

# THE POLITICS OF LAND TAXATION IN THE BRITISH EMPIRE

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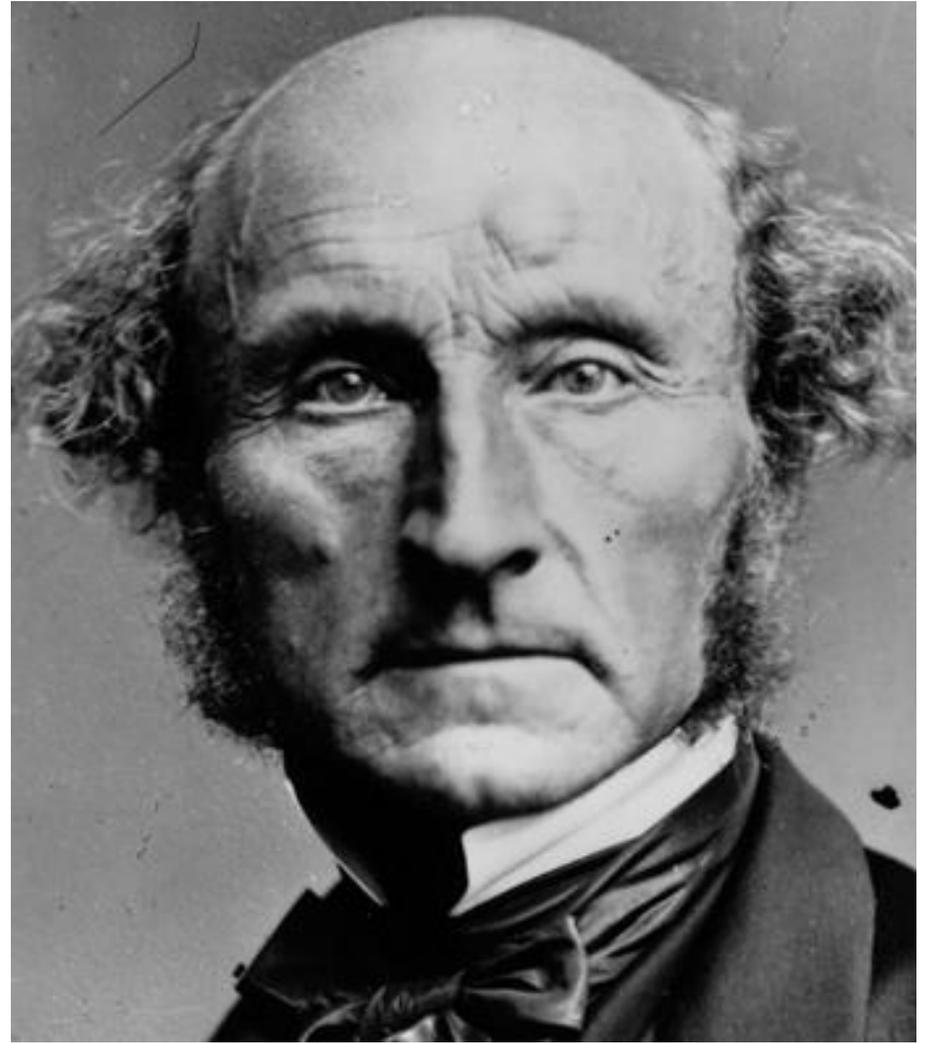
WORSHIPFUL COMPANY OF TAX ADVISERS, 20  
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## John Stuart Mill on land taxes

He followed Ricardo and James Mill:

“Land is limited in quantity while the demand for it, in a prosperous country, is constantly increasing. The rent ...progressively rises, not through the exertion or expenditure of the owner ... But by the mere growth of wealth and population. The incomes of landowners are rising while they are sleeping, through the general prosperity produced by the labour and outlay of other people”. (1871)



## Tenure: efficiency ...

- Efficiency: the tripartite system divided responsibilities. Landowners improved and reorganised their estates, creating large and efficient farms with economies of scale.
- They were not like the owners of latifundia in Europe, with share-croppers. English landlords were highly commercial.
- The tenants devoted their resources to investment in animals and implements rather than buying more land as peasants in other countries.
- Alfred Marshall, 1883: “It requires as much capital to buy twenty acres as it does to farm a hundred”.

## .... Or deformation?

- landowners passed risks to farmers by keeping rents fixed regardless of harvest fluctuations, transforming the uncertainties of agriculture into the security of landownership.
- It rested on political power in the past – dissolution of the monasteries, enclosures – and could be restructured through political power.
- This was the argument of radical historians after Henry George – R H Tawney, John and Barbara Hammond – and reformers who looked to small owner-occupiers in Denmark or the mid-west.
- ... But could also be used on the right to provide a bastion to large owners. Lord Salisbury 1892: “a small proprietary constitutes the strongest bulwark against revolutionary attack”.

# DEBATES IN THE BRITISH EMPIRE

- Should the tax and tenurial system of Britain be emulated to create a tripartite structure with large estates offering efficiency and stability?
- Or should it be avoided to foster a class of yeoman farmers?
- What taxes should be borne by land compared with other forms of income and wealth?

The debates in Britain in the early nineteenth century spilled over into the empire – and returned from there to influence the debates in the metropolis

# INDIA



## ZAMINDARS and the permanent settlement

Raja Sir Venkata  
Svetachalapathi Ranga Rao  
Bahadur of Bobbili (1881-  
1921), from A. Vadivelu,  
*The Aristocracy of South  
India*. Madras: Vest & Co.,  
1903, pp. 32.

1877: 33 square miles,  
population of 140,739 C D  
Maclean, *Standing  
information regarding the  
official administration of  
Madras Presidency*,  
Government of Madras,  
1877.



# Permanent settlement - definition

- Introduced in Bengal in 1793, Madras from 1799
- Clear right to land was granted to zamindars in return for paying revenue to the government
- Payments were fixed and failure to pay meant a loss of proprietorship
- Cultivators lost their rights and became tenants of the zamindars

# Permanent settlement – anticipated benefits

- Political

Created an alliance between the East India Co (and later the British Raj) and zamindars

Relieve the peasants of exploitation by middlemen

Contained revolt against taxation

- Economic

Any increase in income from the land would go to the zamindars

They would act like large aristocratic landowners in England, encouraging agricultural development and stability in rural society

# Permanent settlement - criticism

- As in Britain, the government did not benefit from rising income as rents rose
- Taxes needed to be imposed on other groups in society which led to a sense of inequity
- Unlike in Britain, the zamindars did not increase investment in their land and raise productivity – they were like the *latifundia* of Italy.
- Radicals criticised both the English aristocratic landowners and the zamindars for being parasitical, extracting rent for the pursuit of luxury
- Backlash: shift to either temporary settlement or ryotwari system

# Henry George on zamindars

He rejected Malthus: misery and starvation were not the result of over-population. The real case was 'the rapacity of man, not the niggardliness of nature'.

“In India from time immemorial, the working classes have been ground down by exactions and oppressions into a condition of helpless and hopeless degradation... all wealth that could be wring from the people was in the possession of princes who were little better than robber chiefs ... and was wasted in useless or worse than useless luxury... the only arts that could advance were those that ministered to the ostentation and luxury of the great.”

The rule of the English was even worse: “In large parts of India the English, in their desire to create a class of landed proprietors, turned over the soil in absolute possession to hereditary tax-gatherers, who rack-rent the cultivators most mercilessly”.

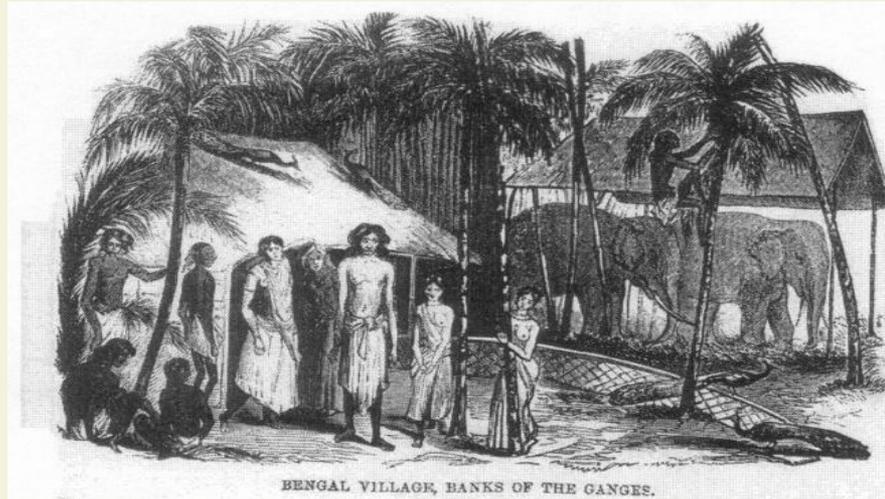
# Temporary settlement

- Introduced in north-west provinces in 1833
- Renegotiation of government claim to revenue so that revenues rose in line with rents and land values, and according to the needs of the government
- Problem: renegotiation led to political tensions and closer involvement of the Raj in fiscal extraction
- OUTCOME Shift back to permanent settlement on the grounds that it led to growth and minimised resistance.
- OR impose other taxes to extract revenue
- OR to a completely different approach

## RYOTWARI SYSTEM

The peasant or ryot is the proprietor and pays an assessment direct to the government

He could not be ejected so long as the assessment was paid: it was essentially a perpetual lease



THE MISSIONARY HERALD.  
Jan 1853

## JAMES MILL

examiner of correspondence,  
East India Co, 1819-1836

Rent was an unearned income from land and was the best source of revenue

Taxation should be based on the share of Rent in the total produce of land

The tax should be varied by the quality of land so that the unearned surplus of superior land would be captured

Direct levy on the cultivator to remove exploitative middlemen



# Ryotwari system

- Initial scheme: record extent of each holding and quality; estimate net produce and reasonable return to family; government would then claim 55 per cent.
- Difficulties of collecting data; revenue claim was too high.
- Revised system in Bombay in 1835:
  - Survey land to establish its use and quality
  - Payment determined by condition of the occupier and past payment
  - Assurance of payment of the same amount for a defined period until a new settlement was made
  - Inefficient cultivators with good land would need to improve their techniques or transfer the land to someone who could pay the tax
  - But high tax could be a disincentive, not allow accumulation of capital and independence as hoped; and tax collectors could create tension with revolts on re-settlement as in the Bardoli campaign

## Bardoli satyagraha, 1928

In 1927, the Bombay revenue department imposed a tax increase of 22 per cent

February 1928,  
Satyagraha under  
Vallabhbhai Patel on  
the authority of  
Gandhi.

Committee of enquiry  
reported that the  
increase was unfair.



# Anticipated benefits and shortcomings

- **benefits**
- Security to farmers to improve their holdings, with the right to sell or bequeath their land
- Free of the extortions of landlords

- **disadvantages**

High tax imposed on farmer, with tension caused by intrusion of tax collectors

Revenue for the government at the expense of growth, dependence on money lenders

# New forms of taxation

- Excise duties were unpopular and led to nationalist unrest such as opposition to the salt tax.
- Customs duties could be justified in India as protection for local industries, but strongly opposed in Britain where they hit Lancashire cotton exports.
- Income tax, as in Britain to rebalance the fiscal system: opposed by an alliance of zamindars and British businessmen.

# WHITE SETTLERS: THE CASE OF NEW ZEALAND



# NEW ZEALAND

- Development required public works which could lead to higher land prices benefitting 'squatters' with the wider population paying taxes to service the loans from lenders in Britain
- Land sales gave revenue to the government: territorial revenues were 44.7 per cent in the 1850s; remaining revenue came overwhelmingly from customs duties (47.7 per cent)
- Should land be sold at a high price to produce income – or distributed at low prices to create a society of small, self-reliant farmers?
- Or would this lead to inefficient small farms without the ability to share risk between landlords and tenants?

# Governor George Grey

- Governor of New Zealand 1845-53 and 1861-68
- Sympathised with the Irish peasantry; and as governor of South Australia opposed land settlement as recreating the faults of English tenure at the expense of labourers.
- Grey reduced the price of land in the 1850s – did not lead to small family farms but rather to vast sheep runs owned by a few rich men
- In England after 1868, developed radical views on land: English landowners in Ireland should be dispossessed; and landlords in England had expropriated the land of the people. Criticised the ‘gigantic evil of an aristocracy with enormous tracts of land, unfairly acquired in many instances’
- Returned to New Zealand in 1870 to transform the tax system by a tax on land and incomes; and to create small farmers – New Zealand should not be allowed to sink into the ways of the old world.

# George Grey and John Ballance

- Grey become Prime Minister in 1877



John Ballance became Treasurer in 1878



# John Ballance and the land tax

- Need for revenue: problem of expropriation of Maori land – war in 1860 which increased costs of government, and also made loans more expensive
- Expensive development problems of Julius Vogel from 1870. A new form of taxation was needed.
- Land tax introduced by John Ballance in 1878-9, on the assumption that landowners received the benefit of loans and did not pay their fair share;
- Followed the precedent of Victoria in 1877, which applied to estates above 640 acres; in New Zealand, with its larger debts, it applied to smaller holdings and regardless of whether it produced income
- Followed the principle of J S Mill and took it further: income from personal exertion would be entirely untaxed; and land would pay tax even if it produced no income. The tax was on the unimproved value of the land. Idle holdings would pay tax, if they were being held for future increases in value created by public works. Any increase as a result of the energy of small owners was therefore untaxed.

# Political problems

- Complaint of inequity: landowners paid tax even if there was no income; by contrast, urban traders paid no tax on their income. Was this fair when landowners might have borrowed and paid interest to urban lenders ?
- Land prices collapsed with depression; the government lost revenue from land sales; and had a large deficit.
- Opponents of Grey and Ballance turned to customs duties and a general property tax on both real and personal property.
- Ballance took the battle to his opponents.

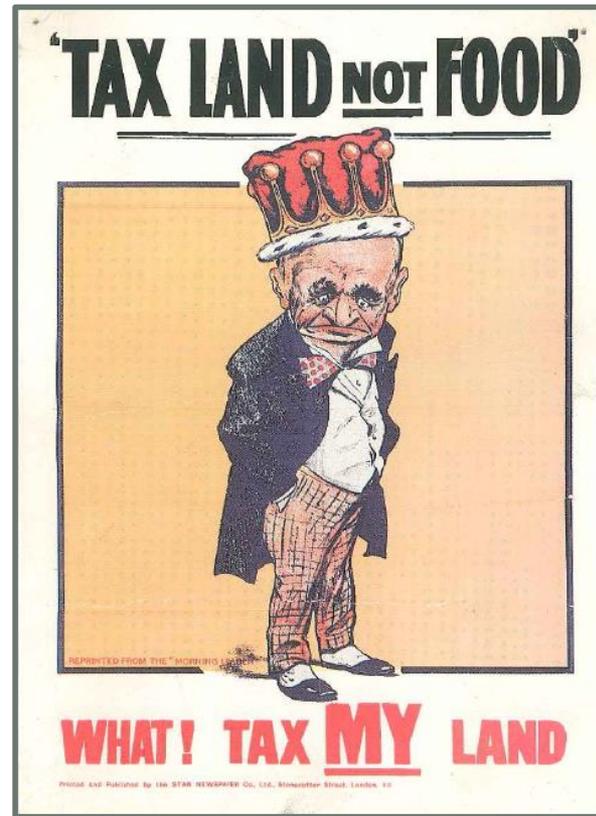
# Ballance and land politics

- Proposed denser land settlement by smaller farms and land nationalisation.
- Large pastoral farms blocked economic progress,
- Land Act, 1885: offered leases of small holdings and made government loans available.
- Election of 1890: tax on land income and support for Henry George to break up great estates. He won the election.
- Land tax was made progressive, alongside a progressive income tax – earlier than Britain.
- 1892: government scheme to buy land from large estates for settlement, with the threat of compulsion.

# Outcomes

- 1892-1912 the government bought 223 estates
- Top rate of land tax was raised in 1903, 1907 and 1912 to shift revenue further from customs duties and to break up estates
- The income from the tax also funded non-contributory pensions in 1898
- New Zealand was ahead of Britain where the old age pensions of 1908 were similarly linked with the introduction of progressive income tax and land tax in 1909.
- New Zealand had adopted the position of James and JS Mill of rejecting large estates and hierarchical social structures.

# The People's Budget and land taxes



# CONCLUSIONS

- Henry George restored radical critiques of landowners which had existed in the early nineteenth century in writers such as Ricardo, Cobbett and the Mills
- Although these ideas were marginalised in Britain until the later nineteenth century
- They continued to play a major role in the empire where the optimum structure of society remained in dispute
  - In part the ideas of radicals at the higher levels eg Grey
  - In part the popular views of Cobbett or the Chartists who settled in New Zealand

These ideas came back into British politics such as the New Zealand land tax, progressive and differentiated income tax, and old age pensions.