

LAND VALUES.

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"OUR POLICY."

"We would simply take for the community what belongs to the community—the value that attaches to land by the growth of the community ; leave sacred to the individual all that belongs to the individual."—*Henry George.*

ADAM SMITH'S FIRST PRINCIPLE OF TAXATION.

"The expense of government to the individuals of a great nation, is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation."—Adam Smith. *Wealth of Nations.* (First Maxim concerning Taxation. Book V. Ch. II.)

It is greatly to be regretted that compilers of text-books on Political Economy, blindly following the example of John Stuart Mill, should almost invariably omit the above words when quoting the world-renowned maxims or canons of taxation as laid down by Adam Smith. For they certainly reveal his inmost views on this important and little understood subject, and formulate in an unmistakeable manner his ideal of taxation, which we rejoice to know is also our own. They first emphasise the great and fundamental social truth, that all the citizens of a nation are necessarily in the position of joint tenants, as well as of co-heirs, of a great estate, of the land of the nation, with all the natural sources, forces, and opportunities inherent therein. Of these resources the State, as representing the total of the citizens, is the

superior Landlord, from whom they individually hold the special natural opportunities granted to them : a Landlord, moreover, who has normally no revenue wherewith to defray the necessary expense of management, &c., save that supplied by them as tenants, as occupiers and utilisers, of their joint estate. And Adam Smith contends, and we entirely endorse his contention, that toward these necessary expenses each and every citizen should be "obliged to contribute in proportion to their respective interests in the estate." In other words, he contended, as we to-day contend, that each citizen may equitably be called upon to contribute to public revenue in proportion to the value of the special privileges, advantages, and opportunities inherent in that special portion of the joint estate the use of which has been granted him by the community. In the absence of other special privileges, conferring and creating artificial monopolies—all of which, in accordance with this principle, should either be worked by duly appointed authorities for the common benefit of all, or taxed annually according and in proportion to the value of the special advantages granted—this means that each and every citizen should be called upon to contribute toward public revenues in proportion to the value of the national estate, of the agricultural, mineral, or urban land, he was being permitted to utilise or to engross, and the profits of which he was being permitted to appropriate to his own individual advantage. And this, as it seems to us, is the one great lesson implied and involved in Adam Smith's first maxim of taxation, from which we have taken the above words.

To err in reasoning is human and common ; to err in the expression of our thoughts, thus conveying wrong impressions of our meaning or ideas, is also human and much more common. The great Homer, we are told, sometimes nods, and is found wanting : the same may truly be said of the great Father of English Political Economy. And he certainly is found wanting when, in the very paragraph from which we have taken the above words, he endeavoured to formulate his views on taxation in one brief sentence as follows :—

"The subjects of every State ought to contribute towards the support of the Government, as nearly as possible, in proportion to their respective abilities ; that is, in proportion to the revenues which they respectively enjoy under the protection of the State."

Now, it is evident that the conclusion advanced in these words is altogether opposed to the conclusion advanced in the sentence which follows it, which we have taken as the heading of this essay. In the one case we are told that the citizens should contribute "as nearly as possible in proportion to their *respective abilities.*" In the other, that they should "contribute in proportion to their *respective interests in the estate,*"

in their common and joint inheritance. The two contentions are contradictory, and exclusive or destructive one of the other. If we accept the one, we must reject the other. And it is certainly much to be regretted—for the sake of truth and the progress of correct ideas concerning taxation, as well as for the reputation of Adam Smith—that while the former contention has been blindly accepted as embodying his views on taxation, and consequently has passed current as his classical First Maxim or Canon of Taxation, the latter should have been quietly dropped and entirely ignored. For, as it seems to us, the last contention is obviously true and conveys a much-needed lesson; whilst the former is false, is, in fact, no principle at all, and consequently conveys totally erroneous ideas concerning the all-important subject of taxation.

As the writer has elsewhere expressed it*—

"The contention that each citizen should be called upon to contribute to the public expenditure in proportion to his ability to pay, seems to us absurd. Other things being equal, it would be to put a premium on and to encourage extravagance and idleness, and to fine and to discourage industry and thrift. It is, in fact, no principle at all; as a guide to conduct it is on a par with that adopted by the Irishman at Donnybrook Fair, who made it a rule whenever he saw a head to hit out at it. As a basis for a system of taxation it might commend itself to any malevolent despot, say a Sultan of Turkey, desirous of finding a reason, or rather an excuse, for the special taxation of the more industrious and thrifty of his unfortunate subjects. It can, however, be of no assistance to the citizens of a free community, anxiously desirous to formulate a system of taxation that shall bear equitably on all."

Surely the truth of these words is sufficiently manifest. When considering the question of taxation, when endeavouring to secure that equality of taxation, which is the avowed aim of every economist—including Adam Smith—three separate and distinct sources of revenue, or of incomes, have to be considered. First, we should carefully discriminate between earned and unearned incomes: between incomes derived from the labours of the individuals receiving them, whether agricultural labourers, or doctors or lawyers, and these derived from any other source. Secondly, we should distinguish between incomes or revenues derived from "wealth" or "capital," employed in adding to the conveniences and in carrying on the industry and commerce of the community; and incomes or revenues derived from special privileges or monopolies enabling their owner to levy tribute upon the industry—upon both the "capital" and the labour—of the community. Revenues or incomes derived from this latter source,

from privilege, may, we hold, be regarded as forming the source whence all public revenues may in equity be derived, as in all cases they are the fruits of the activities, not of those who to-day are allowed to be enriched by them, but of those of the community as a whole. Should these prove insufficient, then the incomes derived from the wealth reproductively employed in promoting industry and trade, may next be called upon to contribute. And it is only as a last resource that the earnings of the individual workers, which should, as far as possible, be held sacred even from the State, should be diminished to supply the public necessities.

In the past and in the present, as everybody knows, the very reverse of this has prevailed. Taxes falling upon earnings, such as Customs duties, have been made the main source of public revenues. Then revenues derived from wealth employed in industry have been taxed; whilst all demands to levy taxation on privilege and monopoly are stoutly resisted by the still predominant privileged and ruling classes, and loudly denounced as confiscation, plunder, or even as class legislation. All of which only confirms the belief of the pessimist, that whatever is, is wrong!

Lastly, we would remind our readers that there is one privilege that each one of us has to claim from our fellows, from the joint-tenants and co-heirs of our common estate. This is the privilege of using some portion or other of this estate, on which to live and from which to produce. The holding of land, the exclusive use and control of land, is a privilege, a special advantage or opportunity, conferred by the community. And, therefore, the community can equitably demand that each one of us should contribute toward the necessary public expenditure in proportion to the value of the special privilege granted him. Thus and thus only can we hope to conform our system of taxation to the demands of the Father of English Political Economy, that all should "be obliged to contribute in proportion to their respective interests in the estate," in the estate of which we are all equally joint-tenants and co-heirs; and the use of which is the indispensable condition of both individual and national life.

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* "Toward the Light" (pp. 144-145). Post free from these offices, 2/6.