obtaining alcoholic beverages might be an effective means of reducing the consumption of such beverages, did the Dutch Legislature hesitate to apply that means? This objection which we are now discussing almost suggests that there are various means of combating the drink evil, as to the efficacy of which all thinking people are agreed, but which, to the great annoyance of such people, are not applied just because they would operate so effectively. Every one knows that this is not the case. There is nothing which the Dutch Legislature is more anxious to do than to combat alcoholism so far as it possibly can; and on more than one occasion it has afforded proof of its desire to do so. Like others, however, it finds itself confronted with the difficult question as to attaining the object in view.

The fear of its not being quite sincere in this desire is a chimera. Our reason for saying so is one, the force of which should appeal more particularly to those who hold that drinking habits are fatal to the moral and material welfare of the individual. This “national sin,” they say, makes a man weaker in the struggle for existence, it enervates and destroys him. But if that be so, how can the adoption of effective means for eradicating the sin be bad for the national finances? How can the national finances be benefited by a thing which produces such dire results? One of two things: either these results are presented in too lurid a light, or else the close relation which exists between the welfare and the pecuniary resources of a nation is not properly understood. Were the consumption of spirits to cease almost entirely, and the spirit duty, therefore, to produce scarcely any more revenue, then the revenue from other taxes would increase considerably. The drunkard not only pays much into the Exchequer, he also keeps much out of it. His dwelling is poor, and this keeps down his assessment for personal taxes; his labour possesses little value, and this affects his assessment for the business tax. His family have little money to spend on clothing, groceries, and other articles on which import duties are charged. They

consume scarcely any sugar or meat, and therefore pay scarcely anything in the shape of excise duties on such articles. On the other hand, such a family are probably a source of considerable expense to those on whom they are dependent for relief. The drunkard neither enjoys prosperity himself nor diffuses it, except among the owners of dram-shops. Of course not all, or even the majority of drink consumers, are intemperate to the extent which has been assumed; the daily consumption of many of them is restricted to a small quantity. But whether moderate or immoderate, each person's consumption contributes towards the enormous sum which is spent yearly on spirits; and if this sum, or a considerable part of it, were spent on other things, the Exchequer would gain thereby.

It might be objected that what the Exchequer gained in this way would not necessarily compensate for what it lost, since the demand might turn towards things which were untaxed or less heavily taxed than spirits. That is so, and it must be admitted that if the consumption of spirits were to decline very much, some changes might have to be made in the fiscal system. But surely we ought not to allow this to weigh against the good moral effects that would result from the decreased consumption of alcohol, the better national spirit of which it would be partly the revelation and partly the cause! Those who hold that the principal source of the strength of a nation—even in economic matters—resides in the moral character of its people, cannot be solicitous as to how its finances may be effected by the struggle against the drink evil. What they are mainly concerned about is that the struggle should be successful; they do not try to dissuade the legislator from engaging in the struggle, rather do they encourage him to lend it his support.

Amongst goods which are not necessities, and for that reason suitable for taxation, tobacco also must certainly be included. In most countries this article is heavily taxed. In England, in the financial year 1900-1901, the revenue from this source was £12,861,335 (besides £6,819 for licences). From the same article France obtained in 1899 a revenue of £13,455,000; Germany in the same year, £3,265,000; Austria-Hungary, in 1900, £5,892,000; Russia in the same

year, £4,348,000; the United States, in the financial year 1899-1900, £11,195,000. In the Italian Budget for the financial year 1901-1902, the revenue from tobacco was set down at £8,000,000. There is, however, much diversity in the form in which taxes on tobacco are levied. Three principal systems may be distinguished: that of import duties with or without an excise duty upon home-grown tobacco; that of the *régie* or State monopoly; and that of taxing the manufactured article and at the same time levying an import duty.

England applies the first of these systems; she now (1902) taxes imported tobacco very heavily; a hundredweight of unmanufactured leaf pays £16:16s., and a hundredweight of cigars £30:16s. There is no rebate on export, and the cultivation of tobacco is prohibited. Thus the English system is very simple, but very crude, for no regard is paid to the interests either of the tobacco trade or of agriculture. Germany, in both of these respects, acts in a more liberal spirit. In the first place her import duty is much lower (£2:3:3 per cwt. of unmanufactured leaf, and £6:17:6 per cwt. of cigars), so that the inferior sorts, although subject, as in England, to the same duty as the better sorts, are not taxed so excessively in proportion to their value as in that country; then, the cultivation of tobacco is not prohibited, but merely subjected to an excise duty (reckoned mainly according to the weight), while rebates are given on exports. These amounted on an average to £20,000 per annum in the period 1896-99.<sup>1</sup>

The *régie* system is in operation in France, Austria, Hungary, Italy, Servia, Roumania, and, since January 1st, 1898, in Japan.<sup>2</sup> In France this system was first introduced on July 1st, 1811.<sup>3</sup> The system of taxing the manufactured article had already been given a trial (Law of 22 Brumaire,

<sup>1</sup> *Statistisches Jahrbuch für das Deutsche Reich*, 1901, p. 189.

<sup>2</sup> *Finanzarchiv*, Part XVI. p. 45. 3. In Spain and Portugal the Tobacco Monopoly is farmed out.

<sup>3</sup> Cf. article "Tabacs" in the *Dictionnaire des finances*, Part II. (1894), and the very detailed article on "Tabak und Tabakbesteuerung" in the 2nd edition of the *Handwörterbuch der Staatswissenschaften*, Part VII. (1901); also the *Bulletin de statistique et de législation comparée* (Ministère des Finances, 1900), Part I. pp. 267-276. The *Bulletin* contains every year a summary of the Annual Report of the *régie*.

An VII.) at first by itself, and later in conjunction with a *droit de licence* payable by the manufacturer and a *droit de débit* payable by the retailer; this system, however, was found to lead to so much evasion, against which it became necessary to enact such stringent rules, that the Government decided to abandon it. With the introduction of the *régie* the Government secured the exclusive monopoly for the purchase, manufacture, and sale of tobacco in France. The cultivation of the plant was permitted in 22 departments only, and in places approved by the Government. The area on which tobacco is grown in France does not quite amount to 4,000 acres.

The retail prices charged are very high, but by no means uniform. As a precaution against the sale of smuggled tobacco a system of *zones* has been introduced; the zone in which the lowest prices are charged lies along the Northern and Eastern frontier. Neither Austria nor Hungary has adopted this system, but they are both content with a smaller profit per kilogram.<sup>1</sup>

The system of taxing the manufactured article is in force in the United States and Russia. It takes the form of a stamp tax: the tobacco and cigars must be packed in a prescribed manner and the packages provided with stamped *banderoles*. As already stated, this system also involves the levying of import duties on tobacco. In the United States these duties are particularly high; cigars, for instance, pay  $4\frac{1}{2}$  dollars (18s. 9d.) per pound, and 25 per cent. *ad valorem*, in addition to which there is the *banderole* tax amounting for large cigars or heavy cigarettes, to 15s. per 1000

„ small cigars	„ 4s. 2d. per 1000
„ light cigarettes	„ 6s. 3d. „
„ all other manufactured tobacco	„ 6d. per pound.

A special tax on tobacco manufacturers and merchants is now again being levied in the United States. It was abolished in 1891 and reintroduced in 1899, but now applies only to persons whose sales exceed 50,000 lbs. per annum.<sup>2</sup>

<sup>1</sup> A full descriptive account of the tobacco *régies* of Austria and Hungary is given in the *Finanzarchiv*, vol. xiv. pp. 198-284.

<sup>2</sup> The details as to the American system are given in the *Handwörterbuch der Staatswissenschaften*, 3rd edition, vol. vii. pp. 44-46.

The system of taxing the manufactured article necessitates rigid supervision and many formalities enforced by heavy penalties.<sup>1</sup> In spite of these there is much evasion. Nevertheless, it is the only system—if the *régie* be ruled out—by which large sums can be raised; for, such high import duties as are levied in England would, in a country with land frontiers, lead to extensive smuggling which it would be very difficult to suppress. There is, in fact, no other choice. Were one to be content with such a revenue as Germany now derives from tobacco—about 1s. 2*d.* per head of population—an import duty, duly supplemented by an excise duty on home-grown tobacco, would suffice, for then the duties need not be particularly high. But if a greater yield than this be desired—such a yield as that obtained in France or even in Austria—then the choice lies between a State monopoly and the system of taxing the manufactured article. This the German Government has fully realised. The Bill of November 21st, 1893,<sup>2</sup> which was framed for the purpose of greatly increasing the Imperial Revenue from tobacco (but which never became law), contemplated the introduction of the last-named system, without, however, the safeguard afforded by the *banderoles*, which the experience of the United States and Russia had shown to be indispensable.

In Holland the taxation of tobacco is very light; in rolls or leaves and unrolled stalks it pays only 7*d.* per hundred-weight, and in the form of cigars only £1 : 13 : 4 per hundred-weight—both on importation. From this source, therefore, the Dutch Exchequer obtains very little; in the period 1896-1900 the average yearly sum was £13,500. The Dutch tobacco trade, however, is in a very prosperous condition, and the manufacture of tobacco and cigars is flourishing. Just because the article is subjected to heavy taxes everywhere else, and those heavy taxes necessitate strict supervision, Holland benefits by having what practically amounts to free trade in tobacco. The advantage is one that ought not to be sacrificed. It certainly is much to be regretted that such articles as meat, salt, and sugar should still be taxed, not to say heavily taxed, while tobacco is

<sup>1</sup> Cf. W. ROSCHER, *System der Finanzwissenschaft* (Stuttgart, 1886), p. 133.

<sup>2</sup> Cf. *Finanzarchiv*, vol. xi. p. 325.

allowed to enter the country practically free of duty; considered in the abstract the converse would be preferable. But matters of this kind must not be considered in the abstract. Regard must be had to the interests which they affect, and in this case these are very important. Except in the case of cigars, which could bear an increased import duty, any increase, however slight, in the import duties on tobacco could not fail to injure large numbers of people who depend upon the manufacture and sale of tobacco for their livelihood.

A detailed defence of this position would necessitate a lengthy dissertation which would be out of place here. It is necessary, however, to point out that unconditional observance cannot be claimed even for the rule which requires that import and excise duties shall be levied primarily upon superfluities. This rule must be set aside, for instance, in cases where its observance would involve the infraction of the higher rule against imposing taxation such as would seriously impair the productivity of labour and capital. How far a given excise or customs duty would or might have this effect can only be determined by special inquiry. But it is the duty of the legislator, who maintains or proposes any excise or customs duty, to incur the trouble of such inquiry; just as it is the duty of all who object to a particular excise or customs duty to prove clearly that the harmful consequences which they attribute to it do, in fact, ensue, and that judicious measures could not be devised for wholly averting, or at any rate mitigating the worst of those consequences.

Measures of this kind have often proved very effective. Thus, by refunding on exportation, excise, and custom duties which have already been paid, or by exempting taxed goods when they are intended to be used as raw material for the manufacture of untaxed goods, or by a liberal application of the bonded warehouse system under which manufacturers have to pay duty only on that part of their product which enters into home consumption, the harmful effects on production have, in the case of many taxes, been either wholly averted, or so greatly mitigated as to cause no appreciable detriment to the national welfare.<sup>1</sup> Speaking generally, such

<sup>1</sup> Cf., for example, Art. 62 of the Dutch Import Duty Law of August 15th,

measures operate with most success when they are applied to articles which are produced mainly for the foreign market. In that case the detrimental effect of the tax can never consist in a heavy falling off of the sales of the article, for the home sales then represent only a small part of the whole, and the foreign sales are in no way disturbed by the tax. In such a case the harmful effect can only consist in an increased cost of production, due to the fact that certain restrictions are imposed upon the manufacturer which oblige him to incur special expenses; or to the fact that he himself has to bear a part of the burden of the tax. If measures of the kind indicated above have been adopted against this, then the industry will suffer no harm from the tax. There is, of course, the possibility that if there had been no tax the home demand might have increased very considerably, and so obviated the necessity for seeking foreign markets. This, however, is much more likely to happen in a large country than in a small, because in a small country the demand is always confined within narrow boundaries.

Reverting once more to what we suggested in the first section of the present chapter, as to the importance, in fiscal legislation, of having due regard for what has acquired historical sanction, we would observe that there are no forms of taxation in which the need for such regard is more imperative than in the case of customs and excise duties. As regards the effects of such duties, it makes a great difference whether they have been in existence for a long series of years, or whether they are imposed on articles which have never before been subjected to any kind of taxation. To begin taxing an industry which has been allowed to develop under a system of free trade is always a very serious matter. After the introduction of the tax, manufacturers and merchants can no longer be allowed to do certain things which they were free to do before; they find it necessary, for instance, to choose other warehouses for the storage of their goods, with the result that their old premises suffer considerable depreciation; or it becomes necessary to

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1862; also the Law of December 11th, 1893; Art. 85 of the Law of June 20th, 1862, relating to the Spirit Tax; Art. 74 of the Salt Excise Law of September 27th, 1892; and Art. 83 of the Sugar Excise Law of January 29th, 1879.

insist on certain formalities which entail costly delays. It would show a lack of proper reflection to recommend the imposition of a particular excise duty in one's own country simply because that duty happened to yield excellent results in another country. There it has, perhaps, been introduced at a time when the industry to which the taxed article belongs was still very little developed. In that case the development would have taken place during the operation of the duty, and consequently in a particular manner. The tax would, indeed, have operated like a "corset"—to use MEES' expression—but like a corset which merely determined the direction or shape in which the growing body should develop without seriously hampering the growth itself. The effect is altogether different where the body, which is forced into the corset, has already reached full development. Then there is a danger of fatal pressure being brought to bear upon vital organs.

The foregoing observations apply to all taxes which may have an important bearing upon production; we have still, however, to touch upon certain points relating only to *import duties*. There are three important questions connected with this subject which we must answer. They concern the basis, the purpose, and the constitution of these duties.

First as to the basis. Should the tax be based on the quantity of the article, or upon its value? In theory, as everybody will admit, the only true basis is the value. Even in tariffs which are wholly, or almost wholly, constructed on the basis of quantity, clear and frequent signs of the recognition of this truth are afforded by the different rates of duty levied on different qualities of the same article. But is what is best in theory also best in practice in this case? Is not a tariff based on quantities much simpler, and, therefore, *pro tanto* more practical than a tariff based on values of goods? Many believe that it is, but in order to be convinced that their belief is mistaken, we have only to notice the great numbers of entries<sup>1</sup> contained in most tariffs which are based on quantity, and the great minuteness with which

<sup>1</sup> There are 654 separate entries in the French, 576 in the Roumanian, and 476 in the Swiss tariff. The existing German tariff has 387, but there are 946 in the one which is now being drawn up.

many of the articles in such tariffs are described. The desire to avoid the objection of charging the same duty per unit for the coarser and cheaper, as for the finer and dearer qualities of an article naturally leads to much differentiation, and this renders the tariff so complicated that disputes between the declarers and the customs officials become inevitable. In Germany frequent complaints are heard on this subject, and people who are in the habit of trading with that country say that there is justification for those complaints. By choosing the system of specific duties (duties levied according to quantity), we do not prevent, we simply shift the difficulties. With however great care the specifications may have been prepared, there will always remain great inequalities in the scale of duties, and so the object which one had in view is never attained. It must be admitted that the system of *ad valorem* duties also gives rise to difficulties, but that system rests upon a sound basis, and the satisfactory results obtained from the most recent Dutch legislation on this subject<sup>1</sup> show that the difficulties are not insuperable. Specific duties are not to be regarded as wholly inadmissible, but, in a tariff which embraces a large number of articles, they must not constitute the rule.

The second question relates to the purpose of the import duties. Even amongst the opponents of protectionism there are those who advocate the use of a customs tariff for other than purely revenue purposes; they would use it, for instance, as a means of compelling foreign countries which have put heavy duties on our goods to lower their duties. They do not imagine that retaliation will in any way lessen the disadvantages which we suffer through our products being highly taxed by the foreigner. They only look upon it as a possible means for persuading the foreigner to refrain from imposing the high duties. In negotiating with him, we should, it is contended, be in a much stronger position if we had something to offer him in exchange for what we ask. Under such circumstances a country with a tariff constructed mainly for revenue purposes has nothing to give; it can therefore ask for nothing, and can only appeal to friendly sentiments which, if they exist at all,

<sup>1</sup> The law of April 20th, 1895, "enacting detailed regulations concerning the levying of import duties based upon the value of the goods."

are usually very little in evidence. Immediately the purpose of the higher tariff has been achieved, the duties fall back to their former level; no great economic harm can have been done in the meantime; on the other hand, a great advantage will have been obtained in securing a better market abroad for the products of native industry or agriculture.

Thus a high tariff is desired, not in order that it may be applied, but for the admitted purpose of abandoning it piecemeal in exchange for tariff concessions from the foreigner. But what if these concessions should not be obtained? What if the powers with whom we are negotiating either attach no great importance to our market for their products, or, being obliged to grant to others the same concessions as they grant to us, are unwilling to yield to our requests? Then the high tariff remains in operation, and the longer it does so, the more difficulty will there be in getting rid of it. For various industries will have been brought to a state of artificial prosperity under the operation of the high duties, and there will be a reluctance to take any steps which would put an end to that prosperity.

We have already discussed this question on a previous occasion; we then described it as a question of state policy. It would be difficult, however, for an advocate of free trade to support a state policy, which, if it should fail to achieve its purpose, and that quickly, would ensure a long period of ascendancy for the protectionist system. From the point of view of the protectionist, there would be nothing objectionable in this. If we fail to obtain any concessions from the foreigner, he would say, at least we keep out his products, and that in itself is something gained. Those, however, who can see no advantage, but rather harm, in keeping out foreign products, must be careful about adopting measures which, if they fail to achieve immediately the purpose for which they are intended, will certainly produce very harmful results. High import duties, we have often been told, are weapons in the war of tariffs. But what weapons! They are weapons wherewith we inflict upon ourselves wounds which grow deeper and more painful the longer the tariff war has to be waged.

Is it really true that a country with a free-trade tariff

occupies a weak position in the face of foreign powers? Has this been the usual experience of England, or of Holland? If the country with which we happen to be negotiating has a double tariff, one general and the other conventional, shall we find it difficult to secure the application of the conventional tariff if our duties are low? The exact reverse has on almost every occasion proved to be true. It is said that we stand with empty hands, that we have nothing to offer. That also is untrue, for we can offer to maintain the *status quo* and that is all the foreigner desires in such cases; for him that is quite sufficient. The system of high tariffs as weapons is incompatible with a state policy which aims at extending the principles of free trade. The state which applies that system is impelled thereby into the broad way that leads to protectionism. It is a system, the application of which involves dangers which no opponent of protectionism can fail to regard as great and serious, and he is bound to refuse absolutely to support any measures which would expose his country to those dangers.

The third question which concerns the constitution of the tariff is more difficult than either of the two others; it involves, as will presently appear, a choice between two things each of which is attended with drawbacks.

All import duties are—or ought to be—simply taxes on expenditure, and, as such, they should be calculated to help towards the realisation of the aim with which all such taxes are levied, namely, that of taxing according to faculty, in so far as expenditure may be regarded as an index to faculty. But one of the weak points in the system of expenditure taxes lies in the impossibility of devising any measure for enabling all forms of expenditure to be reached. Different people spend their incomes in different ways, and amongst the various forms of expenditure there will always be some which the legislator finds a difficulty in taxing. This difficulty is specially felt in the case of excise duties, for such duties must be confined to a small number of articles lest commerce and industry be hampered. Other considerations apart, it is desirable that there should be great diversity in the expenditure taxes; the chance is then greater that every one shall be taxed according to his or her expenditure, and the advantage is at the same time afforded that, except in the case of two or three

articles which are highly superfluous, and for that reason capable of bearing specially heavy taxation, most forms of expenditure are taxed moderately. But this aim cannot be realised by such means as the Dutch Personal Tax and the excise duties. We know why it cannot in the case of the excise duties; as regards the Personal Tax, the reason is, that no addition could well be made to the existing six bases on which that tax is assessed.

In a country, however, which imports a great variety of goods, the tariff of import duties can be so constructed as to promote differentiation of the expenditure-taxes. This is achieved by putting a moderate duty of 5 or 6 per cent. on a large number of articles. Such a tariff will impose no great burden upon commerce if there be a well-regulated system of bonded warehouses; it will cause no appreciable shrinkage of consumption, and it will bring a considerable revenue into the Exchequer even though food be admitted free—as of course it must be. What is there to prevent the realisation of this ideal? Can any objections be urged against it, and, if so, what are they?

There are, in fact, objections, some of them valid, others groundless. It has been said that once you admit a tax of 5 or 6 per cent. you have no guarantee against that tax being increased to 8 or 10 per cent. But the same argument is urged against the adoption of graduation in regard to income-tax, and the abandonment of the rule of *laissez faire* in regard to legislation. Those who use this argument are influenced by a preconceived notion as to the majority in Parliament having a leaning either towards protectionism or towards socialism. If the majority in Parliament are protectionists or socialists, then protectionist or socialistic laws will certainly be enacted whatever the nature of previous legislation may have been; and if the majority be not protectionists or socialists, then no such legislation will be enacted. It has also been said that when any part of an import duty operates protectively, that alone is a sufficient reason for rejecting it absolutely. But in that case *every tax* which comprises any wrong element should be similarly rejected, and the question then arises, how is the Exchequer to be replenished.<sup>1</sup>

<sup>1</sup> Cf. p. 479 *ante*.

These remarks will suffice to show how serious is the objection which has to be faced in applying the rule of diversity to the import tariff.

It is not possible to levy import duties on a very large number of goods and at the same time wholly escape protection. A tariff of 5 or 6 per cent. may be devised solely for the purpose of revenue; indeed it would certainly be intended for that purpose, since no protectionist would be satisfied with such low duties. Even in its effects it might be a purely revenue tariff, in so far as it did not cause any appreciable preference to be shown for home, as against foreign products. Nevertheless it would operate protectively; for an import duty, however low, always does operate protectively except when it is levied upon a native product, and at a rate only just equivalent to an excise duty to which that product is also subject. Otherwise the article rises in price, and a tax is paid not only to the Exchequer, but to the home manufacturer as well.

This objection is well founded, and sufficiently serious to warrant the rejection of any tariff which contemplated the imposition of duties amounting, on the average, to more than 5 or 6 per cent. One cannot, however, on the other hand, commend a tariff such as that in force in the United Kingdom, under which many kinds of goods which could well bear taxation are admitted free, while a few are taxed excessively. To say nothing of the high duties on tobacco; raw coffee imported into the United Kingdom now pays 14s. per cwt. and tea £2:16s. per cwt., and from these two duties alone the Treasury obtained a revenue of no less than £6,465,518 in the financial year ended March 30th, 1901. That the tariff should be practically free from protection is certainly an advantage; that it admits low-price textile goods and other things needed by the working classes duty-free is also an advantage. But is it an advantage that numberless articles of luxury imported from abroad, including silk stuffs, ball-dresses and the like, should be exempt from taxation? The question at least admits of being debated.

Nevertheless, we should prefer the English system, *if it were a question of choice*. Less harm results from a tariff being deficient in the quality of diversity, than from its

imposing duties which operate protectively, even though they do so to a small extent only. Every country, however, is not in a position to choose between the greater and the lesser disadvantage. It would not be possible for Holland to arrange her tariff according to the British model without bringing great disturbance upon her commerce; and in saying this we are thinking not only of the article tobacco, but also of coffee, which is now free, and of tea, on which Holland now levies a duty of 21s. 2d. per cwt., and on which, in the opinion of all experts, it would be impossible to increase the duty. If we wanted to exclude from the tariff every item which entailed any degree of protection, we should in vain look to the tariff itself for means to recoup the Exchequer for the whole or any large part of the consequent loss of revenue. We should have to have recourse to other taxes, and which of these could be increased without giving rise to serious complaints? This being so, we must put up with the existing state of things without losing sight of the disadvantages which it entails, but with a determination to tolerate them only so long as they remain moderate. This is how we act with regard to other taxes; one method is applicable to all. And what we hold that method to be has been explained in the first section of Chapter III. of this part of the treatise.

By way of concluding this section, we revert once more to the subject of communal finance, in which taxes on expenditure occupy an important place. We find them there in every variety of shape. England is the only country where all local taxes assume the one form, known by the name of "rates." These consist of so many shillings and pence on each pound sterling of the annual value of real property situated in the locality, and are payable by the occupiers. England's system of local taxation resembles her system of tobacco taxation in its simplicity and crudeness. In all other countries, however, local taxation assumes greater diversity of form,—additional percentages of the State taxes on expenditure, taxes on public amusements, local excise duties, and so forth. Belgium in 1860, and Holland in 1865, abolished local excise duties (although they are still permitted

temporarily in some of the Dutch communes). The Prussian law of the July 14th, 1893, does not prohibit them, but specifies certain articles (meat, cereals, flour, bread, potatoes, fuel), on which no taxes may be imposed in localities where the said articles have hitherto been free, and on which existing taxes may not be raised above the level prevailing for the same articles in other communes. The Prussian communes derive  $7\frac{1}{2}$  to  $14\frac{1}{2}$  per cent. of their revenues from taxes on consumption; the lower of these figures is the average for communes of less than 2,000 inhabitants, while the higher figure is that for communes of over 40,000 inhabitants.<sup>1</sup> In France, in 1899 the *Octroi* duties yielded a sum of £13,600,000, of which £6,440,000 came from Paris. Of the total of £13,600,000, drinks of various kinds (*boissons et liquides*) yielded £5,680,000; foods £3,720,000, fuel £1,680,000, and raw materials £1,480,000. The cost of collection for the country as a whole amounted to 8.98 per cent., and for Paris 6.91 per cent.<sup>2</sup>

After all that has been said above concerning taxes on necessary articles of food, it will not be necessary to explain why local excise duties on such articles are to be deprecated.<sup>3</sup> Local excise duties on articles other than necessaries are not open to criticism as such, but they are not free from objection inasmuch as they disturb internal trade and create an inducement for smuggling. It is better to leave the usual excise duties entirely to the State, which is in a position to levy them on a uniform basis; should the communal revenues prove insufficient, the remedy lies in the system of State grants for local purposes. The Dutch Act of 1865, under which (apart from the temporary exceptions already named) all local excise duties were abolished as from July 1st, 1866, was a step in the right direction; to go back upon it would be reactionary, seeing that under the system of freedom conditions have been created which would be incompatible with the old system, and, for that reason alone, would provoke great dissatisfaction.

<sup>1</sup> *The Economic Journal*, 1901, p. 359.

<sup>2</sup> *Bulletin de statistique et de législation comparée*, 1901, Part I. p. 632.

<sup>3</sup> Cf. pp. 418-424 *ante* as to the effects of such taxes.

But what should be our verdict with regard to the gains that accrue from monopoly undertakings, gains that are becoming a factor of ever-increasing importance in the resources of local authorities, more especially in those of the larger towns? When we were discussing fees, and examining the question whether that term ought to be applied to payments exacted by local authorities from joint-stock societies to whom they have entrusted public utilities, we arrived at the conclusion that such payments operate in the same way as excise duties. Our conclusion was based upon the assumption that the societies are permitted to charge certain maximum prices, and that these prices would be lower if no payment had to be made to the local authority by the societies in question. It is becoming more and more the custom, however, for communes to undertake monopoly services themselves and to derive certain gains from the same. The mere fact that these gains are not payments exacted from joint-stock societies, but profits made by the Local Authority itself, does not, of course, alter their character. A change in their character might, however, result if the services or utilities from which they are derived were administered in a certain way — if they were administered with what Professor SELIGMAN calls a “predominant public purpose.” Where, for a given service, the prices have not been fixed higher than is necessary in order to obviate wasteful use, and therefore low enough to enable the service wholly to fulfil its purpose; and where that service even then continues to yield a profit, such profit contains no more of the element of taxation than does the net revenue which a State derives from its postal system when that system is conducted on sound principles. Similarly the payments which a Public Authority exacts from a society to which it has entrusted a public utility service, are free from any element of taxation whenever the society has accepted conditions as to working and prices which afford a guarantee as to the service being conducted with due regard for the public interest. The element of taxation can only be present where these conditions are unfulfilled, as for instance, where the Local Authority, taking advantage of its monopoly, administers the service (or allows it to be administered) and fixes the

prices (or allows them to be fixed) in a manner specially designed for revenue purposes.

A revenue purpose is not in all cases a wrong purpose, however. Local excise duties were abolished in Holland, not because every form of communal excise duty was deemed to be wrong, but because the existing duties, and the manner of their collection were open to grave objections. The considerations which led to the abolition of local excise duties implied no condemnation of local taxes on gas, or electricity, or on the use of telephones, tramways, etc., so long as these taxes could be levied on such a scale as would not hinder production, impede communication, or press too heavily upon the poorer part of the townspeople. One must hesitate with regard to water; it is possible, however, so to construct the scale of charges for the supply, that the poorer classes may pay the cost price, and only the well-to-do classes be required to pay more, which may reasonably be expected of them, seeing that the water-supply procures them a special degree of comfort.

In the foregoing are comprised the conditions which must be fulfilled if it is desired that the new excise duties should be borne without complaint. It will be necessary to see that these conditions be fulfilled whenever the field of municipal activities is enlarged by the creation of further monopolies. The only objection to the principle is, that it may clash with the rule against the combination of the fee with the tax; it must be admitted, however, that this rule applies rather to other cases than to those which we are now considering; moreover, we are here concerned not only with fees, but also with payments for things supplied. The communes have just as much need of taxes on expenditure as the State, and like the State, many of the communes find that direct taxes on expenditure are insufficient for their purpose; this is proved by the necessity for the existing system of State contributions towards local expenditure. Under these circumstances it is not possible to condemn excise duties of this kind. Always provided that the communes understand that where the public utilities from which they are deriving revenues are not worked on principles which place the interests of the local public before those of

the local Exchequer, those revenues should be treated as excise duties, and therefore obtained in such a way as to avoid the serious errors which were committed in the levying of the old local excise duties. The principle may be accepted, but its application requires very great care.

## § 4

### **Taxes according to Faculty. II. Income and Property Taxes**

It is not possible to study with care the effects of any—even the best—of the taxes which we are now about to discuss, without becoming firmly convinced that the only capacity in which they are capable of rendering useful service is that of an expedient for supplementing or completing a fiscal system. Nor is it possible to study the effects of expenditure-taxes without realising that the highest attainable degree of equality of pressure can never be achieved by means of such taxes alone. The mere circumstance that, in the case of expenditure-taxes, and more especially of excise duties, regard for the interests of commerce and industry frequently requires us to abandon a course which, in itself, would be desirable, renders it necessary to have recourse to other imposts. And many forms of expenditure, including some which might, in a special degree, be serviceable as indices to faculty, lie beyond the reach of any Exchequer, or beyond the reach of the particular Exchequer within whose jurisdiction the taxpayer resides. But even if this were not so, even if it were possible to tax every one in proportion to what he spends beyond the subsistence minimum—even then the ideal of taxation according to faculty would not have been achieved. For taxes on expenditure do not, and cannot take any account of savings, which are evidence of great ability to bear taxation, especially in the case of a person who lives in good style. Nor do taxes on expenditure take any account of the sources of income. The expenditure may be met out of income derived from labour, or out of income derived from property: in either case it serves as the basis of taxation.

We shall have to deal with both these points at some

length, but before doing so we must say a few words in refutation of a proposition stated by JOHN STUART MILL, which, if it were true, would greatly affect the whole course of our further observations. MILL demonstrates neither more nor less than that, where a general income-tax is levied, yearly savings ought to be exempt, in order that certain parts of the income may not be taxed twice over. What this implies is obvious. If the law exempts what is saved, then it only taxes what is spent. Now what we wished to prove was that if equality of pressure be the object, it cannot be achieved by only taxing what is spent.

MILL's argument may be summarised as follows:—

An income-tax is levied at the rate of 3 per cent. per annum. The man who puts by £100 a year must then pay income-tax on that £100 as well as on the rest of his income. But the Exchequer has not done with him yet. This same £100 at once becomes subject to a new tax, *i.e.* a tax on the interest which it yields. Everybody knows that to be obliged to pay a tax of 3 per cent. per annum on the interest of his capital amounts to the same thing as being obliged to pay in one sum 3 per cent. on the capital itself. The £100 has been taxed twice, once while it was still income, and again after it had become capital.

Here MILL was mistaken, however. One may regard an income-tax as being either of two things—a direct tax on one's income, or an indirect tax on the source of that income. There are arguments in favour of either point of view, but the two must not be confused. Now what does MILL do? First, he regards the income-tax as a direct tax on the income: You are in receipt of £100, which you put by, and on it you pay a tax of £3. That £100, therefore—the sum itself and not the capital which produced it—has borne the tax. But then he proceeds to regard the tax from the other point of view. The £100 has been converted into capital, producing a yearly interest on which you have to pay a tax of 3 per cent.; this annual tax on your interest, he says, is essentially a tax on your capital. Quite true; but in that case the tax which was levied on the £100 when that sum formed part of your income ought also to be regarded as having been essentially a tax, not on that income, but on the property

from which the income was derived. Here, therefore, there is no question of any part of the income being taxed twice over.

In order to make our meaning clear, we will repeat the demonstration in another form. You possess £20,000, on which you receive interest at the rate of 5 per cent., or £1,000; of this £1,000 you put by yearly £100, so that next year you draw £1,005. If a 3 per cent. income-tax were then to be imposed, you might describe it in either of two ways. You might say that your income was being subjected to a yearly tax of 3 per cent. In that case you could not complain that you were doubly taxed; for so long as your income remained at £1,000, your tax would remain at £30; only when your income had risen to £1,005 would you be required to pay an additional three shillings. Or, you might say that your property was being subjected to a tax of 3 per cent., payable *once for all*. Here again any complaint on your part as to double taxation would be groundless, for you would be taxed only once on the £20,000 of old property, and once on the £100 of new property. We produce an impression of double taxation only if we use the two forms of speech alternately, and this we are not entitled to do. The man who owns a boat and net which he uses for fishing is entitled to say of the income-tax which he is obliged to pay that it represents a yearly tax on his fishing; or he may describe it as a tax payable once for all on his boat and net. He must not, however, describe it as being both of these things, for to do so produces confusion and so leads to false conclusions.

After this digression, which was necessary in order to strengthen the basis of our whole demonstration, we now resume the thread of our argument. Two defects were mentioned above as being imputable to taxes on expenditure; one was that they do not, and cannot take any account of savings. We have now to note that they fail to do this in a double sense. The pressure of such taxes becomes no greater when wealth increases while the standard of living remains the same. On the other hand, their pressure does increase whenever—as frequently happens—a person's expenditure is increased at the cost of his savings, although

the ability of such person to bear taxation has in that case become no greater. And the latter is not less a defect than the former. What we save is quite as much an index to our ability to bear taxation as what we spend; where our expenditure is increased and our savings are at the same time reduced by a corresponding amount, no adequate reason exists for requiring us to pay more taxation than before; and yet we are required to do so. Ought we, therefore, to abolish taxes on expenditure? To do so would mean having recourse to a remedy which was worse than the evil, for we should then be sacrificing certain advantages which are yielded by these taxes. It is undeniably an advantage that those who find it necessary to keep their expenditure within narrower limits than their income by itself might prescribe, are less heavily burdened than they would be if the whole of their taxation were based on income. The matter has two sides, and neither of these must be lost sight of. Against the advantage just referred to there is to be set the disadvantage that, through the operation of expenditure-taxes, a person who, for considerations of health or for other reasons, has to adopt a higher standard of living, involving, for example, the renting of a larger or a better-situated house, has at once to bear a heavier burden of taxation. The conclusion to be drawn from this, however, is, not that taxes based upon expenditure ought to be abolished, but that they ought to be restricted and at the same time supplemented by other taxes. It is not possible to dispense with taxes based upon expenditure; but neither is it possible to dispense with taxes based upon income. Only by means of the latter can the Exchequer reach that high faculty which manifests itself in large savings combined with a high standard of living. And by adopting income taxes as part of the fiscal system we are able to mitigate the defect to which attention has just been directed.

Another defect stated above as being inherent in taxes on expenditure is that they do not, and cannot take any account of sources of income. And yet that too is very necessary. The man whose income is derived from property is financially stronger than the man who has to live entirely, or for the most part, on his labour. The former is in a great many cases able to increase his means; and even if he should

not be in a position to do this, he is always more favourably situated than the man who owns no property, since he has less need to save in order to make provision for his family. In many incomes derived from labour, more especially in those earned in commerce, there is an element of uncertainty which, while not altogether absent, is nevertheless much less menacing in the case of incomes derived from property, assuming that ordinary judgment has been exercised in the matter of investment. It may be stated as a general rule that, in the case of equal incomes, taxation should be heavier in proportion to the extent to which revenue from property enters into their composition.

There may be some who would urge that compliance with this rule is automatically secured by obeying the principles which have here been set forth. Two persons, A and B, have equal incomes; that of A is derived from labour, that of B from property. Obviously these two persons cannot be said to possess equal faculty in taxation. If, however, taxes on expenditure constitute the chief component of the fiscal system, and A exercises ordinary prudence, he will take care to spend less, and will therefore pay less in taxation than B. Why, therefore, insist on the need for discrimination according to sources of income?

It must be admitted that this objection has a certain force where the comparison is between two very large incomes, the one derived from property, and the other from labour. If two persons, A and B, have each an income of £4,000 a year or more, that of A being derived wholly from labour, and that of B wholly from property, A will have only himself to blame if he has to pay as much as B in respect of personal taxes, import and excise duties; he can prevent this by adopting a more modest style of living. But a fiscal system cannot be constructed to suit exceptional circumstances, it must be adapted to conditions which represent the general rule, and large incomes derived from labour are exceptional. The number of persons assessed in Holland under scale A of the Business Tax<sup>1</sup> in the financial year 1899-1900 was 237,338 distributed as follows:—

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<sup>1</sup> That is, the scale for those who do not come under the Property Tax.

Income.	Persons assessed.
Less than £125 . . . . .	195,997
£125 and less than £217 . . . . .	30,945
£217 " " " £333 . . . . .	7,168
£333 " " " £667 . . . . .	2,927
£667 " " " £1,250 . . . . .	265
£1250 and upwards . . . . .	36

From these figures, although they relate only to Holland, it is sufficiently clear that, for the purpose of determining the question with which we are now occupied, it does not suffice to examine the manner in which expenditure-taxes operate in the case of very large incomes only, but that we must also, in fact primarily, study their operation as regards the smaller incomes. And can it now with truth be said that, if there are two persons, each having a modest income, derived in the one case wholly from labour, and in the other case wholly from property, the one who works for his income will have only himself to thank if he does not pay proportionately much less than the other in the form of taxes on expenditure (in personal taxes for example)? We all know that the difficulty of saving becomes ever greater according as the means out of which it has to be effected become smaller. If the relative taxation of the two kinds of incomes were determined wholly by difference in the style of living, then income derived from labour would, as a rule, be too heavily taxed. This cause operating alone is in the great majority of cases too weak to bring about a desirable ratio. And this is another reason why it is necessary to supplement the taxes on expenditure (which need not then be so high) by a tax on income under which that derived from property is subject to a heavier tax.

The foregoing observations were made wholly with reference to national taxation, but do they not also apply to local taxation? The need of some corrective for the one-sided operation of expenditure-taxes is also recognised by communal authorities, and in their case it takes the form of personal assessments based more or less upon income. Ought not, therefore, the communes, like the State, to adopt measures for perfecting the corrective as stated above?

The question was recently debated in the Dutch States

General in connexion with the latest amendment of the Local Government Act. The following amendment was then proposed and was accepted, notwithstanding the opposition of the Government. "In estimating income, such parts thereof as are derived from a property of £1,683 or more shall, subject to what is provided hereafter, be taken into account at their actual net amount, and as regards the other parts of the income, the proportion allowed to be deducted shall not exceed 25 per cent."<sup>1</sup> The terms of the amendment were anything but felicitous. A difference of a few shillings below the limit of £1,683 was allowed to exercise far too great an influence on taxation. But the defect which was thus introduced into the law might easily be repaired. The question which we have to consider is, whether the intention that inspired such an amendment is to be commended.

We might discuss this question from a variety of aspects, some theoretical, others practical. But would it be worth while? If a Local Authority were contemplating the adoption of differential taxation of incomes according to whether these were derived from labour or from property, the process of preparing the scheme would quickly reveal the fact that those in whose favour the discrimination was to be made would benefit very little by it. For, the percentage-rate of the tax would then have to be fixed at a higher figure than would otherwise have been necessary in order to yield the sum required by the Communal Exchequer; the rate would, in fact, have to be much higher, if income from labour happened to constitute a very large proportion of all income. Further it would be found that, in order to provide against too high a percentage-rate, both the abatement allowed for subsistence and the scale of progression would have to be reduced, otherwise there would be a shrinkage of the total amount of taxable incomes, and, too large a proportion of these, being assessed at only 75 per cent. of their actual figure, would drop to a lower class. Regard being had to all these things, it would, in the great majority of cases, be concluded that the proposal had better be abandoned.

Suppose, for example, the sum total of the taxable incomes to be represented by 100, of which 75 are derived from

<sup>1</sup> Law of September 21st, 1900, Art. 2, II.

labour and 25 from property, and that it is required to raise a sum equal to 4 per cent. of that total; the average rate of the tax would then be 4 per cent. But if incomes from labour be assessed at three-fourths of their full amount it will be necessary to fix the percentage-rate of the tax at 4·92 in order to raise the requisite sum. Assuming the taxable part of an income from labour to be £60, the tax payable on that income, instead of being £2:8s. would be 4·92 per cent. of  $\frac{3}{4}$  of £60, or £2:4s. 3*d.*, and this slight advantage would be neutralised by what we stated above to be inevitable, namely, the lowering both of the abatement for subsistence and of the scale of progression. Were any one to object that the proportion above assumed as existing between incomes from labour and incomes from property may differ widely from the real proportion, we should agree. Our assumption was based upon the figures for Amsterdam, where, in the financial year 1900-1901, the incomes subject to local income-tax amounted to £9,392,000, while, reckoned at 4 per cent., the sum on which the *millièmes* of the property tax were computed in that year only represented income amounting to about £2,333,000. Elsewhere more favourable proportions are found to exist. At Utrecht, for instance, the income from property—computed in the same way as at Amsterdam—amounted, in the financial year 1900-1901, to £654,000, while the total taxable income in 1900 was £1,160,000. The towns of Groningen, Haarlem, and Arnhem showed somewhat similar proportions in the same years. At Rotterdam the first sum amounted to £3,359,000, the second to £1,275,000. It may be doubted, however, whether, in towns inhabited by large numbers of persons of independent means, the authorities will not have too much regard for the interests entrusted to their care to approve of any proposal for applying the new law.

But the fact that, in local finance, the higher taxation of incomes derived from property would, in most cases, prove ineffective, and in any case difficult, is precisely the reason why, in State finance, the discrimination ought never to be neglected and never be very slight. For then the aggregate pressure of income-taxes—adding together those levied by the State and those levied by the Local Authorities—will fall more heavily upon incomes derived from property. If, for example,

as is the case in Holland, on a property worth £10,000 and representing an income of £400, the State tax amounts to £11:5s., while on an income of the same amount derived from labour it amounts to £6:8s. only; if, then, there be added a communal tax of £15, the total amount of income-tax payable will be £26:5s. in the one case, and £21:8s. in the other, so that the income derived from labour will pay only 81 per cent. as much as that derived from property.

The principle of progression, on the other hand, is as necessary in local as it is in State taxation. Why, indeed, should it not be? Taxes based on income should be progressive in the same sense in which it has been explained<sup>1</sup> that the whole system of taxation should be progressive, otherwise the means adopted for securing progression in the taxes on expenditure will be weakened in their operation. Thus the subsistence-minimum must be left exempt, and the "free" income taxed in such a way as to ensure the maximum being reached only by a highly graduated scale of progression. Should the point at which the maximum is reached be relatively very high? Should the progression be strong or the reverse? And, of the various kinds of progression, which will be the most suitable in this case? With the last point we shall be dealing presently; but the degree of progression necessary in the case of income-taxes will be determined by the extent to which due regard for that principle may have been neglected in the other taxes. The greater the relative pressure to which people of small means are subjected by the expenditure taxes, the greater will be the need for progression in the income-tax. The latter will then have to fulfil not only the function already mentioned, but also the additional function of a corrective for this. No general rule, therefore, can be laid down with respect to progression in the matter of income-tax. It does not depend entirely upon the degree of progression deemed reasonable for the system of taxation as a whole. Other considerations are involved, and we have endeavoured to show what these are.

But now we come to a very important point: it indicates an unsound state of things when considerations such as those

<sup>1</sup> Cf. pp. 475, 476 *ante*.

referred to must lead to very strong progression being advocated. The fact that a powerful corrective is needed shows that the fiscal system is badly constructed; it will then be better to devise measures for removing this need. Except for the purpose of defraying temporary expenditure, a high income-tax is always to be deprecated, and especially if it be accompanied by strong progression. There are good reasons why this kind of taxation should occupy a relatively subordinate place in any fiscal system; or rather, why the fiscal system should be so constructed as to make it possible for the income-tax to occupy a subordinate place, while due regard is at the same time paid to the principle of equality of pressure. In order to explain what these reasons are, we must examine the income-tax from its practical side, and that is not its most attractive side.

The greatest difficulty connected with the levying of income-tax is that of ascertaining the amount of the incomes. Should every one be required to declare his or her income? But in order to make an accurate declaration the tax-payer must not only understand how to keep accounts, he must also be in the habit of keeping them; and in order to make an honest declaration he must be able to resist any temptation to act fraudulently, he must feel himself superior to such temptation. Now what is the experience of revenue authorities with regard to these matters?

As regards the accuracy of declarations their experience is that the habit of keeping accounts is far from general, and that those who have the habit do not always find it easy to declare their income accurately. This is more particularly true of persons engaged in agriculture and stock-raising, because in their case household and business expenses are usually so mixed up as to make it difficult to separate the one from the other. It would appear, moreover, that people are not always honest in declaring their incomes, and that neither publicity nor penalties are of much avail against such practices. There are many people who, knowing at how much another person had declared his income, and knowing or believing it to have been understated, would not deem it their business to inform the revenue authorities of their knowledge or belief, but would think it a reason for under-

stating their own income.<sup>1</sup> And penalties are of little use, because the difficulty of proving a declaration to be intentionally false, or even merely inaccurate, is greatest in the very cases in which there would be most need for penalties. It is true that, in countries where income-taxes are levied, penalties are usually imposed for false declarations. In England a person who even helps or incites another to commit such an offence is punishable by fine; a person who rents land or houses and falsely declares the rent which he pays, or where there is a written agreement, refuses to produce the same, is also liable to a penalty; while anybody who makes a fraudulent return with the object of obtaining complete or partial exemption from the tax, is also subject to a heavy fine. Under the Prussian Income Tax Law of June 24th, 1891, penalties are imposed for "knowingly" supplying wrong or incomplete information. The Dutch law does not make this a punishable offence, but it empowers the Board of Appeal ("*Raad van Beroep*") to require a return ("*Verklaring*") from all such persons as apply to it for a revision of their assessments. Where such a return is found to be false, the penalty is imprisonment not exceeding six years. It must not be imagined, however, that very much is achieved by these provisions.

The British Legislature has tried to prevent evasion by yet another means, which it will be useful to examine; it has endeavoured, so far as possible, to tax incomes at their source.<sup>2</sup> They are all classified in five "schedules." Schedule A includes (besides tithes, etc.) incomes derived from property in lands, tenements, etc.; Schedule B those derived from the occupation of such lands, etc. But instead of each occupier paying the amount of tax for which he himself is liable, he also pays for his landlord and deducts the amount from the rent. In doing this he deducts more than is actually due by

<sup>1</sup> See what such an expert as G. SCHANZ has to say about this in his work entitled *Die Steuern der Schweiz* (Stuttgart, 1890), vol. ii. p. 120.

<sup>2</sup> The best work concerning the *English Income Tax* is the monograph by Dr. Jos. A. HILL, which appeared under that title as Volume IV. (Nos. 4 and 5) of the *Studies of the American Economic Association* in October 1899. The work was very favourably reviewed in the *Economic Journal* of 1900 (pp. 387-389), by G. H. BLUNDEN, who, at the same time, called attention to a few small errors contained in it. Fuller details will be found in STEPHEN DOWELL's last work entitled *The Acts relating to the Income Tax*.

the landlord when the property happens to be burdened with interest on a mortgage or other charges; but then the landlord does to others what has been done to him, for he, in his turn, deducts the tax. A method has also been devised for freeing the occupiers from the obligation of computing their income. The owner pays on the gross rental value, reduced, in the case of land with or without buildings, by  $\frac{1}{8}$ , and in the case of buildings alone, by  $\frac{1}{6}$ . The occupier now pays on one-third<sup>1</sup> of the taxable rental value, with the option, however, of paying on the sum which he has actually earned as profits on his business. The latter alternative is seldom chosen, however, the former being apparently more advantageous to the farmers.

Schedule C comprises incomes from home and foreign Government stocks, and the tax is deducted by those who cash the coupons. Should they deduct the tax from interest which is not liable to income-tax—*e.g.* from interest payable to foreign holders of British Government Stock residing outside the United Kingdom—the amount is afterwards refunded. Formerly the law with regard to this matter was less exacting, but it led to abuses, and was therefore amended in 1885.

Schedule D comprises a very important group of incomes, namely, those derived from professions, trades, employments, etc., exclusive of agriculture and of appointments of which the salaries are paid by the Exchequer or by public bodies; this group also comprises all dividends and other incomes which could not properly be included in any of the other schedules. Here the system of taxing at the source could only be partially applied, but it was applied so far as possible. Public companies are required to furnish returns of their total dividends, assignments to reserve, bonuses, and undistributed profits. The taxes due in respect of these are paid by the companies.

Schedule E comprises salaries and pensions payable by the Crown, the State, the Municipalities or other public bodies. In so far as they are disbursed by an official in the service of

<sup>1</sup> Formerly this proportion was different in England and Wales from what it was in Scotland and Ireland; but for some years it has been the same for all parts of the United Kingdom. See the Finance Acts of 1894, 1895, and 1896.

the Crown or the State, such official deducts the amount due in respect of income-tax.

This system is ingeniously constructed; it must be admitted that a very large part of the income-tax (five-sixths, according to Dr. HILL) is collected in a way that makes evasion practically impossible. But just in the most difficult cases—banking and commercial profits, brokers' commissions, profits from manufactures and shipping—the system of collecting at the source has to be abandoned.

In the case of profits from agriculture the difficulty is disposed of in a convenient manner; but what relation is there between these profits and the rents paid? What the farmer earns is the margin between his year's expenses and the amount which he realises on his produce in the year. This margin may be large or small independently of whether rents are high or low.

The British system gives many people a great deal of trouble. It has already been mentioned that total and partial exemption are granted under that system. At first the law did not go very far in this respect. In 1842, when the income-tax was reintroduced—it had already been in operation during the Napoleonic wars—only incomes of £150 or less were exempt; all incomes in excess of that sum were taxed in full. GLADSTONE reduced the limit of exemption to £100, but introduced a class of incomes from £101 to £150—of which only five-sevenths were subject to the tax. In 1894 the law provided for two classes of partially taxed incomes, the higher with a limit of £500;<sup>1</sup> since 1898 the law has been as follows: up to £160 is exempt; on incomes of £161 to £400 there is an abatement of £160; on those of £401 to £500 an abatement of £150; on those of £501 to £600 an abatement of £120; on those of £601 to £700 an abatement of £70. Only incomes exceeding £700 pay on the full amount.<sup>2</sup>

It may be regarded as certain that, in very many cases, the only possible way of obtaining the benefit of the abatements

<sup>1</sup> This was the law described at p. 501 *ante*. We forgot there to mention the later law of 1898.

<sup>2</sup> It is very remarkable that, in spite of the repeated extensions of the exemption limit, the net yield of the income-tax per penny in the pound

is by applying for a refund. This, certainly, is the only possible way in the case of those in receipt of income from which the tax is deducted by some other person—*e.g.* those whose income consists of dividends, interest on mortgages, coupons of foreign securities. And, as a matter of fact, over 300,000 applications for refund are dealt with annually; in 1896-97 the aggregate sum refunded was £891,741.<sup>1</sup> Many people who are exempt under the law, and who, under a differently framed enactment, if required to make any declaration at all, would simply have to make one in the negative, are now brought within the scope of the law, and are obliged to furnish particulars as to the whole of their income. It used to be said of the English system that it entailed this obligation in relatively few cases only. The number of these cases has, however, increased with each extension of the principle of partial exemption.

The reader will now understand why the British system has not been closely followed by any other country; in no other country have the advantages offered by that system been held to be sufficiently great to warrant its introduction. It certainly does prevent certain evasions, but not those which are most to be feared. Just in respect of the incomes which are the most difficult to ascertain, the system of taxing at the source cannot be applied.

There is yet another system; it has occasionally been

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sterling has been increasing in recent years. The net yield per penny of the tax has been as follows:—

Year (ending 31st March).	Rate of Tax.	Net Yield per Penny of Tax (Millions of Pounds).	Year (ending 31st March).	Rate of Tax.	Net Yield per Penny of Tax (Millions of Pounds).
1877	3d.	£1·9	1890	6d.	£2·1
1878	3d.	1·9	1891	6d.	2·2
1879	5d.	1·8	1892	6d.	2·2
1880	5d.	1·8	1893	6d.	2·2
1881	6d.	1·8	1894	7d.	2·1
1882	5d.	1·9	1895	8d.	1·9
1883	6½d.	1·9	1896	8d.	2·0
1884	5d.	2·0	1897	8d.	2·0
1885	6d.	2·0	1898	8d.	2·1
1886	8d.	1·9	1899	8d.	2·2
1887	8d.	1·9	1900	8d.	2·3
1888	7d.	1·9	1901	12d.	2·4
1889	6d.	2·0			

<sup>1</sup> HILL, *op. cit.* p. 34.

adopted even where there was a choice between it and another alternative—a fact which is all the more astonishing in view of what experience has taught in the matter. Under this system the taxpayer is not obliged, nor has he any strong inducement, to make a declaration himself; the taxing authorities being charged with the difficult task of determining each person's income to the best of their knowledge. This system seems as if it must have originated in a sort of despair; not knowing how to induce the tax-payer to make an honest return, the authorities prefer that he should make no declaration at all as to his income. Now it must be admitted that, in a certain number of cases, this is the best course to adopt. In the Dutch law of October 2nd, 1893, we find it adopted in respect to persons who do not fall under the property tax, and whose incomes, not consisting of a fixed stipend or other easily returnable sum, fell short of £167 in the previous year. To require returns of income to be made by people, of whom one has every reason to believe that they are incapable of making an accurate return, is certainly not advisable. But is this a reason for not requiring anybody to make a return of income? Certainly not; for that would be neglecting to make use of means which are capable of rendering excellent services.

How important those services may be was revealed to the Prussian Exchequer a few years ago. That country had repeatedly altered its income-tax system, but never in the sense of requiring the tax-payers to furnish returns of income. In the year 1891, however, this obligation was introduced. The law now not only requires every person with an income exceeding £150 to make a return of the same (§ 24), but also provides that anybody failing to make the prescribed return, shall forfeit his right to appeal against his assessment for the current year, unless he can satisfy the authorities that there were extenuating circumstances (§ 30). The results of imposing this obligation were highly satisfactory. In its last year the old tax had yielded £3,950,000; in its very first year the new tax yielded £6,200,000. Other changes in the law contributed towards this result, but the one just referred to was the principal cause of the increase. Its effect created the greatest surprise. In many places the amount of taxable income increased by 70 to 80 per cent.; in a few, the increase

was even much greater. Some years before this, a similar experience had been recorded in the Swiss Canton of Bâle, where the Property-Tax Law of March 21st, 1889, introduced a new provision requiring the tax-payers to make returns. The result was an immediate increase of £4,240,000, or 22·6 per cent., in the amount of property, and of 11·6 per cent. in the number of persons subject to the tax.<sup>1</sup>

It cannot be doubted, therefore, that the system of compulsory returns does operate beneficially; but need we add that, even under this system, the Exchequer is not absolutely secured against fraud? The Dutch Government has had an opportunity of putting the matter to a test by comparing the returns made for the property tax which came into operation on May 1st, 1893, with the returns for succession duty on the properties left by the same persons at death. Some of the results of these comparisons were made public, and they were not altogether satisfactory. It is true that, even after the inquiry, the authorities remained convinced that the sum on which taxation is evaded represents but a small percentage of the whole; it was estimated that the yield to the Exchequer fell short of the amount actually due by about 7 per cent.; even this, however, would represent about £42,000, which is not so very trifling a sum. And it would be a mistake to suppose that evasion is more easily detected in the case of a property tax than it is in the case of an income-tax. In a country, such as Holland, where succession duty has to be paid by inheritors in any degree of relationship, the difficulty of evasion is, in fact, greater in the case of the property tax, for then, besides its ordinary sources of information, the Administration has access every year to very important documents relating to the property of a certain number of inhabitants. For all that, the Dutch Revenue Authorities have not been able to put a stop to evasion of the property tax.

This, unquestionably, is the bad feature of such imposts, the feature to which particular attention is always directed by those who would discredit them.<sup>2</sup> And with very good

<sup>1</sup> KARL BÜCHER, *Basels Einnahmen und Steuerverteilung*, Bâle, 1889, p. 39.

<sup>2</sup> As, for example, by Dr. W. F. ROCHUSSEN in his work, *De Theorie der Inkomstenbelasting* (The Hague, 1889).

reason; for any comment on the income-tax which omitted to mention the evasion to which it conduces, would be very one-sided. It would be just as one-sided, however, if, while laying great stress on that particular demerit, it omitted to emphasise three truths which have an equally important bearing on this question. The first is that a system of taxes based wholly upon standards other than income, is very defective; the second is that every tax does harm in some respect; the third is that measures can be adopted, which, although they cannot wholly prevent, may nevertheless greatly mitigate the harm. And what are these measures? One is for the Administration to collect the fullest possible information regarding matters of which a knowledge is requisite for the proper carrying out of the tax; a second is for the carrying out of the tax to be entrusted to independent persons equipped with expert knowledge; a third is that, in all cases where, from the documents furnished in connexion with succession duty, it shall appear that there has been evasion of the income-tax, the amount thus illegally withheld be required to be refunded to the Exchequer. But above all—and this brings us to the proposition stated above—the Legislature should beware of the danger of creating an inducement to defraud the Revenue. And whenever the rate and scale of progression of an income-tax are pushed up too high, this inducement is created. A spirit is then evoked, against which no law, however carefully framed, can prevail in the long run, because the evil against which it is directed is too widespread, consisting as it does of a practically universal conviction amongst the tax-payers that they will not be required, and indeed ought not to be expected, to make true returns. When this evil has been evoked, the tax on income or property becomes a cause of demoralisation. Introduced in a spirit of equity, it actually causes greater inequality in the pressure of taxation; conceived in the interests of a lofty moral ideal, it actually operates adversely to that ideal. It is impossible to guard too carefully against this. We do not mean to say that the practice of making fraudulent returns can be altogether eradicated if the tax be kept low, but we do say that such practice will remain exceptional, and being exceptional and, therefore, not sanctioned by public opinion, it

will gradually decline as higher moral principles assert their sway. But once the condition described above has been brought about, the evil will assume greater and greater dimensions. The returns required for the purposes of income-tax will then be treated as pertaining to a sphere in which the ordinary principles of honesty do not apply; the tax-payers, deeming themselves to be used unjustly, will conspire to resist the Exchequer, and in such a contest the Exchequer is always the weaker party. Ultimately it loses all faith in its own strength, and submits to the inevitable.

Nowhere has this been more frequently proved than in the various States of the North American Union. There a property tax, and not an income-tax, is the general rule. "The chief characteristic of the American system of State and Local Taxation," says ELY,<sup>1</sup> "may be expressed in a single sentence; it is the taxation of all property<sup>2</sup> fixed and movable; visible and invisible—*real* and *personal*, as we say in America—at a uniform rate per cent." That percentage-rate is usually immoderately high. In Minnesota it now amounts, all told, to 23 per cent. of capital. At Baltimore, according to the most recent data, on every 1,000 dollars capital 1·775 dollars are paid to the State, 6 to the County, and 19·8 to the City, making a total of 27·575 dollars per 1,000. In New York the corresponding ratio has been as high as 30. But then how frequent are evasions! In vain do the authorities endeavour to forestall these by requiring returns to be made, in minute detail, of all movable property (real property is usually valued by the revenue officials themselves). In Ohio the person making his return must state the number and value of all horses, oxen, mules, asses, sheep and pigs, pianos and watches; in Georgia the authorities are still more exacting, for they insist on a distinction being made between gold watches and silver watches, and require the returns to be attested by oath. But many people swear falsely. If the returns were true, then the relative increase of real and movable property in the State of New York would have been as follows:—

<sup>1</sup> *Taxation in American States and Cities*, New York, 1888, p. 131.

<sup>2</sup> Some things are, nevertheless, exempt, such as paper money and debentures issued by the Federal Government.

	Real.	Movable.
1859 . . .	1,599,930,000 dollars.	307,349,000 dollars.
1893 . . .	3,626,645,000 „	411,413,000 „ <sup>1</sup>

These figures have only to be stated in order to show what evidence they afford of fraudulent returns. So long ago as 1884 the Taxation Commission of the State of West Virginia wrote: "Things have come to such a pass that the payment of taxes is regarded as being just as voluntary, and almost in the same category, as contributing towards a Church or Sunday School."<sup>2</sup> Precisely the state of things which we referred to above, and which the legislator must endeavour to avert. That American writers on financial subjects should betray a strong dislike for the property tax is not, perhaps, to be wondered at; it does surprise us, however, that some of them should not have shown a better sense of discrimination, a truer appreciation of the causes to which the deplorable effects of the tax must be attributed. In a country where capital is still relatively scarce, and land, on the whole, of very little value, incomes derived from labour must greatly exceed those derived from property. The policy of taxing only the latter quite accounts for the excessive rates of which some examples were given above, and which were shown to have so detrimental an effect upon the trustworthiness of the returns. American experience in this matter must not be invoked as evidence in condemnation of the taxation of property; all that we are entitled to deduce from it is that any tax of this kind—even a general income-tax—must operate badly unless judgment be brought to bear in the mode of levying it.<sup>3</sup>

This conclusion is supported by Italian experience in connexion with the *Imposta sui redditi della ricchezza mobile*, a tax on incomes from movable property and from labour. Under this tax, which was introduced in 1864 and modified

<sup>1</sup> E. R. SELIGMAN, *Essays in Taxation* (New York, 1895), p. 28. Cf. also the other figures there cited.

<sup>2</sup> JAMES BRYCE, *The American Commonwealth* (London, 1889), Part I. pp. 494-495. As regards the operation of these taxes the reader might also consult Dr. J. C. SCHWAB'S little work entitled *Die Entwicklung der Vermögenssteuer im Staat New York*, Jena, 1890.

<sup>3</sup> Great lack of judgment is shown in other respects too. The officials chosen by the people are not always sufficiently independent. The partial exemptions also lead to evasion.

in 1877, incomes are not all assessed at their full amount irrespective of the source; the general rule is for the proportion taxed to be highest in the case of incomes from property, somewhat lower in the case of composite incomes, and lowest in the case of incomes from labour; the application of this rule has undergone some change. Thus, since 1884, some incomes from capital, *e.g.* those derived from certain kinds of public securities, are only assessed at  $\frac{3}{4}$ , industrial incomes at  $\frac{2}{3}$ , those from professions or trades at  $\frac{1}{2}$ , and pensions at  $\frac{1}{4}$  of their full amount; the rate of the tax is the same for all incomes. It amounts to no less than 20 per cent. in the aggregate, *i.e.* the State together with the Local tax (the two being combined in a single tax since July 1st, 1894).<sup>1</sup> Thus, in the lowest income class, the tax amounts to  $7\frac{1}{2}$  per cent., but in the higher classes the rate is much higher. By deducting the tax in advance in the case of incomes derived from Government stock, and from pensions and salaries earned in the service of Public Departments and railways, the Revenue Authorities manage to obtain a substantial sum (about  $11\frac{1}{2}$  million pounds sterling in the financial year 1898-99). But the extent to which evasion is practised may be inferred from the fact that the amount obtained otherwise than by taxing at the source is less than half (£5,680,000) of the total yield of the tax. It may also be inferred from the fact that, according to a Government return for the year 1894, there were in the whole of Italy only 35 physicians and surgeons, 66 advocates, 16 attorneys, and 11 engineers and architects whose professional incomes exceeded £400 per annum; while in cities like Rome and Milan we find the highest professional income returned at £64 among the advocates, at £52 among the engineers, and at £40 among physicians! The worst of it is that once the practice of understating the income has come to be accepted as consistent with the national code of morals, a reduction in the rate of the tax can effect no rapid cure of the evil. Once the Legislature has made the mistake to

<sup>1</sup> A. GRAZIANI, *Istituzioni di scienza delle finanze*, Turin, 1857, p. 510. A detailed account of this tax is to be found in an article by C. BURKART in vol. iv. (1889) of the *Finanzarchiv*, pp. 1-108; the most recent statistics are given in the *Bulletin de statistique* (Ministère des Finances), 1901, vol. i. pp. 102-110.

which we referred, the consequences of that mistake will continue in evidence for a long time.

But in directing attention to this mistake, have we said all that is needful? Would the fact that the rate was moderate and the mode of administration excellent suffice to ensure the successful working of an income-tax? It would not; for all countries are not ripe for the introduction of such a tax. Where the conditions are such as must wholly preclude returns of income being made by the tax-payers themselves, or where the standard of honesty is so low as to afford no security against evasion and no prospect of finding a staff of officials capable of being entrusted with the carrying out of the law, other means must be sought for effecting the purpose which the income-tax is intended to fulfil. Such means, it must be admitted, are never more than makeshifts, and very defective makeshifts. But until the fact that they are defective has become widely recognised, and the demand for something better has grown very strong, the time is not ripe for introducing the better thing. How can it be expected to obtain good results from an income-tax so long as that sense of justice which engenders the demand for such a tax is still undeveloped, and so long as the idea of divulging particulars as to income or property, even to a small group of discreet officials, continues to provoke strong feelings of resentment? How can it reasonably be expected that good returns should be made under such circumstances? The many legislatures that have had recourse to makeshifts must not be condemned; in doing this they acted more wisely than if they had introduced an income-tax prematurely, and so permitted customs to grow up and habits to take root which it might have been very difficult to eradicate later.

We have endeavoured to indicate the point of view to be taken in judging of various taxes which, though not commendable in themselves, are in operation in certain European countries. Judged by a high standard, they are in no respect satisfactory. They are intended to reach incomes of every description, irrespective of expenditure, being, as a rule, modelled upon, and designed to supplement a real tax, viz. the land-tax. We pass over the fundamental error which

this involves; all that is needful has been said as to the peculiar position occupied by the land-tax. We have also, we fancy, made it sufficiently clear that a real tax always calls for special justification and that this justification can never be based upon the principle of ability to bear taxation. The taxes which we have just been discussing are founded upon principles which are nowadays being more and more abandoned. Nevertheless they are taxes which have rendered, and in some countries still continue to render, very important services.

One of the best of the taxes of this kind is the French *Impôt des Patentes*, described by ADOLF WAGNER as "the most perfect and best devised thing of its kind, a splendid achievement in the art of taxation."<sup>1</sup> It consists of two parts; one being called the *droit fixe*, and the other the *droit proportionnel*, the latter being invariably based upon the rent, whether of the business premises only (which do not come under the Personal Tax) or of business premises and dwellings. The tax-payers are divided into four groups (*Tableaux*). Group A, which is numerically the largest, comprises large and small local shopkeepers, foremen, and the like, whose incomes are deemed to depend very much upon local sales. This group contains eight classes, for each of which the *droit fixe* varies according to the population of the locality (*commune*). The *droit proportionnel* differs from this in that it varies only with the class. Those in the two lowest classes (VII. and VIII.) are, however, exempt from this part of the tax.

Group B comprises the wholesale merchants and bankers. Here again the population of the locality is a determining factor, but to a less extent. The *droit fixe* in this group consists of two parts, a *taxe déterminée* and a *taxe variable*. An ordinary Paris banker, for instance, pays a fixed tax of £80 and a further £2 for each clerk in excess of five whom he employs. (For towns of less than 15,000 inhabitants these sums are £8 and 8 shillings respectively.) Bankers who issue notes pay 50 per cent. more than the others in respect of the *taxe déterminée*, and in respect of clerks they

<sup>1</sup> *Finanzwissenschaft*, Ergänzungsheft zum dritten Teil (Leipsic, 1896), p. 67.

are taxed at double the ordinary rate when the number exceeds 200, and at three times the ordinary rate when the number exceeds 1,000. The *droit proportionnel* in this group is usually one-tenth of the rent of the offices and dwellings.

Group C, which consists of five sections, comprises the manufacturers and shipowners. Here the population factor is entirely ignored, but all the more weight is given to the extent and importance of the concerns. In this group the *droit fixe* is based upon a variety of standards. Thus, an owner of sailing ships pays 20 centimes (about 2d.) per ton, a steamship owner 4d. per ton, a soapmaker 7d. per 22 gallons vat-capacity; a candlemaker 4 shillings fixed, plus the same sum per worker employed. The *droit proportionnel* in this group is one-twentieth as regards house rent, plus one-sixtieth or more of the rent of the business premises.

Group D comprises what are called the *professions libérales*. Members of this group pay a tax of one-fifteenth of their rent and nothing more. But exemptions are numerous. Painters, sculptors, draughtsmen, professors, teachers (other than headmasters of schools), journalists, actors (besides many others) are exempt from this tax; but not doctors, notaries, advocates, *procureurs*, engineers, or architects.<sup>1</sup>

The yield of the tax in 1900 was as under:—

<i>Droit Fixe.</i>		<i>Droit Proportionnel.</i>	Total.
£		£	£
A . . .	1,007,301	1,189,967	2,197,268
B . . .	200,964	186,532	387,496
C . . .	394,918	378,211	773,129
D . . .	—	152,004	152,004
Total . . .	1,603,183	1,906,714	3,509,897

It is to be noted that these figures do not represent the whole yield of the tax, for they are exclusive of the many additional

<sup>1</sup> Cf. R. VON KAUFMANN, *Die Finanzen Frankreichs*, Leipsic, 1882. J. CAILLAUX, *Les Impôts en France*, Paris, 1896; also the article under the heading "Gewerbsteuern" in the *Handwörterbuch der Staatswissenschaften*, 2nd edition.

centimes that are levied by the State, the Departments, and the Communes or Municipalities. Including these additional centimes, the total yield of the tax in 1900 amounted to £8,240,000.<sup>1</sup>

The *Impôts des Patentes* reaches incomes derived from the application of labour and capital. In addition to that tax there is the *Impôt sur les valeurs mobilières*, first introduced under a law of 29th June 1872, and increased from 3 to 4 per cent. under a law of 26th December 1890. This is a tax on securities, and the amount payable is not based on any declaration made by the tax-payer himself, but is deducted at the bank or other office where coupons or dividend warrants are cashed. Thus the tax is "real" in the sense already explained. Government stock, whether French or foreign, is exempt. Then there are stamp and registration duties, which fall on movable as well as immovable property; and there are the death duties, which, as already mentioned, have recently been placed upon a new basis and graduated according to the value of the property. The rates now charged per 100 francs are as under (exclusive of additional centimes):—

In the direct line . . . . .	1 franc to 2·50 francs.
Between husbands and wives . . . . .	3·75 francs to 6·50 "
Between brothers and sisters . . . . .	8·50 " to 11·50 "
Between uncles and aunts, and nephews and nieces	10·0 " to 13·0 "
Between great-uncles and great-aunts, etc. . . . .	12·0 " to 15·0 "
Between blood relations in the 5th and 6th degrees	14·0 " to 17·0 "
Between more distant relations or between strangers	15·0 " to 18·0 "

The minimum rate in each case is applicable to properties of less than £80 and the maximum to those of over £20,000 value. A further half-franc per 100 francs is charged on properties exceeding £40,000 except when the succession is in the direct line.<sup>2</sup>

<sup>1</sup> *Bulletin de statistique*, 1901, Part II. pp. 145-146.

<sup>2</sup> In the direct line, too, the graduation ceases at the range of 250,001 francs to 500,000 francs. Compare the table given on p. 333 of vol. i. of *Régime fiscal des valeurs mobilières en Europe*, a work by M. JOBET, which has recently been published by the French Government. The work contains many interesting data. Wide as is the subject, the author has dealt with it very comprehensively and at the same time very thoroughly. Only the first volume has appeared as yet.

If we examine in detail the working of all these taxes, we are not led to conclude that, on the whole, wealth escapes taxation in France; the laws, however, are such that chance is allowed to play an important part in the matter. Thus it would make a material difference to a man whether he were to inherit three successive legacies of £1,600 each or a single legacy of £4,800. In the direct line the latter sum would cost him £24 in succession duty; in the other lines it would cost him a further £48. For a person who owned securities subject to the tax on *valeurs mobilières*, that tax would prove heavier or lighter according to whether the securities had or had not been purchased with borrowed money, since no allowance is made for indebtedness. As to the *Impôt des Patentes*, need we criticise it any further? It may be a "splendid achievement" of its kind; but that kind, as WAGNER himself takes care to remark, is far from excellent. But although a country may not be prepared to go so far as to adopt a graduated income-tax, with a higher scale for incomes from property, still it cannot neglect to comply with the modern spirit that insists on more regard being paid than formerly to the principle of ability to bear taxation; and in endeavouring to conform to this principle the Legislature instinctively turns to devices such as those of which we find examples in the laws of France. But let those who are so prone to magnify the objections against the income-tax first examine those examples of legislation. Let them tell us whether it is possible for a civilised nation to be permanently content with such fiscal laws; whether they can be said to approach anywhere near the standard that may reasonably, and must ultimately, be demanded; and whether, so soon as the proper time shall be considered to have come, all those makeshifts must not be discarded in favour of a system which, despite all the imperfections incidental to its application, does nevertheless constitute a serious endeavour to achieve justice in matters of taxation.

These imperfections, unless they be conjured up, as it were by injudicious regulations and by the fixing of too high a rate will gradually diminish very much, and anything that may have been unsatisfactory in the legislation whereby the system

was first introduced can be improved in the light of experience, once a good foundation has been laid. But such a foundation cannot be said to have been laid until the principle of the progressive income-tax has been accepted; and that principle—it cannot be repeated too often—is a *moral* one.

Death duties, which also belong to the category of taxes with which we are concerned in this section, have already been fully discussed. All that now remains for us to do is to elucidate certain points which are of importance in connexion with the regulation of the income-tax.

First of all, a word as to the form of the progression. It is usual to distinguish between *progressive* and *degressive* taxes; this, however, is a misleading antithesis, for what is called “degression” is also progression. For example, the British Income Tax, which taxes incomes of £700 per annum on their full amount, while lower incomes are taxed on something less than their full amount, is said to be degressive; but who will deny that it involves considerable progression?

With the tax at 14 pence in the pound sterling, the amount paid per pound actual income is—

On an income of £200 . . . . .	2·80d. per £
” ” £300 . . . . .	6·53d. ”
” ” £400 . . . . .	8·40d. ”
” ” £500 . . . . .	9·80d. ”
” ” £600 . . . . .	11·20d. ”
” ” £700 . . . . .	12·60d. ”

and only where the income exceeds £700, 14·0d. per £.

A tax is degressive whenever the percentage-rate increases up to a certain point, and beyond that point all incomes are taxed in the same proportion relatively to each other. If that point be fixed at a very high sum, the tax may be strongly progressive.

This system is not one to be recommended, however, for its application gives rise to anomalies which can and should be avoided. Supposing the tax to be one of 3 per cent., an increment of £20 in a person’s income would entail, in England, the payment of an additional—

18 shillings, if the income were increased from £400 to £420	<sup>1</sup>
12           "           "           "           "           "	£420   "   £440
30           "           "           "           "           "	£500   "   £520
12           "           "           "           "           "	£520   "   £540
38           "           "           "           "           "	£600   "   £620
12           "           "           "           "           "	£620   "   £640

The higher the percentage-rate of the tax the greater the anomaly that arises from this defect. At the present (March 1902) rate of 14 pence in the pound, an increase of income from £600 to £620 entails the payment of an additional £4·08, whereas the amount of the additional taxation is only £1·17 on an increase of £620 to £640. In other words, the increment of £20 costs the tax-payer an extra 20·41 per cent. in the former case, while in the latter case it only costs him 14 pence in the pound, or 5·833 per cent.

Some of the communal income-taxes in Holland, too, have been known to suffer from defects of this kind, and the first writer to direct attention to them was A. E. RAHUSEN.<sup>2</sup> One of the best means of avoiding them is found to consist in applying the progression to the *increments* of the income.<sup>3</sup> In Holland, for example, under the property tax, 1·25 per mille is levied on all sums exceeding 10,000 guilders, so that on 200,000 guilders a tax of 237·50 guilders has to be paid; but a person who owns property in excess of 200,000 guilders pays 2 per mille on the *excess*. It is the same with the business tax.

For small incomes (scale A) this tax gradually rises until it reaches the sum of 14 guilders on 1,500 guilders. Incomes beyond that amount pay 2 per cent. *on the excess*, so that on 8,200 guilders the tax is 148 guilders; again, on any income beyond 8,200 guilders, 3·2 per cent. is levied. The same principle underlies the progression introduced by the Act of 21st September 1900, amending articles 240 *c* and 243 of the Dutch Local Government Act. Under that act the communes are empowered "so to arrange the scale of the tax that an increasing

<sup>1</sup> Since of an income of £400, £160 is exempt from taxation, and 3 per cent. of £240 = £7·2, or 144 shillings; of an income of £420, £150 is exempt, and 3 per cent. of £270 = £8·1 or 162 shillings. The difference between 162 shillings and 144 shillings is 18 shillings.

<sup>2</sup> *De Economist*, 1897, pp. 321 *et seq.*

<sup>3</sup> That this object may be achieved in different ways is shown by Messrs. W. J. BEIRENS DE HAAN and A. E. RAHUSEN in their *Guide for Compilers and Critics of Scales of Assessment for Poll Tax* (Zwolle, 1901).

percentage shall be levied on *increments* of the taxable income according to that scale. (By "taxable income" is meant the income after deducting a certain sum for necessary subsistence, which sum, says the law, "shall, for all incomes, be either the same, or calculated on the same basis with reference to the composition of the family." Thus "taxable income" is what has been called the free income.)

RAHUSEN, in the article to which reference has just been made, calls attention to a second mistake which is apt to be made in connexion with income-taxes. This consists in attempting to obtain the progression by applying the BENTHAM system<sup>1</sup> pure and simple. We have already shown that even from a theoretical point of view this is inadmissible, and we remarked at the same time that there are practical reasons too why, even in respect to the "free" income, some transition should be provided between non-taxation and full taxation. Failing this, one has to choose between two things, both of which are wrong. Either the abatement for subsistence must be fixed at a very high figure for the sake of those whose incomes amount to little more; or it must be fixed at a very low figure, in which case the progression becomes reduced. Let us give some illustrations. Suppose the tax to be 3 per cent. and the abatement for subsistence £80. Then a person with an income of £90 will pay 6 shillings or  $\frac{1}{3}$  per cent. of his income; but a person with £180 per annum will pay £3, or  $1\frac{2}{3}$  per cent. of his income, that is to say, a proportion five times as great as the other. But if the abatement for subsistence, instead of being £80, were only £40 (the tax, as before, being one of 3 per cent.), then the person with the smaller income would have to pay £4:10s. or  $1\frac{2}{3}$  per cent. of it, while the other person would have to pay £1:4s. or  $2\frac{1}{3}$  per cent. This last result being so unsatisfactory, there would probably be a disposition to choose the higher abatement figure. This course would, however, be open to the objection that, although a *specific sum* had to be obtained by means of the income-tax, a higher percentage-rate than would otherwise have been necessary must be adopted. Suppose the total of incomes of more than £80 a year to be £2,000,000, their number 10,000, and the subsistence abatement on each income £80.

<sup>1</sup> See pp. 473, 474 *ante*.

The total taxable income would then be £1,200,000, and if it were required to obtain a sum of £72,000, the percentage-rate of the tax would have to be 6. If the subsistence abatement had been fixed at £40, the amount of taxable income would have been raised to £1,600,000, increased by the sum of the taxable incomes of those whose income lay between £40 and £80. Thus it would probably have reached the sum of £1,800,000, in which case a 4 per cent. tax would have sufficed.

Under the larger abatement and the higher percentage-rate the larger incomes would have to pay more; but assuming this to be fair, it could be achieved in another way, and under the system just described (so far as the figures chosen coincide with actual facts) many incomes that are not large share the same fate with those that are. At an income of £160 the tax is equally high in both cases, since £80 at 6 per cent. is exactly as much as £120 at 4 per cent.; but in the former case all incomes, by however little they may exceed £160, are subject to a heavier burden, for which there is no justification if the higher abatement figure has been adopted solely in order that the progression might be stronger, and that incomes of £40 to £80 might be spared the payment of the full tax. For both of these objects could be achieved without incurring the drawbacks involved in the BENTHAM system pure and simple—a system of which RAHUSEN truly remarks that “it lacks sufficient elasticity to enable it to conform to the various requirements.”

So much for the form of the progression, in which, it will have been noticed, much more is involved than a question of form. And now for a second question. It is necessary that the pressure of taxation should bear more heavily on income derived from property than on income derived from labour. How can this be effected? Can it only be achieved by means of a separate tax? There are still to be found people who believe a simple income-tax to be quite capable of discriminating adequately between the various sources from which incomes are derived.<sup>1</sup> In the collection of such a tax, it may be of some service

<sup>1</sup> Mr. A. G. A. ELIAS SCHOVEL goes so far as to say that “this no longer needs demonstration” (*Our Divided Income Tax: A History and Criticism*, The Hague, 1895, p. 244). The contrary view was recently expressed by Professor GERLACH in an article published in *Finanzarchiv*, Part 18, p. 698, under the title “Die Landwirtschaft und die preussische Ergänzungssteuer.”

as an additional check to put questions as to the different sources of income, but we can hardly admit that the answers to such questions would furnish adequate material for a differential percentage-rate unless they contained many details. It would not be necessary to go to such lengths as they do in the United States; but it would be necessary to obtain from the tax-payer some statement as to the composition of his property, so as to be able to compare his statements with data already in the possession of the Revenue Authorities. He would also have to state the amount of his debts; amounts lent on mortgage are duly recorded. It would also be necessary to know whether his return included any shares to which he was entitled in an estate on which probate had still to be taken out; such shares yield income even before they are paid out, for in the interval they are increasing. We can certainly conceive of a single income-tax form sufficiently large to comprise all the things that appear on the two forms used for that tax in Holland, but nobody could reasonably maintain that it would be advisable to issue such a form.

So far as we know, Italy is the only country in which the attempt has been made to carry out, within the limits of the general income-tax, the principle of taxing incomes derived from property more heavily than those derived from labour; everywhere else recourse has been had to two taxes. This is the case in a large number of the Swiss Cantons, in Prussia, and in Holland, and any other course would seem to us to be open to serious objections.

But there are several ways of applying this method of levying two separate taxes. One is to levy a general income-tax together with a supplementary tax similar to the *Ergänzungssteuer* which has been in operation in Prussia since the 1st April 1895.<sup>1</sup> Another way is, when levying the income-tax, to allow total exemption in respect to income

<sup>1</sup> The Prussian *Ergänzungssteuer* consists of  $\frac{1}{2}$  per mille of the minimum sum of the class within which the property falls. The first-class comprises properties of over 6,000 to 8,000 marks; above 24,000 and up to 60,000 marks the classes are in ranges of 4000 marks; over 60,000 and up to 200,000 marks the range of a class is 10,000 marks, and beyond the limit of 200,000 marks it actually widens to 20,000 marks. The fact that persons subject to the *Ergänzungssteuer* are not required to make returns is due to the adoption of an amendment to the original proposal. On the 25th of June 1895, the scale was raised to 5·2

derived exclusively from property, and, in respect to composite incomes, to provide that those who are assessed for the property tax may deduct from their vocational or business income the interest on capital invested in the occupation or business. This is the Dutch system, and also that in operation in most of the Swiss Cantons.<sup>1</sup>

Under the Dutch law the interest is reckoned at 4 per cent. in the case of capital of which the tax-payer himself is owner or of which he has a life interest, and in the case of other capital at such rate as he has undertaken to pay for it. Under this system the property tax must, of course, be higher than it would have to be if it were levied wholly as an *Ergänzungssteuer*.

Either system has its advantages and its disadvantages. In Holland there were assessed in the financial year 1899-1900, 237,338 persons only for the tax on income from business and the like ;

47,031 persons only for the property tax ;  
32,881       "       "       both taxes.

These figures do not include joint-stock and other societies, foreigners, etc.

Thus, for the great majority of those concerned (quite 92 per cent. if we count those who were omitted above) what is called the "divided" income-tax operated as a simple income-tax. This would have been the case to a less extent if the Prussian system had been applied instead. The 47,031

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pfennige per mark. There is no progression in the scale ; there is, however, in the income-tax, the amount of which is :—

On incomes of over 900 to 1,050 marks	. . .	6 marks.
"   "   1,050   " 1,200	" . . .	9   "
"   "   1,200   " 1,350	" . . .	12   "
"   "   1,250   " 1,500	" . . .	16   "

And so it rises slowly. On incomes of 29,500 to 30,500 marks the tax is 900 marks, that is to say, 3 per cent. of the mean income of the range ; in the class ranging from 100,000 to 105,000 marks the tax is 4,000 marks, after which point it increases by 200 marks for each further 5000.

<sup>1</sup> An exhaustive account of the Swiss system will be found in Prof. G. SCHANZ : *Die Steuern der Schweiz*, in five parts, Stuttgart, 1890 ; a short summary of legislation regarding property taxation is given in the *Handwörterbuch der Staatswissenschaften*, 2nd edition, vol. vii. pp. 435-437.

See also Prof. F. LORIA's article in *Riforma Sociale* (1898) entitled "L'Imposte complementari sul patrimonio."

persons who received only one form for the property tax would then have also been assessed for the general income-tax. The Dutch system (which might be called the Dutch-Swiss system if it were applied everywhere in Switzerland) makes for simplicity in this respect.

It does not do so in respect to those who have composite incomes. Such people—who numbered some 32,000 in Holland in the financial year 1899-1900—are assessed twice, as they would be under the Prussian system, although in another way. Moreover, for those among the 32,000 whose business or professional incomes do not consist wholly of remuneration for labour, or who are not assessed for the business tax simply because part of their income takes the form of pension, commission, or the like, the Dutch system entails a disadvantage which is not to be found in the Prussian system; they are required to analyse their gains so as to distinguish between what is interest and what is profit in the strict sense. This disadvantage is not equally great in all circumstances. The merchant or manufacturer, whose accounts are well kept, can obtain from his books all the data necessary for the making of this distinction; he will, in fact, find it useful each year to know how much real profit he has made. Where there are partners, who have brought unequal amounts of capital into the business, a careful calculation of the interest will indeed be absolutely indispensable. Still, cases will certainly occur in which this calculation occasions the tax-payer some trouble, even where (as in Holland) the property tax is not payable on sums of less than £1,083. He would be spared this trouble under the Prussian system; but not—and this should be well noted—under the system of an undivided income-tax accompanied by compulsory declaration of the sources of earned income, if, as a result of such declaration, income derived from property had to pay a heavier tax than the rest. A correct analysis of the composite income would be necessary under that system, and, in order to provide a serviceable basis for the levying of differential rates, it would have to be made in accordance with the method prescribed in Holland. Those who are of opinion that the cases in which it causes the tax-payer too much trouble to separate interest from profit are very numerous,

and sufficiently numerous to justify the placing of incomes from property under a twofold instead of under a single tax, must therefore declare for the Prussian system. They have no other alternative.

Under the Dutch system the Legislature, should it desire to empower Local Authorities to levy for local purposes additional percentages under both taxes, is afforded the opportunity of adopting suitable arrangements to meet the growing tendency observable in these days to separate the business premises from the dwelling. We are thinking now of the difficult question as to the communal taxation of the so-called *forensen*.<sup>1</sup> Since, however, a practical solution of this question has already been found in Holland,<sup>2</sup> and since it must be admitted that no solution can be found that would be wholly unobjectionable, we need not discuss this point any further.

In conclusion, we have something to say on the question of the basis to be taken in levying the property tax. Which basis should be taken: that of the estimated value of the property itself, or that of the income derived from the property? If the former, then the income-tax must inevitably be divided into two parts. In the second case the division would not be necessary, for a property tax can be levied just as well on the one basis as on the other. But of the two, which is the better basis? The question is important only in relation to State finances, for a commune is not equipped for the levying of a separate tax on incomes from property; it lacks the data necessary for the purpose of verifying the tax-payer's returns. In the case of the communes, incomes from property must be brought under the general income-tax. The State, however, is in a position to choose whether it shall adopt the Prussian method or the Dutch method; it can tax according to the value of the property, or according to the income derived from the property just as it thinks fit.

Now we must get ourselves to realise clearly at the outset that in either case a legal fiction is unavoidable. It

<sup>1</sup> [Persons dwelling in one commune and going daily to work in another. A. A. W.]

<sup>2</sup> See Law of 20th May 1897, Art. 12, C., where certain groups of persons are named who may be included in the lists of persons assessable under the Personal Tax in one commune, although their principal residence is elsewhere.

is a choice, not between fiction and reality, but between one fiction and another.

Income is all such newly-formed property as is not required for the purpose of restoring and making good what has been lost, or for the maintenance of old, and the acquisition of new property. Income is what we can spend without making ourselves poorer; from which it follows that if a person of independent means were to derive £1,000 from land or from stocks and shares in a given year, and his property were at the same time to depreciate by an equal amount, that person would, strictly speaking, have had no income in that year. Persons of independent means do not, as a rule, reckon in this way. Merchants and manufacturers, however, do; every year they compute the value of their goods in money, and set losses against profits. People who live on income derived from land and stocks do not follow this method, nor could the legislator permit them to do so in regard to taxation. The result of applying this method would be greatly to reduce the yield of the income-tax in periods when prices of land and paper securities were declining, and even, if this were to be off-set by greatly increased yields at other times, the resulting violent fluctuation of the revenue would be highly inconvenient to the State. A real income-tax, that is to say a tax on what is income according to the strict definition of that word, has never yet been and never will be levied. The tax will always be based upon what the legislator permits to be regarded as income; and when he chooses to regard as "income from real estate" the whole of what such property yields per annum in net rent, and as "income from stocks and shares" the whole of what such securities yield per annum in the shape of dividends and coupons, he accepts a legal fiction. He assumes that, on the average, advance and decline in value balance each other, an assumption which nobody with a knowledge of investments could accept as altogether well founded. It may be that in the case of large fortunes, which are distributed among a great variety of investments, rises and falls in value do in general balance each other, but in the case of small fortunes any such result would be accidental.

But now mark the consequences of this fiction. Two men invest their money in 3 per cent. securities: the one, who values safety, buys a stock that stands at par; the other, who attaches more importance to a high rate of interest, buys a stock that is quoted at 60 per cent. and thus gets 5 per cent. on his capital. After some years the properties of both men are found to retain their original value; *a posteriori*, therefore, nothing could be fairer than that each should have paid income-tax according to the value of his coupons. But how if the one man's stock, owing to its soundness, has risen even beyond par, while that of the other, rightly regarded as less sound at the time of its purchase, should have fallen far below 60 per cent.? Of course the converse might also happen; it might turn out that both the soundness of the one and the unsoundness of the other stock had been overestimated. In that case the purchaser of the unsafe stock, if he were taxed according to what he received on his coupons, instead of having paid too much, would have paid too little. There is room for all kinds of assumptions here, and of course they lead to diverse results.

With a view to escaping the objection involved in this, the legislator has endeavoured to find another basis. He takes his stand on the fact that there is property, and therefore potential income; here the fiction consists in regarding potential income as identical with actual income. The legislator is not concerned as to the mode of investment. Whether your money be invested profitably or not; whether part of it be used with a view to procuring, not more income, but enjoyment—that is your affair. Your property represents a certain faculty in taxation, since, properly invested or employed, it is capable of procuring a certain income, to which the current rate of interest furnishes a very clear index. Having adopted this attitude, the legislator has no wish to inquire into your affairs more closely lest he should be confronted with questions to which he was unable to find any answer. In either case he will find himself in the position of having to levy taxation where there is no income. But he does not tax one individual more heavily than another merely because the one has preferred high interest to safety, while the other has preferred safety to high interest. He

wishes to refrain from doing this because the preference for a high rate of interest often arises from necessity, and is therefore apt to be met with most frequently among the lower middle class of capitalists. And as regards the carrying out of the two systems, the difficulties incidental to the second are different from, but not greater than, those incidental to the first. To obtain a correct valuation of every property is not always easy, but neither is it always easy to obtain a correct valuation of every income. Shares in private undertakings are for the most part bought and sold shortly before payment of the dividend; a certain amount of income accrues to the vendor which does not manifest itself in the usual way. In dealings in bonds, on the other hand, the interest is always included, and both in purchases and in sales it must be taken into account in any attempt to arrive at a correct estimate of the amount of interest received in a given year.

It will be seen that both systems are open to criticism,<sup>1</sup> and this criticism will have more weight the more heavily property is taxed. The objection with reference to the difficulty of valuing some kinds of property, for instance, would have little weight if the tax amounted to no more than 1 to 2 per mille, whereas the objection would be serious if the tax were to reach such high figures as it does in parts of the United States. All the more reason for observing moderation in the matter of such taxes. Taking everything into consideration, however, we should think that in a country possessing a large amount of securities of many different kinds, the value of the property, and not that of the income derived from the property, would be the better basis of taxation. The disadvantages incidental to the adoption of this basis can be mitigated by exempting certain things;<sup>2</sup> and also, in the case of people whose property is invested in business undertakings, by making suitable allowances for bad years when taxing incomes derived from such undertakings.<sup>3</sup> In the laws of foreign countries the allowance just referred to has not always been made to the extent that fairness would have required.

<sup>1</sup> A full account of their advantages and disadvantages is to be found in the supplements to the proceedings of the Second Chamber (of the Dutch Parliament) Sessions of 1891-1892.

<sup>2</sup> See Art. 6 of the (Dutch) law of 27th Sept. 1892.

<sup>3</sup> See Art. 2, § 3, and Art. 4, § 3 of the (Dutch) law of 2nd October 1893.

## CHAPTER IV

### LOANS

#### § 1

#### **Permanent Loans**

THE last subject with which we propose to deal is that of loans; they play a very important part, as every one knows, in the financial economy of States and subdivisions of States. In these days of extensive formation of capital, bonds are in such demand as a form of investment, and so moderate is the rate of interest at which any State or Municipality of good standing can obtain a loan, that extensive use is made of this means of meeting public expenditure. There can be no doubt that saving is being practised in an especial degree in these days; those who reproach our time with being a time of much spending and little saving must be very wide of the truth. If not, how is it to be explained that there should be so little difficulty in meeting the heavy demands which States and Municipalities—and not these alone—make upon the market for capital?

It will be our business in this chapter to consider the advantages and disadvantages of contracting debts in order to meet expenditure, and we must begin by making a very necessary distinction.

The loan system may be resorted to in either of two ways, for either of two purposes—namely, in order to make permanent provision for needs; or, again, in order to make temporary provision for needs which it is intended ultimately to provide for out of ordinary revenue. It is in many cases absolutely impossible to judge whether or not a loan should be resorted to in order to meet a given outlay, unless it be clearly

stated what kind of loan it is proposed to contract. The first kind may be open to grave objection where the second would be highly advisable. A permanent loan is contracted in order to *escape* the necessity of increasing taxation by the amount of the projected outlay ; a temporary loan, on the other hand, is contracted in order to facilitate defraying such outlay from ordinary revenue, by making it possible to distribute the burden over a certain number of years. These two kinds of loans differ from each other fundamentally ; they are hardly to be named in the same breath. A permanent loan, unless it be contracted for the purpose of financing works that must be regarded as of the nature of capital goods, makes a breach, as it were, in capital. A temporary loan does this too ; but the gap is quickly filled, so that capital suffers no permanent diminution. As a result of a permanent loan, the sum that has to be levied annually by taxation is increased for all time ; in the case of a temporary loan that sum is increased for a certain number of years only, and usually by a steadily diminishing amount. A country that constantly increases its indebtedness injures its credit and incurs the risk of having to pay a higher rate of interest each time it borrows. A country that makes a point of paying its debts will meet with a good reception in the market for capital whenever it wants to borrow.

A short explanation of the expressions used seems desirable here, however. By "permanent loan" is not necessarily to be understood what is called a perpetual loan, nor by "temporary loan" a loan that is redeemable. Every loan that a country contracts may be perpetual, and yet that country may only borrow temporarily ; again, every loan may be redeemable either in a single payment or in instalments at fixed intervals, and yet the indebtedness of that country may be constantly growing. We shall be considering later the question as to which is the better form of loan ; at present we are concerned, not with the form, but with the substance.

Whenever, at the time of its being concluded, no proper measures are adopted for ensuring the redemption of a loan, that loan is permanent. On the other hand, if, simultaneously with the loan being concluded, taxes are increased or expenditure is reduced in such a measure as must automatically bring about the redemption of the loan at the end of a certain

number of years, that loan is temporary, even though it should take the form of a permanent debt. What makes loans permanent or temporary in the sense in which we are now speaking is, not the conditions subject to which they are issued, but the principles which are applied at the time of their issue and later. Even under the best-devised sinking fund arrangements the National Debt may attain alarming proportions, just as it may steadily decline without any provisions as to redemption having been insisted on by the nation's creditors, or any provision having been made by Parliament for a sinking fund. When we speak of debt as being permanent or temporary, we do so with reference, not to the art of borrowing, but to financial management. The debts contracted by the United States at the time of the Civil War would not have become permanent even though no legal provision had been made for their redemption; and in spite of any such provision they would have lost their temporary character unless care had been taken to ensure there being a surplus in each financial year.

We will take permanent loans first and ask for what kind of expenditure such loans ought to be contracted? "For expenditure of permanent utility" is an answer often given to this question, but the words admit of too wide an interpretation. To be prepared to borrow for all expenditure of permanent utility would be going much too far. We hold that permanent loans should only be contracted in order to meet such expenditure as is certain to yield revenue amounting to not less than the interest on the debt. To contract a permanent loan of £1,000,000 at 4 per cent. is permissible only if, in return for that sum, there be acquired works that would yield a net yearly income of £40,000. We do not mean that this income must accrue forthwith. The State frequently executes works which procure it no direct, but only an indirect, gain, inasmuch as they increase the welfare of the country and thus the yield of its taxes. Permanent loans appear to us to be just as appropriate in this case as in the other. But the loan must not necessitate any increase of taxation, either immediate or prospective. The interest must be covered by what flows into the Treasury as a result of the capital expenditure.

If a more liberal policy be pursued in applying the system

of permanent loans, there results a chronic deficit, and a chronic deficit is a chronic evil of constantly increasing growth. From this a steady growth of taxation must inevitably result.

Suppose the national expenditure to amount to £100,000,000 and the national income to £80,000,000. A loan of £20,000,000 is now raised, and if this costs 4 per cent., an additional £800,000 must be levied in taxation. Next year there is another deficit of the same amount, which is met in the same way; so it goes on. At the end of 25 years taxation will have increased by £20,000,000; at the end of another 25 years this sum will have doubled; at the end of a third period of equal duration it will have increased threefold; there is no end to its growth. And it is probable that the rate of increase will be progressively accelerated, since each new loan will be negotiated on less favourable terms than the last. The debt was first incurred in order to escape the necessity of a temporary increase of taxation, and the end is a permanent and far greater increase of taxation. This system sacrifices great future advantages in order to obtain the means of avoiding a temporary difficulty. It is strongly to be condemned.

We are now demonstrating what nobody disputes. Neither among men of science nor among men of affairs does one find any advocates of a chronic deficit. The objections to such a thing are too obvious to escape the notice of even the least observant. It can be proved mathematically that a chronic deficit must result in one of two things—national bankruptcy, or an inordinate increase of taxation. But those who frankly admit this do not always correctly apprehend what is meant by the expression “chronic deficit.” There has gradually grown up among financiers a custom that tends to obscure the meaning of the expression and to make the national (or municipal) accounts appear to balance satisfactorily while in reality they have resulted in a deficit. This custom—this abuse—consists in distinguishing two kinds of expenditure, one ordinary, the other extraordinary, and in providing only for the former by means of taxation. It is very necessary that we should examine this point with some care, for it is one of great practical importance.<sup>1</sup>

<sup>1</sup> Cf. SCHÄFFLE'S excellent articles, “Zur Theorie der Deckung des Staatsbedarfs,” in Nos. 39 and 40 of *Zeitschrift für die gesammte Staatswissenschaft*.

The interests of sound financial administration require that a budget be prepared annually. The period covered should not be less than a year, otherwise too much time would be occupied in preparing budgets; neither should it be more than a year, for then the making of proper estimates would be impossible. But all items of expenditure do not recur annually. Every year salaries must be paid, State properties maintained, clothing supplied to troops, remounts provided; but it is not necessary every year, say, to construct new fortifications, or to deal with a cattle plague, or to dredge a river-mouth, or carry out a revaluation of houses and land for the purposes of the land-tax. Were it possible to fix the estimates for a very long period and always to calculate accurately all requirements that would arise in that period, nobody would think of assigning expenditure incurred for the purposes just named to a separate category; for in no respect whatever does such expenditure differ generically from the rest. It does, indeed, include items for the acquisition of things that will continue in use for a long time; but such items are to be found in the ordinary yearly budget of any State or Municipality side by side with items the expenditure on which will not yield more lasting advantages than will the rest of the expenditure. Thus an addition would be made of all the items, the total would be divided by the number of years covered by the budget, and the quotient regarded as the amount of the yearly requirements.

Budgets covering long periods of years are, as a matter of fact, impracticable; it would be impossible to frame them with accuracy. A year is the longest period for which they can be framed. From this fact, however, there arises a danger; a temptation which proves too strong for many financiers. The budget for the ensuing year is found on examination to contain certain large items of expenditure which will not recur in the succeeding financial year; these are added together under a separate head and termed "Extraordinary Expenses." And they are rightly so termed; but in three or four years, or perhaps even in the very next year, other "Extraordinary Expenses" may have to be met; it is possible, indeed, that expenses such as are now termed extraordinary may recur periodically. It is solely because the period to which the

budget relates is so very short that these "Extraordinary Expenses" present themselves in a peculiar light. Just as a private individual must provide for certain wants every year, and for certain others at longer intervals, so must the State. Moreover, just as the income of a private individual must be sufficient to provide for wants of the second as well as of the first kind, if his property is not to diminish, so also must the State have sufficient revenue to meet the cost of one thing or another that becomes necessary only from time to time. Let such expenses, by all means, be called extraordinary, but let the "Extraordinary" form a section of the budget, and let due care be taken that that section, as a whole, be treated in the same manner as the remaining sections.

The following may serve to elucidate what we have been saying. Among the documents which the Minister of Finance in Holland has to consider each year in submitting the budget is a table of expenditure of a special character incurred during the previous 20 years. This table by no means comprises all expenditure of the kind to which the term "Extraordinary" might legitimately be applied, but only a part of such expenditure; the amounts spent on railway construction, for instance, are not included, and are mentioned separately. Combining the figures of this table, we get the following average annual expenditure:—

1881-1885	.	.	.	£643,920 per year.
1886-1890	.	.	.	£810,817 "
1891-1895	.	.	.	£497,093 "
1896-1900	.	.	.	£324,204 "

These moneys have been employed for the following purposes: measures for coping with the cattle plague, extraordinary expenditure on military and naval needs, revaluation of taxable incomes from real estate, improvement of the Rotterdam fairway, construction of the Merwede Canal, altering the channel of the Maas Estuary. What is there in all these objects to distinguish them from ordinary expenditure? One might perhaps be disposed to regard the expenditure on waterways as of an especial kind. But a country which owes its commercial prosperity largely to its waterways must, of necessity, at longer or shorter intervals, expend large sums in order to enable those highways to

conform to the requirements of the times; similarly, a country with many colonial possessions and a great shipping industry must, from time to time, incur military and naval expenditure for the protection of its colonies and shipping. And in these days of rapid development of instruments of destruction, every nation has, from time to time, to improve its armaments, or to increase and strengthen its fortifications. Had the above expenditure, amounting in the aggregate to £11,470,170, besides the £11,297,916 expended during the 20 years on railways, been met by means of loans, the Dutch National Debt would have increased by no less than £22,750,000 in the period 1881-1900. The actual increase in that period (after deducting the £8,300,000 for which the Dutch Indies are responsible) was only £7,627,250. The amounts set forth in our table have thus been wholly provided out of the ordinary resources. If, instead of this, they had been met by borrowing, the yearly interest on the Dutch National Debt would now be greater than it actually is by the sum of £344,105, *i.e.* by a sum exceeding the average yearly expenditure on those objects in the period 1896-1900.

What has been said in a general sense requires more detailed notice in its application to the finances of great cities. That the financial condition of many such cities is not flourishing everybody knows; in almost all of them we find a great increase of indebtedness and, therefore, of taxation. This is largely due to the fact that they have treated perfectly normal expenditure as if it were abnormal. As a town increases in area, it gradually changes in character. Streets have to be widened, parks laid out. New schools have to be provided,<sup>1</sup> works have to be undertaken for

<sup>1</sup> The number of elementary schools newly built and enlarged in Amsterdam during the 25 years 1877-1901 has been as follows:—

Newly Built. Enlarged.		Population.	
1877-1881	. . 7 . . — . .	1st January 1877	. . 296,200
1882-1886	. . 28 . . 1 . .	„ 1882	. . 338,047
1887-1891	. . 26 . . 8 . .	„ 1887	. . 378,686
1892-1896	. . 30 . . 5 . .	„ 1892	. . 426,914
1897-1901	. . 16 . . 40 . .	„ 1897	. . 494,224
		„ 1902	. . 530,718

Large schools of the first and second grades, comprising 15 class-rooms, gymnasiums and play-room, cost, on an average, £5,670; the smaller ones, comprising 8 class-rooms and gymnasium, on an average £3,330.

increasing the water-supply, for disposing of sewage, often, too, for providing increased facilities for commerce and shipping, because these have developed. Public buildings become too cramped; police and fire-brigade services have to be re-organised on an entirely new basis; education and poor-relief entail heavier expenses. Where the Local Administration does not clearly realise the nature of these needs; where it contracts permanent loans for every item that figures as an unfamiliar feature in the estimates, it fails in its duty to the citizens; for, although an increase of taxation is avoided at first, a far greater increase of taxation will have to be borne later. Suppose the average yearly municipal expenditure on police stations, schools, new streets and squares—all of which, observe, are things of permanent utility—to be £100,000. In 25 years this would represent £2,500,000, and if this money were provided out of loans at 4 per cent., the interest would amount to £100,000 per annum. But, after a second period of 25 years, the interest would have grown to £200,000, and after a third to £300,000. Thus the annual cost will be three times as great as it would have been if taxation amounting to £100,000 per annum had been imposed from the first.

It will be seen, therefore, that the generally recognised rule that forbids a chronic deficit, implies much more than would appear at first sight. We learn from it that the taxes must yield, on an average each year, not less than is required to meet expenditure of every kind, other than what is financially productive. To conform to this rule requires forethought, and obviously there is a possibility of mistakes being made. It is not very easy to calculate future wants, especially when they relate to a more or less distant, and not to the immediate future. But where there is a strong desire to prevent increasing indebtedness, mistakes ought not to be numerous, and certainly not fatal. In the first place, one will be guided by experience, one's own and that of others; and in cases of uncertainty impose rather somewhat too much than too little taxation, since a surplus is better than a deficit. An example well worth following is set by the Government of British India, in including in the budget a sum of  $10\frac{1}{2}$  million rupees annually for the relief of famine, because it knows from

experience that, sooner or later, one part of the country or another will be visited by a famine entailing a large expenditure of money. In these matters there is usually much to be learnt from experience. It teaches us that, in the realm of public expenditure, as elsewhere, the unexpected never fails to happen.

There is a second device which may be employed with success as a means of preventing frequently recurring deficits. Stability is certainly a quality to be greatly desired in all taxation, but it is not essential that all taxes should possess it in the same degree. Excise and import duties cannot be altered from year to year; neither can death duties; neither can land-taxes, because these affect the value of real estate. Temporary increases may more easily be imposed in the case of taxes based upon the rental value of houses; or in the case of taxes on furniture, servants, or carriage and riding horses. But of all taxes, those which lend themselves most readily to temporary increases, are taxes based either upon property or upon income. During the Crimean War, England increased her property and income tax from 7*d.* to 16*d.* per pound sterling ( $6\frac{2}{3}$  per cent.), the result of which was to increase the yield of this tax from £5,869,000 in 1852-53 to £16,447,000 in 1855-56. A means of preventing deficits is therefore secured by providing, in the first place, that taxes of the kind just referred to be comprised in the fiscal system; and in the second place, that they be kept at a low figure in normal times, so that in the times of increased need of money they may be able to yield a large sum without entailing an excessive burden.

A third means consists in spreading extraordinary expenditure over a series of years when the amount is large. Recourse is often had to this means, but sometimes in such a way as to cause its advantage to be wholly lost. The purpose of spreading the cost over a period of years is to enable it to be met out of taxation without having suddenly to increase the amount of taxation by a considerable sum. Instead of this, the extra amount required each year is sometimes obtained by means of yearly loans. The result may easily be worked out. Suppose the total expenditure to be £50,000,000, and that it be spread over a period of 25 years. By raising an

extra £2,000,000 per annum in taxation the whole sum would be paid at the end of 25 years, and the extra taxation would thus cease. If, however, instead of adopting this course, the sum of £2,000,000 be borrowed each year at 4 per cent., and extra taxation be imposed only to the extent necessary in order to provide the interest, then the additional taxation in the first year will be £80,000, in the second year £160,000, and in the 25th and all succeeding years, £1,000,000. Thus the sum which, under the first arrangement, would only have had to be levied for 25 consecutive years, would, under the second arrangement, have to be levied for ever! The figures selected are arbitrary. If the sum of £50,000,000 were spread over ten years, the amount to be raised yearly in additional taxation would be, not £2,000,000 but £5,000,000. There may be difficulties in the way of levying at least raise an additional £2,000,000 per annum in extra taxation, and only borrow for the remainder? Were the extra taxation to be maintained for some time beyond that required for the completion of the work, the indebtedness would be paid out in a relatively small number of years.<sup>1</sup>

The same end may also be effected in the following manner. Assume again that the work is to be completed in ten years, and that in each of those ten years it will cost £5,000,000. The sum representing the present value of ten annuities of £5,000,000 is the same as that sum over a period of 25 years; and the amount of the annuity is included in the estimates of expenditure from the very first year, it being understood that any portion of such annuities that may not be needed for the payment of interest in respect to the work to be done, and any saving of interest that may be effected as a result of the application of the plan itself, shall be used for the extinction of the debt, so long as the annuities shall last. Should the cost be found to exceed the amount originally estimated, this plan would have to be modified during the progress of the work. On the other hand, if some years should show

<sup>1</sup> Cf. G. M. BOISSÉVAULT, *Incidental and Extraordinary Expenditure*, Amsterdam, 1886, pp. 61 et seq. sh/

favorable balances, so that the amount requiring to be borrowed fell short of what was expected, the extinction of indebtedness would progress more rapidly and the annuities would cease the sooner.

Suppose there were reluctance to have recourse to the annuity system, there is still another plan that might be adopted. Under this plan, a certain part of the total contemplated cost is set apart yearly—again beginning with the first year—for sinking fund, and money is then borrowed as required. After a few years the sum-total thus borrowed will be offset by an equal reduction of indebtedness. That, under both plans, debt reduction and debt extinction proceed concurrently is no objection. The Government, should it so desire, can prevent this by taking on behalf of the State a share of the interest corresponding to the amount of debt to be extinguished.

Where, therefore, there exists a strong desire to avoid permanent increase of debt—thus permanent increase of taxation in the long run means are not wanting for doing so. There are difficulties to overcome, it is true, but a financier who knows his business will be able to overcome them. The chief cause of a constant growth of indebtedness lies, not in the difficulties that have to be overcome in order to avoid it, but elsewhere. To propose taxation is a disagreeable task; it is pleasanter to paint the financial situation in glowing colours, to assign expenditures to the category of "Extraordinary" whenever the least pretext can be found for doing so, and then to make it seem not to impose taxation for the purpose of meeting "Extraordinary Expenditure." This rule is thoroughly unsound; but when "Ordinary" and "Extraordinary" expenditure as terms are used there is no difference, when one considers the source from which the means for meeting both have to be obtained. The capacity of mankind for anticipating future wants would be such as to make it possible to construct budgets for periods of twenty years in advance, much that is now treated as extraordinary would never be regarded in that light; and, were it the custom to fix quarterly budgets, the number of items included under the head of "Extraordinary Expenditure" would be greatly increased. In considering whether or not a loan could be raised to meet a

given item of expenditure, the real question is not as to the expenditure being ordinary or extraordinary, nor even as to the utility being temporary or permanent. War expenses are "Extraordinary" in a very high degree, and yet to cause the National Debt to be increased by their amount permanently, or even for a long period of time, is a great mistake. The real question is, whether the expenditure will, directly or indirectly, open up a source of *revenue*, so that the raising of loans may not entail a permanent increase of taxation. Only in so far as this is the case will a permanent increase of indebtedness be free from harmful results.

But is this all that can be said in favour of loans for financially productive works? Is it intended to suggest that a somewhat preferable alternative would always be to defray the cost out of taxation? We do not mean to suggest this; a country may borrow too little, just as it may borrow too much. Why is a chronic deficit a thing to be avoided? Why is it unwise to incur permanent indebtedness for all "Extraordinary" expenditure, simply because the expenditure is "Extraordinary"? The reason is, that by doing so a great and ever-accelerating increase of taxation is inevitably entailed: it is in order to escape this evil that permanent loans may be avoided. The financier who, whenever a moderate amount of taxation has become necessary, lacks the courage to raise it, thereby causes his country to become subject, in course of time, to an excessive burden of taxation. That fiscal policy, therefore, is the best which is least calculated to increase taxation. But from this it follows that to borrow for financially productive works is not merely open to no objection, but actually is a thing to be commended. A Municipality which establishes a gasworks; or it constructs a tram system, the working of which it proposes to lease to a private contractor; or it provides a system of water-supply. A State which spends millions of pounds on the construction of railways, or which provide the cost of these undertakings by means of loans, might be wholly indefensible; the effect might be to place upon the people a burden which was entirely unjust. Our inquiry in the last chapter shows how the levying of taxation. We saw that those who borrow in accordance with abstract principles need

purpose. To have rigid regard for the principle of faculty, to avoid everything that might weaken the incentive to engage in production, or might hinder the formation of capital,—where and when was any one ever successful in all these respects? This alone is a sufficient reason for guarding against the imposition of unnecessary taxes, and a tax is unnecessary when it is imposed in order to defray expenditure, which, if provided for by means of a loan, would, directly or indirectly, yield the interest on that loan.

To this general rule there are, however, exceptions. First, should a State be desirous of extinguishing a portion of its debt and at the same time incurring productive expenditure to an equal amount, its simplest plan will, of course, be neither to redeem nor to borrow, but to defray the expenditure with the money that would otherwise have been used for the extinction of debt. But the very mention of this exception places in its true light the policy of providing for productive expenditure by means of taxation. It amounts to the same thing as extinction of debt. It is a means of reducing the burdens entailed by financial mistakes of the past, and is applicable only in those cases where extinction of debt is itself applicable. What those cases are we propose to examine at the end of this chapter.

second exception. Owing to a conjuncture of favourable circumstances there may be a surplus in the Exchequer, a surplus which, in all probability, will not recur very soon. It may be that the crops have been exceptionally abundant, and that not only the crops but also the yield of certain taxes. Or it may be that some kind of produce accrues to the State, and that the price of that produce has suddenly risen to a very high figure, and there is reason to believe that this rise will soon be followed by a decline. (As might happen in the case of the Coffee Plantations in Java, or the tin mines in which these cases are among the cases in which debt extinction is applicable but the country in which they occur may be such that it must, therefore, be mentioned apart. Under such circumstances it will, of course, be desirable to depart from the general rule, but it would be difficult to find a better use for the surplus than that of paying for productive works which are needed. The taxes, had they been reduced,

would soon have to be restored to their formal level. The income which the Exchequer derives from the works will enable a smaller, but more lasting reduction to be made in taxation.

The general trend of these observations will be understood. To our two exceptions we might perhaps have added others. Who can provide for all contingencies? One thing, however, must surely have been made clear, namely, that, unless special reasons can be pleaded in justification, productive expenditure should never be defrayed out of income. The rule here is just the reverse of what it is in regard to non-productive expenditure, be that expenditure called "Ordinary" or be it called "Extraordinary." Whoever proposes to provide for such expenditure by means of a loan (only a temporary loan could be contemplated in this case) must show that he is justified in doing so. But whoever proposes to employ revenue derived from taxes for the purpose of financing works which will produce an annual income, must be able to point to special circumstances which render it desirable to do so. In general this course will not be desirable, nor will it ever be so where its effect would be to add considerably to the burden of taxation.

A very practical question, however, suggests itself here. The expenditure must be financially productive in order to justify recourse being had to a loan for the purpose of meeting it; but who can say, in many cases, whether the hopes which are entertained as to the financial results of the expenditure rest upon any solid foundation? About the year 1825 a strong movement was begun in the United States in the improvement of the means of transport; there were canals to be dug, roads constructed—all on the largest possible scale. The splendid success achieved by the State of New York in the case of the Erie Canal gave considerable impetus to the movement. If we wish to learn of the many disappointments in which this movement resulted we must read the monographs on Public Debts<sup>1</sup> prepared by the American statesman H. C. ADAMS. In the period 1830-42 the State incurred loans to the amount of 200 million dollars, and fell into such financial difficulties that they had

<sup>1</sup> *Public Debts*, London, 1888, pp. 329 et seq.

the Federal Government for help. We have spoken of causes that explain the growth of public indebtedness; as regards local indebtedness, public works are amongst the most important of these. In any well-administered town the danger of a chronic deficit being brought about with respect to all other expenditure—except, perhaps, that for schools—is not great. It is by no means improbable, however, that in such a town costly works will be undertaken and that money will be borrowed to pay for those works, while there is no certainty whatever that they will produce enough to pay the interest on the sum borrowed.

The best advice we can offer in such circumstances is this. Where there is uncertainty, do not raise a permanent loan; let the loan be temporary, and let the period for which it is contracted be short according as the uncertainty is great. In other words, impose such taxation as will suffice to extinguish the debt in a certain period of years, and let that period be the shorter the greater the uncertainty as to the financial productivity of the works for which the debt is being contracted. If, after some time, it should be found that either because of direct income being derived from the works, or because of a more abundant yield of the ordinary sources of revenue in consequence of increased welfare, the Exchequer is being furnished with sufficient money to pay the interest on the loan, then it will be possible to abolish the new taxes. It is not so great an evil to be taxed unnecessarily for a few years as it is to cause a deficit which forms the starting-point of a permanent increase of taxation.

## § 2

### Temporary Loans

A temporary loan, that is to say, the loan that is repaid by suitable measures for redemption, has been discussed within the field of discussion, and from what has been said it will be sufficiently clear that this is the more desirable kind of loan. The cases in which it is possible to raise a permanent loan are not many; using the word in its ordinary sense, it may even be questioned whether any such

case ever does occur. Is there ever absolute certainty that a work will yield interest for all time? A municipal gas-works is established; but there is always the possibility of its being rendered superfluous by some new development in the use of petroleum or electricity as illuminants. A line of railway is constructed or taken over by the State; it may prove a very profitable undertaking at first, but circumstances are conceivable under which its ownership would cease to be advantageous. It will be prudent, therefore, even where the prospects of gain appear favourable, to set apart a certain yearly sum, however small, for the extinction of the debt. The more so since no appreciable sacrifice will be entailed by doing so. A  $3\frac{1}{2}$  per cent. loan will be paid off in sixty years if 4 per cent. be set apart yearly for redemption and interest. Thus a loan of £10,000,000 would entail a yearly expenditure of £350,000 without any provision being made for its extinction, whereas at a yearly cost of £400,000 the loan would be paid off in sixty years' time. The difference is too small to constitute any serious objection.

But the temporary loans which we have in mind in this section are not those just referred to. What we are concerned with here are loans for shorter—in many cases much shorter—periods. Such short loans, if properly employed, may prove extremely serviceable. In particular, they may be the means of avoiding that mistake in the conduct of public finances which consists in introducing violent fluctuations in the amount of taxation raised from year to year.

It has already been stated that the majority do not admit of temporary increase. Only a few can bear it, and even these must not be increased beyond a certain point. Were England to increase her income from eightpence to sixteenpence in the pound—the highest figure ever reached—she would thereby increase her revenue to the extent of £19,000,000, granting that the yield of customs, excise, and other taxes did not decline—a variation which is not in all circumstances warrantable. A million pounds is a large sum, but, as recent experience has proved, it is very inadequate in the case of a grant. In such a case the most elastic taxation is not a loan. There is nothing for it but to raise a loan.

raised, not with the object—once more be it noted—of evading the duty of providing for expenditure out of taxation, but with the object of fulfilling that duty in such a manner as may be least obstructive to the general welfare.

Permanent increase of taxation is harmful; therefore a chronic deficit must be prevented. Sudden and considerable, even though only temporary, increase of the total amount of taxation levied is also harmful; therefore the sudden and considerable increase in the needs of the Exchequer must be provided for by means of loans for short terms.

RICARDO is of a different opinion. He has an uncompromising objection to meeting war expenditure with loans; such expenditure—he insists—should be provided for out of taxation, and that at once. This means that France, during the war of 1870-71, ought to have increased her taxation to *six times* its previous amount, and that at a time when she had already so much to endure in other ways! Never is the spirit of enterprise so slack, trade so hampered, production so robbed of its best resources, as when a country is involved in a great war. Under such circumstances it ought, according to RICARDO, to pile up its taxes till they entailed a burden that in normal times would be crushing!

His error consists in failing to distinguish between permanent and temporary loans. For him to borrow is to create a permanent deficit, to make an inroad in capital, to interest to rise and wages to fall. The aggregate welfare of a nation, he says, is made up of the expenditures of individual members together with the public expenditure. An increase of the latter there must be diminution of the former, otherwise impoverishment ensues. Taxation is the means whereby the necessary reduction of private expenditure is effected. All quite true; but this purpose can be effected in a less painful way than that indicated by RICARDO. The rate of interest appears to be very high; in reality it is not high. Provided the war expenditure be met out of income, the rate of interest is not content. We insist on more than that, for we insist not only that the war expenditure be provided for out of income, but also that due regard be had for the rule that governs the changes in the pressure of taxation.

This rule was kept in mind by H. C. ADAMS, the American writer, to whose excellent work on *Public Debts* allusion has already been made. At page 141 of that work its author advocates, and graphically illustrates, a plan for defraying the cost of a war. Stated in a few words his plan is, that in the first year the whole, in the second year the greater part, in the third year a smaller part, and, in the fourth year, none of the cost should be defrayed out of loans; after the third year the whole cost should be met by taxation. It is clear that, when framing this plan, the author had in his mind the American Civil War, which lasted about four years. European wars do not last so long as this, and if ever there should really be a European war of four years' duration, the nations engaged in it will become so exhausted that in the last year they will lack strength to meet the whole of that year's cost by taxation. To us it seems a simpler as well as a more effective plan to borrow for the whole of the extraordinary expenditure rendered necessary by the war; but, in connexion with each loan, to impose new taxation sufficient to extinguish that loan in a short period; that is to say in fifteen, or, if necessary, in eighteen or twenty years. Even that plan will be sufficiently troublesome, but it will be less so than RICARDO'S, while at the same time conforming to the main principle advocated by that writer.

The mistake usually made by public financiers in time of war has not lain in having recourse to loans. That was no mistake; it was necessary. It would be all the more necessary in these days, for the cost of a war is far greater than it used to be, and could not possibly be defrayed at once by means of taxation. Where the mistake lay, was in not once devising measures for extinguishing the debt within a certain number of years. A publication of the British Government, dated 1870, tells us that, in the period 1688 to 1856, England spent £1,212,478,613 on war, of which that of this sum £501,202,143 was provided out of taxes and £711,276,470 out of loans. We do not consider it unworthy that seven-twelfths of this war expenditure have been provided for out of loans, but we do consider it blameworthy that the present generation should not reckon with those loans. It is neither right nor

that this should be so. Each generation should bear its own burdens, in order that the National Debt may not swell to extravagant proportions. If the burdens are distributed over a certain number of years the fulfilment of this requirement becomes possible.

What has here been said concerning war costs is also true of other extraordinary expenditure. There are towns where even the building of a school is deemed a proper occasion for borrowing. In the case of large towns this is certainly not to be recommended; for, so long as the growth of the town continues unimpeded, expenditure for schools must recur annually in its budget. In small towns and villages the building of a school is an exceptional occurrence, and it is natural that in such places there should be a desire to spread the cost over a number of years. What must be avoided is the spreading of the debt over too long a period. For presently the population will grow and a new school will be needed; with increase of wealth and culture will come a demand for the improvement of public services that have hitherto been neglected; old works will have to be renewed because they have become unsuited to their purposes. By all means borrow; but instead of  $3\frac{1}{2}$  or 4 per cent. provide for double as much in the budget, so that the debt may be quickly extinguished and the town safeguarded against that painful disorder from which so many of them are suffering—excessive taxation due to excessive indebtedness. Economy and prudence would be developed in this way, for the larger

amount of revenue proposed to be absorbed by any item, the more carefully will that item be considered. And nobody can contend that these virtues are so highly held in such high esteem as to render any further defence on their claims superfluous.

From all this it will be seen in what manner it is that public credit to be resorted to for the purpose of extraordinary expenditure other than that which is financially expedient. To make it a rule never to have recourse to public credit would be wrong. Why should one not make use of the more economical and inexpensive means of distributing heavy, extraordinary expenditure over a number of years? But in doing so one should always have that purpose alone in view, and

always ask one's self this question, What is the shortest period over which the expenditure can be distributed without entailing an excessive increase of taxation ?

### § 3

#### **Formation and Extinction of Debt**

In connexion with schemes for public borrowing there arise certain questions, the most important of which we shall now attempt to consider.

The first of them is this: When a Government is in need of money, ought it to contract a fixed loan, for fear of having to borrow small sums very frequently; or ought it to provide temporarily for its needs by the issue of Treasury Bills and only go into the market for large loans of a certain magnitude? It is usually pleaded in favour of large loans that they excite more interest; it is also held that the credit of a State or Local Administration is injured by repeated appeals to the money market. We cannot, however, admit that there is much weight in these arguments. Whenever a mortgage bank issues mortgage bonds it appeals to the money market, but it does not appear that the credit of these institutions is in any way impaired by doing so, or that mortgage bonds are less readily taken up when offered in small, than when offered in large, quantities. The advantage of borrowing in small amounts lies in the possibility which it affords of dealing direct with the capitalists who buy for investment; in the case of a large loan this possibility is lacking, for then intermediaries, such as syndicates, etc., are necessary in order to place the stock in the hands of purchasers according as there is a demand for it among the investing public. Only when the circumstances are unfavourable for the issue of fixed debt on advantageous terms ought recourse to be had to the system of temporary issues of Treasury Bills and large loans. A State, while actually at war, will act prudently in confining itself to the issue of bonds that are redeemable within a few years; in other words, let only temporary expedients be adopted while the war is in progress, and defer definite measures until peace shall have been

concluded. But where this, or a kindred reason does not exist, it will be better to issue fixed debt according as the need for money arises, and not to wait until it shall become possible to carry out a large financial operation. As a rule, large financial operations prove more advantageous to those who render, than to those who accept, the services which they involve.

A second question: At what price ought a loan to be issued? Suppose, for example, that the choice lay between issuing either a 5 per cent. loan at par, or a  $2\frac{1}{2}$  per cent. loan at something below par. Which would be the better alternative to choose? From the point of view of immediate advantage, the second as a rule; for, if 5 per cent. stock can be placed at par,  $2\frac{1}{2}$  per cent. stock will usually fetch more than 50, since the purchaser then has a chance of making a profit on the price. But if regard be had to the ultimate advantage, it will be far better to issue at par, for by so doing both conversion and redemption of the loan will be facilitated.

The United States Government discovered this to its cost. At the time of the Civil War, from 1861 to 1865, it borrowed altogether 2,565 millions of dollars, mostly by the issue of 6 per cent. bonds, and to so low a level had its credit fallen in these years that in September 1864 only  $41\frac{1}{2}$  per cent. could be got for the bonds. The average price obtained for the whole issue was 66.09 per cent.; so that for 2,565 millions of dollars in bonds only 1,695 millions were received by the Exchequer. At the termination of the war prices for United States Debt rose considerably, and before long the Government was able to borrow at 3 per cent. This shows that America would have acted much more wisely had she borrowed at 12, or, if necessary, at 15 per cent. on bonds issued at par. She would soon have been able to convert the debt, and on redemption would not have been obliged to pay more than she had received. By acting as she did, she wasted 870 millions of dollars.

When the credit of a State improves, those to whom it is in debt are gainers thereby. For example, a  $2\frac{1}{2}$  per cent. loan is contracted at the price of 55 per cent., and in a few years' time  $3\frac{1}{2}$  per cents. can find purchasers at 100, as is to be seen from the fact that the  $2\frac{1}{2}$  per cents. have risen to 75.

But who benefits by this improvement, supposing the Government not to be in need of a new loan at the time? The sole beneficiaries are the holders of the bonds, for they have gained 20 per cent. on the nominal value. If, instead of issuing  $2\frac{1}{2}$  per cents. at 55, the Government had issued 5 per cents. at 100, a little more interest would, indeed, have had to be paid at first (5 instead of 4.54 per cent.), but a subsequent conversion into  $3\frac{1}{2}$  per cents. would have been possible. The further the price of issue stands below par, and the smaller the saving of interest effected by issuing at less than par, the more serious will be this detriment to the Exchequer.

But the difference between the price of issue and the par price may be so slight in comparison with the gain effected as to deprive our objection of all weight. If the price of 100 can be got for  $3\frac{1}{2}$  per cents., while 3 per cents. would fetch not  $\frac{1}{4}$ th less (*i.e.* 85 to 86) but 93, then it will certainly be proper to decide upon the issue of 3 per cents. at 93. The rule which we have stated needs, therefore, to be interpreted judiciously. In numberless cases, however, this rule is infringed, and merely for the sake of a very transient advantage.<sup>1</sup>

The argument usually urged against borrowing at par is, that any bonds bearing a lower rate of interest that may already have been issued by the State are thereby prevented from approaching par price when the rate of interest declines. For example, there are already on the market 3 per cent. bonds worth 86, and  $2\frac{1}{2}$  per cent. bonds worth, say, 72. Supposing a  $3\frac{1}{2}$  per cent. redeemable loan were now to be issued, its price could never (so runs the argument) rise appreciably above par, because of the loan being redeemable. But this being so, the bonds that were carrying lower rates of interest could never improve much in price, since their quotation must bear a certain ratio to that of the  $3\frac{1}{2}$  per cents. The 3 per cents. can never reach par; much less the  $2\frac{1}{2}$  per cents. It follows, therefore, that to borrow at par is bad both for the bond-holders and for the credit of the State.

The foregoing argument would be sound were it possible to assume an *unlimited supply* of the new bonds. But the greater the decline in the rate of interest, the more limited will become the supply of these bonds, for holders of  $3\frac{1}{2}$  per

<sup>1</sup> Cf. LEROY-BEAULIEU, *Traité de la science des finances*, Livre II. chap. vi.

cents. will then be all the less inclined to part with them. Their quotation on the market will in time become almost nominal. At a price much beyond par they will find no purchasers, owing to the possibility of redemption—a possibility which, in the case assumed, would indeed develop into something approaching a certainty. And, at a lower price, no sellers of any importance would appear in the market owing to the reason just stated.

What else is there, then, to prevent the  $2\frac{1}{2}$  and 3 per cents. from improving in price? The objection mentioned above is in fact wholly groundless, as was proved not so many years ago in Holland. At the commencement of 1892 the Dutch Government concluded a  $3\frac{1}{2}$  per cent. loan. Within four years it was able to convert this into a 3 per cent. loan, owing to the fact that in the interval the  $2\frac{1}{2}$  per cents., which, in December 1891, stood as low as 78, had, by October 1895, risen to 94-95.

A third question: What is the best method of redeeming loans? The choice lies between two systems: that of annuities, and that of yearly redemption of a certain sum. Under the first system a fixed amount is set aside annually for interest and redemption; and of this sum interest forms, of course, a constantly diminishing, and redemption a constantly increasing, proportion. Under the second system, only that part of the sum which consists of interest is subject to change; each year it becomes smaller. Thus, under the first system, the burden of interest and redemption combined remains just as heavy in the last year as it was in the first; under the second system the pressure of this burden is not removed suddenly, but reduced by degrees. The first system makes the duty of debt extinction very easy for the living generation; only a slight increase of pressure results from its application if the annuity be spread over many years. A 4 per cent. loan is redeemed in 50 years with an annuity of 4.655 per cent.; a 3 per cent. loan with an annuity of 3.886 per cent. Under the other system, in order to be extinguished in 50 years, a 4 per cent. loan would cost 6 per cent.; and a 3 per cent. loan 5 per cent. in the first year, and no matter what the rate of interest might be, only a little over 2 per cent. would be payable in the last year.

In the case of small loans neither system possesses any great advantage as compared with the other; only, it must be remembered that many small loans in succession may together form a considerable sum. Generally, however, the annuity system should not be chosen for loans that are very large (in proportion to the budget). Suppose a State loan for £40,000,000, redeemable in 76 years, were issued in this country. If the rate of interest were 3 per cent., the annuity would have to be 3·35 per cent. Consequently, for a period of 76 years provision would have to be made in the yearly estimates for a sum of £1,340,000, which sum would consist in the first year of £1,200,000 interest and only £140,000 principal, whereas in the last year almost the whole of the £1,340,000 would consist of the principal. In the 77th year this sum would suddenly cease to appear as an item of expenditure. In the case of large sums such an arrangement as this would not be desirable. It would mean that the amount of debt redeemed was to increase year by year for a period of 76 years without in any way lessening the burden for the then living generation. It may well be doubted whether, as the period of the last annuity drew near, there would not be manifested a tendency to assign more and more items of expenditure to the category of those for which it was deemed legitimate to borrow, and it is never desirable to adopt measures whereby that evil is, as it were, courted.

Nevertheless recourse was actually had, under the law of December 30th, 1895, to this system, in connexion with the last conversion of the Dutch  $3\frac{1}{2}$  per cent. State Debt. Had the redemption been fixed at 1 per cent. per year, it would certainly have taken 24 years longer; but gradually the burden of interest would have been reduced, and long before the advent of the year 1972, when the present annuity of 3·35 per cent. (*i.e.* £1,042,658 on a sum of £31,124,125) is to terminate, posterity would have enjoyed a constantly increasing benefit as a result.

By adopting this course, however, the Government would not have effected so great a saving on the expenditure of the National Debt as they were at the time desirous of effecting. The saving would have amounted to about £66,700, whereas

it was desired to save £186,700, viz. £165,000 in respect of the Netherlands, and £21,700 in respect of the Dutch Indies. This example, however, affords a very clear illustration of the working of the annuity system. That system is always somewhat in the nature of a draft on posterity, and for this the fact that at last a moment will come for the burden to be wholly removed is no compensation. Those who will have helped most towards the removal of the burden will be not the people by whom the system was applied, but the children and grandchildren of those people. The latter will have contributed but little themselves.

We do not say that recourse ought never, under any circumstances, to be had to the annuity system. For relatively small temporary loans it is harmless. And if, after a war, by which the country has been exhausted, it be decided to raise a loan that has to be paid off within a few years, it will even be advisable to apply this system. The circumstances would then fully warrant this departure from the course recommended above with respect to larger loans. Again, where there are strong reasons for expecting that the undertaking for which a loan is being raised will yield larger gains, and therefore be able to bear heavier burdens in later years than at the outset, there would be good reason for employing the annuity system. It may be that there are other cases; to mention every conceivable set of circumstances that would justify redemption by annuities is out of the question. It will be safest, however, to make redemption by fixed sums the general rule and not to deviate from this rule unless there be a special reason.

A fourth question: The State that contracts a loan may either bind itself to redeem that loan by a given date, or it may not. By adopting the former alternative it always causes the price of issue to be favourably affected; on the other hand, by not doing so it retains liberty of action. It may be that on the date of redemption war will have broken out, or the rate of interest have risen to a very high figure, and the circumstances, therefore, be such as to make it very difficult to fulfil the engagement that has been entered into.

This we consider to be a weighty objection. An engagement to redeem the whole debt on a given date should only

be entered into when there is a certainty that the requisite funds will be available. Failing such certainty, no engagement to redeem the whole debt on a particular date should ever be given.

On this point opinions do not differ. There are, however, writers—SCHÄFFLE is one of them, also ADAMS, so far as State loans are concerned—who object, not merely to engagements for redeeming the whole of the debt on a given date: they object to the giving of *any* engagement whatever as to the manner of redemption, even one that would involve the redemption of a portion of the debt every year. They do not disapprove of redemption *per se*, but they object to the State being in any way bound in the matter. The subject is of sufficient importance to warrant our discussing it at some length. We will assume for a moment the attitude of those whom we are trying to judge, and we will endeavour to state their objections to the principle of the State placing itself under any obligation as to the periodical redemption of debt. Their attitude, we conceive, may be expressed as follows:—

*Prima facie*, there is much to be said for this system. Good resolutions are excellent things, but how soon they are forgotten! When we conclude a loan we increase taxation and proclaim that it shall not be reduced until the debt has been extinguished; but presently there arise new wants for which the new taxes must provide, and all thought of redemption is put aside; or again, certain taxes are found to be so burdensome that they have to be reduced, and we neglect to replace them with others. A binding contract provides a salutary check. A State that has imposed upon itself this check has, indeed, sacrificed some of its previous freedom of action; but is it a disadvantage to forgo the liberty of straying from the right road? If, at the time of concluding the loan, we engage ourselves to redeem it by periodical payments we set binding obligations in the place of good resolutions and enactments which we might at any time revoke, and by so doing we ensure for our decision a fixity in which they would otherwise be lacking.

All this, however (so goes the argument), is little more than make-believe, as is proved by the history of sinking funds, so well set forth by LEROY-BEAULIEU in his *Traité de*

*la science des finances*.<sup>1</sup> Between the system of compulsory periodical redemption and that of sinking funds, the difference is not so great but that the experience gained with regard to the latter should prove instructive in connexion with the former.

In the year 1716 England succeeded in converting her 6 per cent. Debt into 5 per cents. In this way a saving of £322,000 per annum was to be effected, and it was decided to utilise that sum for the extinction of debt. In 1727 a saving of £400,000 was effected by another conversion, and that sum was added to the £322,000; in 1750 a third saving of about £600,000 per annum was dealt with in the same manner. The National Debt at that time amounted to some £50,000,000 to £60,000,000, so that after the year 1750 from 2 to 2½ per cent. of the debt was devoted to the Sinking Fund. In order to ensure the provisions of the law being faithfully observed, Commissioners had been appointed. It was their duty to purchase National Debt stock every year, not only for the £322,000 but also for the interest on that money; in this way it was thought the matter would be speedily disposed of. And what actually happened? In 1786 the National Debt of England was four times as much as in 1750; it amounted to £230,000,000!

Not disheartened by such poor results the Government subsequently continued to pursue the same course; the provisions of the law were, in fact, adhered to more rigidly than before. Previously they had not always been strictly observed. As early as the year 1727 the Sinking Fund had been charged with interest on fresh loans, and a few years later the Fund itself was drawn upon. After the year 1786 such a thing never happened again, and the legal provisions with respect to the Sinking Fund were faithfully observed; the Debt existing at that time was in fact wholly redeemed. What did it avail? In 1828-29, a Parliamentary Committee instituted a careful inquiry into the working of the Sinking Fund system, and it was found that in the period from 1785 to 1829 debt had been extinguished to the amount of £330,050,455, but that in order to achieve this result the yearly charge for interest had to be increased by £1,627,765,

<sup>1</sup> Livre II. chap. ix.

since the debt that had been redeemed had cost only  $4\frac{1}{2}$  per cent., whereas the new loan cost 5 per cent.!

France has gone through similar experiences, and so has Holland. We cannot here sketch even in outline the long history of the Dutch Sinking Fund Syndicate as revealed by G. H. BETZ.<sup>1</sup> It must suffice to mention that under Article 25 of the Law of May 14th, 1814, there was established a Sinking Fund, which in 1823 was changed into a Sinking Fund Syndicate. Ample revenues were assigned, first to the Fund and afterwards to the Syndicate, so that they might be thoroughly equipped for their purpose of debt reduction. And what was the result? In 1814 the Dutch  $2\frac{1}{2}$  per cents. Effective Debt<sup>2</sup> amounted to £51,412,000, but on January 15th, 1829, it amounted to £58,843,000, and there were at that time also other debts amounting to £11,680,000. In the fifteen years the annual charge for interest had risen from £1,285,300 to £1,918,600, and on January 1st, 1841, it amounted to £3,352,500, although the Sinking Fund Syndicate had in the meantime continued its activities; for the law which terminated the existence of the Syndicate was not enacted until December 27th, 1840.

It might be thought that these experiences merely indicate the futility of the Sinking Fund system, and that they constitute no evidence against binding engagements in repayment of debt by yearly instalments. Yet ADAMS observes that, in so far as there may be any essential difference between the two systems, that of the Sinking Fund is to be preferred. For the law by which such a Fund is created can be repealed, whereas from an engagement for periodical redemption there is no escape. Proceeding on ADAMS'S line of thought, we should have to conclude as follows: The English Government did not act improperly when, in 1727 and later, it laid hands first on the income and then on the capital of the Fund: rather did it pursue an absurd policy in the period 1785 to 1829, when it was borrowing at 5 per cent. in order to redeem debts which were costing it  $4\frac{1}{2}$  per

<sup>1</sup> *Financieele Beschouwingen*, in Parts XII. and XIII. of *Bijdragen voor het Staats-, provinciaal- en gemeentebestuur*. A shorter summary is to be found in J. T. BUYS, *De Nederlandsche Staatsschuld sedert 1814*, Haarlem, 1857.

<sup>2</sup> [See Notes at end of this volume.—A. A. W.]

cent. The disadvantage of redemption by stipulated yearly payments lies in the fact that such an absurd proceeding may become necessary: it simply *cannot* be avoided where new wants arise, for which no provision can be made otherwise than by borrowing at a high rate of interest. And what is true of the Sinking Fund system is equally true of the other system: neither has ever been found to provide a safeguard against the growth of debt, or a strong incentive for its extinction. Should any one be disposed to doubt this, let him read the history of Russia's Finance, a history in which the loans redeemable at stipulated periods figure largely.<sup>1</sup> There is, perhaps, no country in which this system of debt redemption has been so rigidly applied as it has in Russia. In spite of this the Russian Debt, which amounted to 1,621,000,000 roubles in 1860, had increased by 1889 to 3,629,000,000 roubles apart from debts amounting to 1,363,000,000 roubles incurred in respect of railways.<sup>2</sup>

All this clearly indicates the course to be pursued in the matter of debt extinction. Surplus balances from public services are the only source to which we must look for the requisite funds, and the reason why Sinking Funds and stipulated yearly repayments have always proved ineffectual as means for improving the financial condition of States or Local Authorities is that from their very nature they can do nothing towards creating surplus balances. The one and only way of promoting extinction of debt—not of particular debt, but of aggregate indebtedness—lies in bringing about an increase of revenue or a reduction of expenditure. Where there is a sincere desire to follow this course, extinction of debt will be achieved; otherwise it will not, no matter what engagement may be entered into as regards redemption.

We have endeavoured to restate most faithfully the arguments used by ADAMS and others, and we have even added some of our own to reinforce them. They fail to convince us, however. After carefully considering the various objections

<sup>1</sup> See P. H. DE CLERCQ'S elaborate work entitled *Les Finances de l'Empire de Russie*, Amsterdam, 1886, pp. 90 *et seq.*

<sup>2</sup> In the year 1900 these figures were 3,387,000,000 and 2,805,000,000 roubles respectively. See *Règlement définitif du Budget de l'Empire pour l'exercice 1900 Mémoire explicatif*, pp. 67 and 75.

we still advocate this system. And why? Not on the ground that it affords an absolute guarantee for the reduction of indebtedness. Where a State deems it a proper thing always to meet its engagements as to debt redemption by contracting fresh debts, nothing in the working of our system will prevent it from doing so. Our reason for advocating it is that under its operation there is greater probability that those principles which ought to be applied in connexion with loans will, in fact, be observed. It affords no absolute assurance that they will, for no system can do this; but by accepting it we increase the chances of their being observed. The engagement to redeem by periodical payments really is a salutary restraint which the State imposes upon itself, and when a loan is being contracted the mere fact that such an engagement is given really does conduce to the adoption of measures for providing the means wherewith the loan shall be redeemed within a longer or shorter period. Circumstances may arise which render it necessary to incur fresh indebtedness; but it is just then that the advantage of the system which we are defending would become manifest—the advantage would be found in the fact that the increase in the aggregate indebtedness was not so great as it would otherwise have been. The fact that in countries where the system has been adopted indebtedness has nevertheless increased, is immaterial to the argument. The question is, How much greater would have been the increase of indebtedness had the system not been applied? This is a question to which its opponents never give any answer.

The most serious objection that can be urged against the system is that its effect may be completely frustrated. In that case what will have been lost? The position will then be the same as if no engagement as to redemption had been given; the Treasury will not lose anything thereby. "No," say the objectors, "the Treasury will be likely to lose heavily in consequence; for, if the date at which payment becomes due should fall in a period at which National Debt bonds stand at a low price, and there be no money in the Treasury the State must borrow on terms less favourable than those on which the debt was contracted. England's experience in the period 1785-1829 proves what this may cost." But those

who would argue thus assume that the State has engaged to redeem its debt in a particular way, namely, by drawings. Without this assumption the argument falls to the ground, as may be shown by a simple calculation. A sum of £200,000 has to be found yearly for the redemption of a 3 per cent. loan that was issued at par; the price of the £100 bond has now fallen to 50, and at that price the new bonds will have to be issued in order to obtain the money. In order, therefore, to obtain £200,000, it will be necessary to issue a new loan for £400,000, on which the interest will be £12,000. But just that amount of interest will be saved by the purchase and extinction of this £400,000 debt; thus no loss will have been incurred beyond what has been spent on commission. The twofold operation, we readily grant, will have been useless; but no increased charge whatever will have been incurred in the shape of interest. It could have been incurred only in the event of the State having contracted to redeem in the manner referred to above, that is to say at par; but in the system which we are now defending there is nothing involving any such obligation on the part of the State. The loans which Holland has raised in recent years under contract as to redemption do, indeed, leave it open to the State to redeem by drawings, but they do not place the State under any obligation to do so.<sup>1</sup>

We fail, therefore, to see that any valid reasons exist for objecting, as do some writers, to the system of engaging to extinguish loans by periodical payments. So strongly is ADAMS opposed to this system that he declares it to be worse than that of forming a Sinking Fund on the ground that the arrangements made with regard to a Sinking Fund can be rendered inoperative at any time, whereas engagements must be fulfilled at all costs. Seeing, however, that the fulfilment of such engagements is never difficult, and that at the worst it may be fruitless, we cannot but disagree with ADAMS. Our first objection against sinking funds is that they occasion unnecessary trouble. There is no single purpose which they

<sup>1</sup> The question whether redemption by drawings contributes very much towards placing the loan on favourable terms need not be discussed here; it is a question apart. Only if the bonds are issued at much below par does redemption by drawings exercise a very beneficial effect, but the disadvantages of the system of issuing at much below par have already been stated.

are intended to effect that could not be equally well achieved in another way. The idea which has inspired the advocates of sinking funds has been chiefly this: A given capital, when allowed to increase at compound interest, keeps on steadily growing; if every year we place in a fund a certain sum, and by investing that sum in bonds of the National Debt we allow it to increase at the prescribed rate, it ultimately reaches so large a sum that the whole debt becomes extinguished. But how does this differ from applying the annuity system in a roundabout way? Our second objection to sinking funds is that they possess the disadvantage of the system under which no lightening of the burden in respect of payment of the interest is felt except after a period of years, and then the whole of the pressure is removed all at once.

To break with the system of obligatory periodical payments would be a reactionary step; indebtedness would increase even to a greater extent than it does now. Our system does not, indeed, offer all the guarantees that one could desire, but it does offer some; for one of its results, at least under ordinary circumstances, is, that when loans are being contracted care is taken to provide the means necessary not only for the payment of the interest, but also for the extinction of the capital debt in such a period of years as may be deemed practicable and expedient. In other words, it affords a guarantee that the principles which we explained and commended above shall be observed.

We are speaking now of new loans only. Some of the plans which we mentioned had, as was shown, wider scope; they were designed for nothing less than the extinction of the whole National Debt. Is that, too, an ideal which the financier should endeavour to attain? The question is important, and until we have examined the point of view from which it ought to be regarded, we cannot consider our inquiry as finished.

Frequently a country has inherited a large debt from past generations. How should that debt be treated? Should it be left as it is, or should an effort be made to reduce it, perhaps to extinguish it? A little has been done in that

direction in certain countries, but only a little. In the matter of debt extinction on a large scale the example was certainly set by the North American Union, which in the period 1865-1885 succeeded in reducing its net indebtedness from 2,756 to 1,375 million dollars, and its charges for interest from nearly 151 to 47 million dollars.<sup>1</sup> But this was extinction of new, and not of old debt; this was an application of the principle advocated in the preceding section. A better example is afforded by Great Britain. In January 1816 the National Debt amounted to £885,186,123 or £44 : 5s. per head of population; in January 1853 it had fallen to £798,962,551. Shortly after it was increased by the Crimean War to £826,002,754, the figure at which it stood on March 31st, 1856, and a further £700,000 was added by the Indian Mutiny. From that time forward, however, there was a steady reduction, and on March 31st, 1899, shortly before the time when the South African War was to increase it again considerably, the National Debt had been brought down to £634,984,000 or £15 : 13s. per head of population. The annual charges amounted in 1816 to 32 shillings and in 1889 to 12 shillings and 5 pence per head of population.<sup>2</sup>

Holland, too, has greatly reduced her debt, but only in the years of the Indian profits.<sup>3</sup> In 1848 the charges in respect of interest amounted to £3,024,000; in 1877, to £2,206,000. In the period 1850-1877 the sum of £19,790,000 was spent in the extinction of debt.<sup>4</sup> Since that time loans have been repeatedly raised, but a certain amount of debt has also been redeemed, by drawings and otherwise, and a saving of interest has been effected by the conversions of 1886 and 1896. In the estimates for 1902

<sup>1</sup> See O. P. AUSTIN on "National Debts of the World" in the official *Monthly Summary of Commerce and Finance*, 1901, p. 2,183. According to that article (which gives many details, statistical and historical, as to the national debts of a large number of countries) the net indebtedness of the United States on July 1st, 1900, was 1,107,711,257 dollars, and the charge for interest 33,545,130 dollars.

<sup>2</sup> J. S. NICHOLSON, *Principles of Political Economy*, vol. iii., London, 1901, p. 405. See G. M. BOISSEVAIN, "De Engelsche Staatsschuld van 1836 tot 1889," in *De Economist* of 1889, pp. 823-831.

<sup>3</sup> [See Notes at end of this volume.—A. A. W.]

<sup>4</sup> Of which £1,428,500 was provided out of the amount received in commutation of the Scheldt dues, and £741,700 out of the amount received in commutation of the inalienable annuity due from Belgium.

a sum of £2,374,000 is provided in respect of interest, that is to say, £167,000 more than in 1877, but £650,000 less than had to be provided in 1848.

Cases are conceivable in which the answer to our question is very simple. Were exceptional prosperity to increase the yield of taxation, or—as in Holland at the time of the Indian profits—unexpected revenues to accrue to the Treasury while no large productive works had to be executed, the nation concerned would be guilty of inexcusable carelessness if it neglected to use a part of its surpluses in extinguishing debt. To enlarge upon this would be a waste of time, and our question would be trivial were it confined to such circumstances as these. It has a wider bearing, however. We wish to suppose entirely normal conditions as prevailing in the country. Neither exceptional prosperity nor exceptional depression. The taxes suffice to cover the expenditure, but there are no surpluses. In that case ought the financial policy to be framed with a view to the extinction or reduction of the National Debt? In other words, is it desirable that under such circumstances new taxes should be imposed or existing taxes increased in order that the burden of interest may some day be discharged, or at any rate considerably lightened?

First of all, let us take total extinction of indebtedness. Is it desirable that a scheme should be adopted which, if unimpeded in its execution, would result in the debt being completely discharged in a certain number of years?

In order to decide, we must see how such a scheme would work. Assume a country coinciding with Holland in area, population, and wealth to have a 3 per cent. debt of £100,000,000 which it wishes to extinguish in the course of a century by yearly redemption payments of £1,000,000. In that case it must begin by imposing new taxation to the amount of £1,000,000 per annum. Owing to a sum of £30,000 (*i.e.* 3 per cent. on £1,000,000) less being payable in interest every year, it will be possible to reduce the new taxation by that amount, so that after 33 years none of that taxation need any longer be levied. A second period is then entered upon. The yearly debt extinction no longer requires the imposition of new, but it prevents the immediate abolition of old taxes. By stopping the redemption payments

it would be possible at once to reduce taxation by £1,000,000 ; since, however, the payments are continued, taxation can only be reduced by £30,000 after one year, by £60,000 after two years, and not until after 33 years by the full amount of £1,000,000. Then there begins a third period similar to that which preceded, and so it goes on until the whole debt has been extinguished. The moment that time has come taxation to the amount of £1,000,000 can be abolished at one stroke.

Our question, therefore, reduces itself to this: Is it desirable to raise, during a period of 33 years, additional taxation to an amount commencing with £1,000,000 and ending with £30,000 in order to be able, at the end of that period, to reduce the old taxes by £30,000 yearly? In other words, supposing the rate of interest to be represented by  $x$ , is it desirable that, throughout a period of  $\frac{100}{x}$  years, taxation should be increased by a sum which in the first year would equal the amount assigned for yearly redemption, and in the last year would equal  $\frac{x}{100}$  of that amount, and that at the end of the period the same amount of old taxation should be abolished every year as had previously been abolished yearly of the new taxation? This, we conclude, is the clearest form in which the question can be stated, and it lies with those who are sticklers for a fixed scheme of debt redemption to prove that the answer must be in the affirmative.

It is in vain, however, that we search for reasons why the answer should be in the affirmative. Take the figures given in our illustration: what it would mean in a country like Holland to put on new taxes to the amount of £1,000,000 is a matter of which we can form a very accurate judgment. We know that, even as it is, various imposts are felt to be very burdensome; we know, for instance, that there are a number of excise duties which would long since have been abolished, or at any rate greatly reduced, had either alternative been at all possible. But what it would mean for the generation that will be living 33 years hence to be able to reduce taxation by £30,000 every year is a thing that

evades all calculation. Still less are we in a position to estimate what importance the generation that will be living a century hence would attach to being suddenly relieved of taxation to the amount of £1,000,000 per annum. All that we know with certainty is that if, in a century's time, our population should have doubled, as it probably will, the *per capita* burden of interest will be only just half what it is at present, thus the pressure of that burden will probably be far lighter than it is now. And is it not an axiom in finance that taxation should never be increased unless there be some very valid reasons? But valid reasons cannot be held to exist where the increase of taxation is intended for the purpose of enabling taxation to be reduced at some time in the distant future.

The foregoing criticism applies only to a scheme which aims at total extinction of indebtedness. Something less ambitious than this may be aimed at. One case, at any rate, is conceivable in which temporary redemption may confer great advantages, and we should like to make it clear when this case occurs.

The policy of debt extinction, whatever may be its drawbacks, is attended by one supreme advantage: it is highly conducive to the conversion of debt. England has found this to be so. In 1822 she was still paying 5 per cent. on part of her debt; in 1854 she managed to convert into 3 per cent. stock the whole of the debt on which she had previously been paying more than that rate, and in 1888-89 she succeeded in converting that stock into a debt of which the interest was  $2\frac{3}{4}$  per cent. until 1903, and after that  $2\frac{1}{2}$  per cent.<sup>1</sup> The example furnished by the United States is better still, because in the case of England the decline in the rate of interest was a contributing factor. Thanks to her energetic prosecution of a policy of debt extinction and the consequent restoration of her credit, America was able as early as 1870 to set about converting her 6 per cent. debt, of which some 1,765 million dollars were still in circula-

<sup>1</sup> This last conversion is described in detail by E. W. HAMILTON: *An Account of the Operations under the National Debt Conversion Act, 1888, and the National Debt Redemption Act, 1889* (London, 1889). Of a total of £595,500,000 3 per cents., £565,600,000 were converted.

tion at that time, and by the year 1881 not only the whole of that debt but also the 5 per cents. had been got rid of. Some time later the Government was able, as already stated, to borrow at 3 per cent.

These examples, to which others might be added, are instructive inasmuch as they prove that for countries whose credit has been impaired, temporary debt extinction may be a means whereby credit is restored. In such cases the extinction of debt does not mean sacrificing present interests for the sake of posterity; it means doing something of which the benefit will be reaped by the living generation. And this becomes clearer when one considers the following.

The higher the rate of interest that a country pays, the greater, of course, the saving of interest which it effects by the redemption of a given amount of debt. Reverting once more to our illustration: the sum of £1,000,000 is assigned each year for extinction of debt. At 3 per cent. it will take 33 years to reduce the annual interest charged by the full amount of the million pounds. But at 6 per cent. that advantage will be secured in half the time, *i.e.* in 16 to 17 years. And where the saving of interest due to debt extinction is accompanied by another arising from debt conversion, the latter saving, perhaps, applying to the entire National Debt and, therefore, representing a large sum, the combined effect will be to hasten considerably the approach of the time when the sacrifice incurred for the sake of getting out of debt must bring its recompense. In this case, too, it will be necessary to submit to some new taxes at the beginning, but it will be possible to dispense with these in a relatively short time; and when the moment has arrived at which the redemption process may be stopped, there will be a chance of reducing or abolishing old taxes. That moment, it need scarcely be said, arrives whenever there ceases for a while to be any further occasion for conversion owing to interest on the debt having been brought back to a normal rate.

The obvious conclusion to be drawn from the foregoing is this. For States that have to pay a high rate of interest because their credit is not very good, extinction of old debt by yearly payments continued for a certain period of time has

much to recommend it. Just because the rate of interest is high, and the saving of interest, therefore, amounts at once to a considerable sum, this plan imposes heavy sacrifices for a few years only, and soon these sacrifices are amply compensated. There is, besides, the possibility of a conversion which will greatly help to reduce those sacrifices. But for States whose credit is good, such a system of temporary debt extinction is hardly to be recommended. The rate of interest which they pay is low, so that their chances of getting a lower—in any case a much lower—rate are slight; a great many years must elapse before the saving of interest will render it possible to relieve the people of the extra taxation imposed upon them for the purpose of debt extinction. The living generation is required to assume a burden for the sake of a future so remote that no calculation is possible as to what its needs and resources may be, unless the period during which the scheme is to operate should be very short. But in that case the amount of interest saved would be small and, therefore, no recompense for the burdens that had been temporarily imposed.

These remarks are, we think, consonant with what has been said against contracting permanent debts for the purpose of meeting deficits. The fact that the needs and resources of future generations are unknown is no justification for a nation passing the burden of part of its expenditure down to posterity. But the same reason that forbids this, renders it inadvisable for the nation to increase taxation for the purpose of extinguishing old debt, when the living generation can derive no great benefit from the measure. This is the standard by which such measures must be judged. Schemes under which a fixed amount of debt must be extinguished annually during a certain period are never to be recommended unless they are capable of ensuring material relief from taxation within a relatively short time.

Under a properly conducted system of finance the old debts will diminish of themselves. In framing the budget, revenue will not be overestimated and expenditure will be calculated with great exactitude. The amounts to be set down for extraordinary expenditure of a non-productive character will in each case be fixed with due regard to the

principles set out above. Then in times of prosperity there will be found to be surpluses that will be used in extinguishing debt when no provision has to be made for public works. Most European States would by now have smaller debts had they acted on this principle, and made it a practice to contract only temporary loans when obliged to incur expenditure exceeding what could be borne in a single financial year. The chief rule is to guard against permanent increase of indebtedness for non-productive purposes. If we observe this rule, future generations will have no reason to reproach us with failure in our financial policy and in our duty to posterity.

## NOTES

PAGE 351.—*Inheritable Leasehold*, or *Inheritable Lease*.—This expression is unknown in English law. It is intended to render the Dutch expression *Erfpacht* (German, *Erbpacht*). Such a lease constitutes a *jus in re*. The holder may bequeath it; it is inherited by his representatives; it may be either perpetual or temporary; it is subject to the payment of a yearly rent (“*Canon*”).

PAGE 397.—*Napoleon's Decree of July 1810*.—The allusion here is to the Decree by which Holland was declared part of the French Empire, and by which it was provided (Art. 8) that only the third part of the interest of the Dutch National Debt was to be kept up. For this reason the Decree came to be known in Holland as the *Tierceeringsbesluit*. (See also below, “Effective Debt.”)

PAGE 409.—*Dykes Rates*.—These are the yearly rates required to be paid by landowners in certain districts in Holland to the Board responsible for defending those districts against the influx of the sea. Such a district or complex of lands is called a *polder*, and the rates are called *polderlasten*.

PAGE 633.—*Effective Debt*.—As stated in the second note above, Napoleon, in 1810, repudiated two-thirds of the interest of the Dutch National Debt. In 1814, after the restoration of Dutch National Independence, an Act was passed acknowledging the original full indebtedness and promising that the payment of the interest on the repudiated two-thirds would be resumed at a future—somewhat remote—date. This part of the debt came to be known as the “Delayed Debt,” as distinguished from the part on which interest was actually paid—the “Effective Debt.” The plan was to convert, yearly, a fixed amount of “Delayed Debt” into “Effective Debt.”

PAGE 638.—*Indian Profits*.—These were the net profits of the annual State account of the Dutch Indian Colonies, and were assigned to the Treasury of the kingdom in Europe.

THE END

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