J. S. Mill on the Income Tax Exemption and Inheritance Taxes: The Evidence Reconsidered

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> A succession duty is the most unobjectionable mode of [statically and intertemporally redistributing wealth] . . . because in that way it is confined to hereditary wealth. I think you must allow people to retain the full advantage for their lives of what they have acquired; but the State may deal with it on the occasion of succession. I certainly do think it fair and reasonable that the general policy of the State should favour the diffusion rather than the concentration of wealth.
> —J. S. Mill, Testimony before the Select Committee on Income and Property Tax

1. Introduction

John Stuart Mill was, arguably, the most complex of all thinkers on economic and political matters. This man for all intellectual seasons has insights and wisdom for generations of diverse thinkers. One of the chief areas of contemporary debate surrounds important questions raised in Mill'sanalyses of economic policy, particularly tax policy, respecting

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income distribution.[1] One important and complex issue stands out: To what extent did Mill develop a coherent tax theory and policy in the area of income tax exemptions and inheritance taxes which would preserve a maximum of incentives, a minimum of "drag" on the economic system, and long-term distributive justice?

This article focuses on two interesting puzzles related to Mill's well-known stance on general tax policy. First, why did Mill propose the income exemption and why did he support changing it between 1852 and 1861, and second, what, exactly, led Mill to recommend progressive inheritance but (fundamentally) proportional income taxes? Mill's theoretical views on taxation have been ably chronicled elsewhere. However, the neglect of certain empirical factors relating to the actual British tax structure and income distribution has, we believe, led to some misinterpretations and distortions regarding Mill's stated views on incentives and the role of tax institutions in fostering equality both within the existing system and intertemporally. We maintain that Mill's concern for ex ante equality, the diffusion of property, and a workable intertemporal concept of capitalism—views which interacted with the *institutional* as well as the *ideational environment* within which he wrote—was the hallmark of his theoretical and practical thought on taxation.

2. Mill and the British Tax Structure

The tax structure of England as Mill viewed it in the first edition of the *Principles* (1848) and in testimony before Parliament in 1852 and 1861 was complex and filled with anomalies. Basically it was, as were many European systems of the day, a product of medieval (feudal) influences with particular elements from the more recent past. The form and amount of taxation in the United Kingdom were, of course, much conditioned by such "exogenous" events as the Napoleonic Wars and (later) the Crimean War (1852–54). Indirect taxes, including "regalian" taxes in the form of customs duties and excises on particular commodities, were still a very large part of the tax structure in 1848. Out of a total tax revenue of £51.4 million, fully 25 percent of the total was taken in the form of excises and 38 percent in the form of customs revenues in 1848, the year that Mill's *Principles* first appeared (Shehab 1953, 90).

1. Elements of this debate have occupied a number of historians of economic theory and policy over recent decades (Schwartz 1972; Ekelund and Tollison 1976, 1978; West 1978; Hollander 1985).

Direct taxes were (re)gaining favor in Mill's day. Wars with France at the end of the eighteenth century and the beginning of the nineteenth had created extraordinary demands on the treasury. In 1798 William Pitt levied the first income tax (in Great Britain only) at a rate of "10*l.* per cent [that is, 10 percent] on incomes of 200*l.* and upwards of various rates [for incomes] between 200*l.* and 60*l.* a year" (Levi 1860, 147). That tax expired in 1815 but was reinstituted by Sir Robert Peel in 1842. After significant revisions of the entire tax structure under William Gladstone in 1852–53, income taxes, despite continuous opposition, became a permanent part of the British tax structure.[2]

"Death duties" (probate, legacy, and, later, succession duties, levied initially under the Stamp Act of 1815) were also long part of the tax structure. In addition, other remnants of the medieval tax structure, especially the taxes on land and other forms of property, and a preponderance of indirect taxes, persisted into Mill's day. While it is not our purpose to provide details here, we find it significant that a radical restructuring of the British tax system (actually that of the United Kingdom) was in full swing during Mill's heyday as an economist.

Mill as Classical Economist

Mill's belief in the cornerstones of classical economics, which was accompanied by a severe case of "capital phrenia," is another key to understanding his proposed restructuring of the tax system. In this classical version of "trickle down economics," Mill wished to protect savings at all costs because savings is the fountain from which investment and improvement of the laboring classes (through the wages fund) springs. In testimony before Parliament in May 1852, Mill was adamant in the classical view, clearly distinguishing between "productive" and "unproductive" uses of spending money:

> If people invest their money in some mode in which it is rendered productive, it is more useful than if they spent it upon themselves. If 1,000*l.* a year were expended even in alms, it would be soon spent, and the benefit of it would remain only so long as it lasted; but if the same sum were employed productively, by being lent to a manufacturer or

2. The tax imposed in 1842 was levied at 7*d.* in the pound on incomes of 150*l.* and above. In 1853 this rate was continued plus a rate of 5*d.* on incomes from 100*l.* to 150*l.*, and the tax was extended to Ireland. Rates rose and fell over the period of the Crimean War in the 1850s and in response to alterations in the excises and customs duties (see Levi 1860, 147–63, for a useful summary of the entire British tax structure up to 1860).

an agriculturist, it would become a fund in perpetuity for maintaining labour. (Mill [1852] 1968–69, 319)

While it might be debatable whether Mill ever relinquished adherence to the wages fund in any meaningful way, his testimony before Parliament in 1851–52 and again in 1861 leaves no doubt that he was on these dates classical to the core with regard to the matter of tax reform.[3] Mill consistently defended modes of taxation that suppressed consumption and encouraged savings.

A second well-known aspect of Mill's thought is important as regards taxation and income distribution. A functioning and "just" capitalism as interpreted by Mill demanded ex ante but not ex post equality. The *intertemporal nature* of this view of justice must be held firmly in mind in interpreting Mill's policy views. In order to obtain economic growth and personal (human capital) growth in society, incentive structures that encouraged initiative and work had to be put in place in the tax structure and elsewhere. But, as we will argue, an appropriate incentive structure was not enough. Progress required "fluidity" and "mobility" within society at any given time and across time. Mill's policy stance, moreover, cannot be understood apart from his advocacy of the microeconomic diffusion of property rights within British society. Within this context, Mill faced, despite phenomenal economic growth in his lifetime, a highly skewed and fundamentally feudal system of wealth and income distribution. Mill's intertemporal view of justice (ex ante but not ex post equality), we argue, is the key, along with his adherence to classical economic theory and incentives, to understanding his stance on economic policy and income distribution.

Mill's Proposals for the British Tax System

The excellent rendition of Mill's tax policy proposals by Hollander (1985, 858–80) makes a recounting of it just that. We think it useful, however,

3. Indeed, we find some of Mill's clearest statements against hoarding and Say's Law (and its necessary accoutrement, the wages fund) in testimony. Mill rejected notions that would come to be called "Keynesian" in such statements as "if the money is spent on [a] man's personal indulgences, the most that it can do, even on the most favourable supposition, is to support those who derive employment from it, while it lasts; whereas, if it is invested and employed productively, it reproduces itself, and becomes a means of supporting a number of persons in perpetual succession" ([1852] 1968–69, 319). To this, Mill adds that equally or even more productive expenditures might be on endowments (for example, for schools "with proper precautions for its [the expended money's] being useful" [319]).

to review some of Mill's tax reform pronouncements in the context of his classical viewpoint and familiarity with the British tax structure.

Mill's classical perspective on the importance of making "productive" investments led him to espouse the exemption of savings from all taxation, no matter a person's income level, "in order to do complete justice."[4] Mill argued that if the portion of income laid by is charged with income tax, the tax is paid twice: first on the capital and then on the interest earned on the savings.[5] The use of funds is the key to Mill's view. Savings, when used in productive ways, either directly or indirectly (through financial institutions) led to investment, capital formation, and (ultimately) augmentation of the wages fund.

While all taxes had the effect of suppressing industry, income taxes, in particular, were direct taxes on personal and entrepreneurial effort and savings. Hence, Mill regarded them as a necessary evil, that is, necessary to pay for government expenditures. But equity (in a Benthamite conception) demanded that "equality of taxation . . . as a maxim of politics, means equality of sacrifice. It means apportioning the contribution of each person towards the expense of government so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his" (Mill [1848] 1965, 804). But within this framework, Mill's tax policy assessments included the issue of the importance of favorable treatment of transitory and precarious incomes. Mill, in these regards, clearly wanted the burden of the total tax take to fall in the laps of hereditary or "permanent" incomes

4. Mill was adamantly against what he identified as the double taxation of savings. For example, in 1861 testimony, he railed against the state for "taxing people twice on the same portion of their income" or for "taxing people for the fact of their saving" ([1861] 1968–69, 220). According to Mill: "Taxing people on what they save, and not taxing them on what they spend, or taxing people on a larger proportion of their income, because they are better off, does not hold the balance fairly between saving and spending; it is contrary to the canon of equity, and contrary to it in the worst way, because it makes that mode of employing income which is public policy to encourage, a subject of discouragement" (220).

5. Mill explained the double tax with a numerical example: "suppose in one year I save 100*l.*: if I did not save that 100*l.* I should have to pay 3*l.* to the State, which would leave me 97*l.* to expend on luxuries or indulgences: but if, instead of spending, I save the 100*l.*, I should not save it to lock it up, but to invest it; and I should immediately begin to pay the income tax on the income derived from it, which would be equivalent to paying the tax on the 100*l.* If I spend the 100*l.* I pay 3*l.* to the State, and have 97*l.* for my own use; if I save it, I pay 3*l.* to the State, which reduces my future income from it in the same proportion, and I also pay three per cent. on this diminished income; so that, in reality, I pay the income tax twice, first on the capital and then on the interest. This could only be just, on the supposition that I had the use and benefit both of the capital and of the income; but I have not" ([1852] 1968–69, 299).

and implicitly on those favored in the existing English distribution of wealth.[6]

Hollander clearly notes the import of Mill's differential treatment since the upper classes were most likely the recipients of hereditary incomes. And not only were terminable annuities and precarious and temporary professional incomes to be treated with favor—all incomes "derived from personal exertion" were to be given differential treatment. This would include, of course, wages from unskilled workers as implied in Mill's testimony before Hubbard's committee in 1861 (Hollander 1985, 868). Taxes on exertion and work effort were to be avoided or minimized as far as possible and savings of all classes were to be encouraged and supported.[7] An exemption of one-fourth annual income on the part of incomes earned "by personal exertion" was advocated by Mill—although he regarded the one-third annual income exemption proposed by Hub-

6. Basically, Mill suggested that if incomes are capitalized, tax payments should also be capitalized. An identical tax paid on a "life" annuity worth 1,500*l.* as upon an annuity worth 3,000*l.* in perpetuity would be unjust. If the income worth 3,000*l.* a year pays an income tax of 10 percent in perpetuity and the one worth 1,500*l.* pays 10 percent also for a certain number of years, the former will be equivalent to 300*l.* and the latter to 150*l.* This would seem just because the one (1500*l.*) would be worth only half the selling value of the other. But "wants," according to Mill, must be considered along with "means." Most particularly, temporary or precarious incomes should be taxed "at a lower scale than permanent or certain incomes, not because of their having a lower selling value, but because the possessors of those incomes have one want, which those who possess permanent incomes have not; they are liable to be called upon in most cases to save something out of that income to provide for their own future years, or to provide for others who are dependent upon them; while those who possess permanent incomes can spend the whole, and still leave the property to their descendants or others" ([1852] 1968–69, 286).

7. There were limits to Mill's advocacy of differential treatment. He was opposed on principle to progressive taxation measures with respect to earned or "life" incomes or "life" savings. His involvement with the principle of diminishing marginal utility is problematic (discussed below). However, with respect to the treatment of the savings of the poor, Mill does resort to a kind of marginal utility argument, but in reverse. In response to a question (from Hubbard) as to whether the rich are better able to save than the poor and whether, on that account, the poor should be treated differently, Mill replied: "I should say not, because the relief that you give in the case of the poor, is the relief of a much greater necessity. Though they save less, still what they do save costs them a much greater effort, and therefore to have that effort alleviated, is a greater advantage to them. And in regard to the rich, though it is true that they can save more without any substantial mischief to themselves, it does not follow that they will. Those whose income is permanent, seldom do so. And if they do, I am not sure that the fact that by doing so, they confer a *special benefit on the poor* by adding to the capital of the country, is not a sufficient reason in one way to overrule the reason in the other" ([1861] 1968–69, 219; emphasis added). Thus, the egalitarian (that is, proportional) treatment of the savings of all classes is defended on the bases of both marginal utility and the operation of the wages fund in capitalist accumulation.

bard's committee in 1861 a good approximation. The important point at hand is that such a scheme, given a tax amount to be raised, would place a heavier burden of total taxation on the wealthy, whose existence depended on heritable properties and, to a large extent, landed estates.

Less well known is Mill's view on feudal land taxes. These were taxes upon land based on feudal obligations to the Crown. Mill, in his testimony of 1852, justified the then-present land tax and even entertained an augmentation of it on the ground that feudal taxes were removed without a quid pro quo on the part of landholders. According to Mill, "feudal charges had been taken away previously; but they had been taken away without commutation, which I think was a gross injustice; to abolish charges upon land which had been previously held subject to those obligations, and to render it free of those obligations" ([1852] 1968–69, 303). The land tax, imposed to replace these feudal obligations (chiefly military service) was, according to Mill, far lower than the privileges these lands enjoyed under the feudal system. Taxes were abolished for a time (the last of them during the time of Charles II), but a land tax was invoked shortly thereafter (and levied systematically under Pitt).

Mill, in testimony, opposed any justification for the reduction or elimination of land taxes as they then existed. Recognizing that "the possession of land has always been a source of importance and power," Mill notes that the then-present "land tax bears a very small ratio to the value of land; and as the land was granted for the purpose of feudal service, it cannot well be supposed that the burthen of that service was only a twentieth or a thirtieth part of the value of land" ([1852] 1968–69, 304–5). When the questioning got around to manorial rights—which were directly linked to feudal land rights and obligations—Mill argued that land-manor taxation was justified, not only on the basis of feudal obligations but also because the value (opportunity cost) of the rights were more valuable in a rich state of society than in a poor state.

Historically, therefore, land taxation and even discriminatory taxes levied unevenly across England could be justified on the basis of feudal obligations. But Mill judged *raises* in such taxes "questionable" on the basis of prior feudal obligations since market adjustments take place due to taxes when particular pieces of property are subjected to taxes over long periods. The original taxpayer initially pays the tax but the tax is capitalized in subsequent sales. As Mill puts it, "if the land is under any disadvantage it tells on the price for which the land is sold"

([1852] 1968–69, 309).[8] Mill's argument could hardly be interpreted as an attempt to soak heritable property with land taxes, but it did provide a justification for the maintenance of land and manorial taxes on a wealthy aristocracy. Changes could be justified on the basis of "policy," moreover; and inequities that developed through time (such as intertemporal improvements in land or property) could be addressed by changing tax rates ([1852] 1968–69, 311).

These views on taxation and equity were clearly compatible with Mill's classical theory and view of equity, but he also understood that indirect taxation had, of necessity, to be supplemented with direct exactions. His most famous views on taxes therefore relate to income taxes, direct "exemptions" from those taxes, and inheritance taxes. Since excise and other indirect taxes were regressive, direct taxes could not be proportional if equal sacrifice was to be obtained. As Mill argues, "a just income tax ought never fall on necessaries" ([1861] 1968–69, 212). In the *Principles*, an exemption of £50 was used as an *example*: "If 50*l*. a year is sufficient (which may be doubted) for these purposes, an income of 100*l*. a year would, as it seems to me, obtain all the relief it is entitled to . . . by being taxed only on 50*l*. of its amount," but Mill adds the qualifier that the amount "should not, I think, be stretched further than to the amount of income needful for life, health, and immunity from bodily pain" ([1848] 1965, 807). In his Parliamentary testimony of 1852, Mill suggests an exemption of £150 ([1852] 1968–69, 294), but by 1861 he advocated an exemption of £100 (with lower rates between £100 and £150). Why did Mill alter his views? A historical and empirical reconstruction of income distribution and changes in the tax system over the later years provides clues to the justification for the exemption and the change between 1852 and 1861, as well as insights into Mill's famous advocacy of progressive inheritance taxes.

8. Mill in fact argued that this principle applied to all sorts of taxation applied to property, although changes might be made as a matter of policy. With respect to commodity taxation, for example, the malt tax, Mill argued, "I can never suppose that taking away the malt tax, or the tax on any other commodity, is required by justice to the particular class that immediately pay it, though it may be advisable on grounds of policy" ([1852] 1968–69, 309). This was so, he alleged, even though the initial tax was "unjust," because remission of the tax to the present generation would be as much a "windfall" as the imposition of the tax on the initial payers was "confiscation." Mill's illustration: "it was an exceedingly improper act of Hen. 8th to give away the lands of the monasteries to individuals, whose successors now possess those lands; but I conceive it would be now unjust to take those lands, or any portion of them, from the present possessors" ([1852] 1968–69, 308).

3. Income Distribution and the Low-Income Exemption

The quality of statistics on wealth and income distribution in nineteenth-century England, though relatively good, must necessarily be suspect, although the data have been carefully adjusted by a number of researchers (Soltow 1968; Williamson 1980; Rubinstein 1986; and, most particularly, Lindert and Williamson 1983).[9] Without question, however, the decades preceding Mill's evaluation of the British tax system were periods of massive growth in wealth and income. The flowering of the Industrial Revolution made the nineteenth century "England's century."

Allowing even for the poor quality of these early data, the massive growth of wealth wrought by the Industrial Revolution must have been the source of incredible percentage increases in per capita well-being in the United Kingdom. These progressive increases were translated into equally dramatic increases in per capita national income, according to most accounts. According to estimates reported in Baxter 1868 (66), national income (from all sources) expanded threefold between 1801 and 1858. Per capita income increased from £14.7 to £20.15 between 1800 and 1858, according to Levi's estimate (1860, 7).[10] However, data on income distribution tell a far different story—one that most clearly explains Mill's directions in public finance vis-à-vis his classical theory and his philosophical conception of justice in long-term distribution.

Income Inequality

While all data sources for the period must contain important qualifications, official accounts of the distribution of income in Great Britain (England and Scotland) in 1801 and again in 1848 tell an important story. We have constructed Lorenz curves (figure 1) from data collected by William Farr (1852) for the distribution of income in the years 1801 and

9. The critically important issue of income distribution in nineteenth- and early-twentieth-century England and its relation to British capitalism has been addressed by Jeffrey Williamson in a number of contributions (for example, see Williamson 1985). Although the Lindert-Williamson adjustments to the Levi-Baxter data we report below (for 1867) would strengthen our argument concerning the extent of income inequality, we utilize the more "conservative" Baxter data estimates in our discussion. For other purposes, of course, the adjustments are extremely useful.

10. Levi, using statistics collected in France, contrasted Britain's progress (£20.15 per capita in 1858) with that of France (£15 per capita) and of Russia (£5 per head).

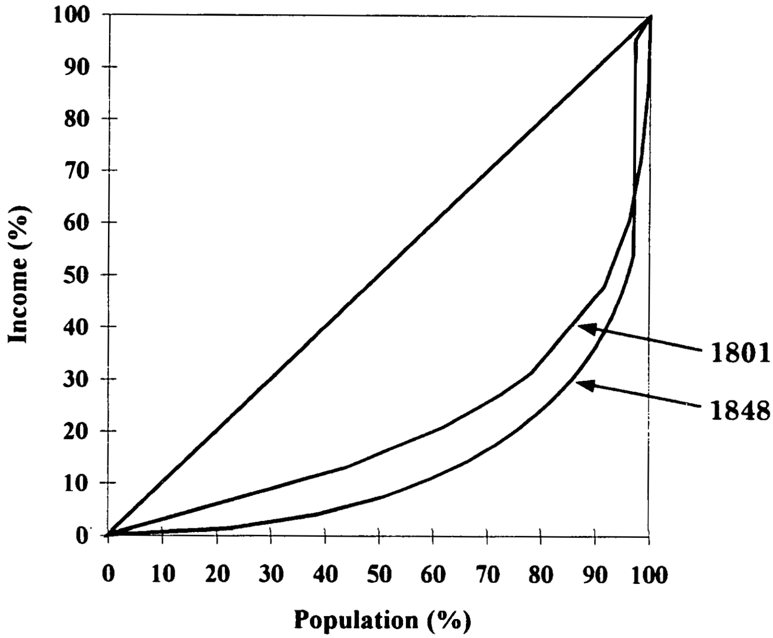

Figure 1 Great Britain: Lorenz Curves (1801 and 1848). Source: Farr 1852, 1:462–63.

1848. Clearly income data are self-reported and huge discrepancies exist between estimates of the income-earning population in various classes and the number of returns reported. This was a persistent complaint among observers and compilers of tax statistics well into the nineteenth century.[11] The dramatic inequality in income distribution is obvious from the Lorenz curves, even allowing for the fact that only 1,020 persons reported income above £5,000 in 1801 and reportage was not much better in 1848. By 1848, a year with better estimates, about 60 percent of the population earned just over 10 percent of the income in Great Britain.

11. Mill argued that income taxes led to fraud and moral degeneration ([1861] 1968–69, 229). Many others complained of cheating. For example, the Draft Report to the Income Tax Committee of 1861 described the income from the trades and professions (Schedule D in the code) as depending "on the conscience of the tax-payer, who often, it is feared, returns hundreds instead of thousands, and who is certain to decide any question that he can persuade himself to think doubtful, in his own favour" (quoted in Baxter 1868, 32; see also Sir S. Morton Peto's [1863, 49] elaboration and documentation of enforcement problems).

Table 1 Population Estimates by Class: United Kingdom (1867)

Upper and Middle Classes		
With Independent Incomes	2,759,000	
Dependent	3,859,000	
		6,618,000
Manual Labor Class		
Earning Wages	10,961,000	
Dependent	12,130,000	
		23,091,000
Total Estimated Population		29,709,000

Source: Baxter 1868, 16.

The lowest 22.5 percent earned only 1.3 percent of income, while the upper 3 percent earned 46 percent of reported income.[12]

Two facets of these data should be noted at the outset. Wages—those earned by manual labor—were exempt from taxation, and thus a vast segment of the population was eliminated from the 1801 and 1848 data (and from tax liability). But a second point is that the inequality in income distribution most likely grossly *under*estimates the skewness in wealth distribution in England at the time. Underreporting and fraud by income earners and the exclusion (until later in the century) of income from landed estates are only two good reasons. There is also evidence of massive undervaluations of property over the period (Peto 1863, 45–46).

Robert Dudley Baxter, in a paper read before the Statistical Society of London in 1868, shed new light on the form of income distribution in the United Kingdom. Baxter estimated the population and income for each class (including "dependent" classes).[13] His population estimates are shown in table 1. Upper and middle classes comprise only 23 percent,

12. These data and those in other sources were used to test the existence of a so-called Kuznets curve—inequality rising until about the mid-nineteenth century and moderating slightly afterward (Williamson 1985, 3)—in Soltow 1968. Lee Soltow argues, contrary to Lindert and Williamson (1983), that income inequality was not lessened until World War I in the early twentieth century. All of these writers use reported data and adjustments to reported data to construct Lorenz Curves, Gini coefficients, and Pareto curves to support their arguments, which, of course, do not directly concern us here.

13. The "dependent classes" included nonworking wives, children, and relatives at home; scholars; paupers; prisoners; vagrants; and manual laborers above sixty-five years of age (Baxter 1868, 81).

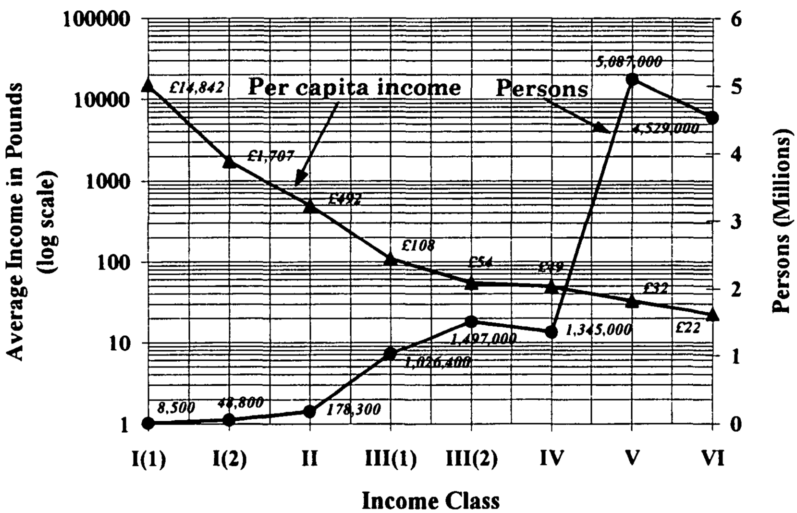

Figure 2 United Kingdom (1867): Estimate of Income Distribution. Source: Baxter 1868, 64.

while the manual labor class is composed of 77 percent of the population. Drawing upon the data on wages and earnings of the working classes collected in the previous year by Levi (1867), Baxter presented an estimate of income distribution for the year 1867. We present a graphic reproduction of those data in figure 2 for the United Kingdom (including Ireland).[14]

The primary advantage of the Levi-Baxter calculations is that they include the wage income of the working classes as well as salaried incomes of those in middle and upper income groups. By modern standards income distribution in England in 1867 was comparable to that of an un-

14. Lindert and Williamson (1983) build upon Soltow's calculations and use data from Baxter's appendix 4 (for England and Wales only). Our calculations are for the United Kingdom. Further, as noted above, Lindert and Williamson have made important adjustments to Baxter's data. Specifically, they deleted Baxter's inclusion of 350 companies from the household data and adjusted upper incomes accordingly, made adjustments for the number of persons in the income tax liability class (reducing it by 40%) and included paupers in the distribution (1983, 95). Since all of these would tend to make the income distribution for 1867 even more skewed than that in figure 2, we simply report Baxter's original data for the United Kingdom (that is, including Ireland).

derdeveloped country, and this result appears to be the case in spite of the fact that Baxter may have overestimated the number of taxpayers by 40 percent (Lindert and Williamson 1983, 95). In figure 2, average income in each category (our calculations) is reported in log scale (but with *actual* numbers) on the left vertical axis and number of persons (in millions) is depicted on the vertical at right. The income classes are divided into six major groups with two subgroups.[15]

By our calculations, taxes on large incomes of £5,000 or more (Class I [1]) were assessed on 8,500 individuals who received an *average* income of £14,842. Those below the level of the income tax (£100 in 1867) were 12,458,000 individuals with an average income of less than £33! Given recent and well-executed adjustments to this data, our calculations are an upper bound on income equality.

Mill's Income Exemption Reconsidered

Mill's proposed exemptions for the income tax take on new meaning in light of these statistics and the modifications made to the system at the time of his testimony before Hubbard's committee in 1861. Mill was clearly addressing a tax system in flux. In order to understand his change from advocating a £150 exemption (in 1852) to a £100 exemption (with lower rates between £100 and £150) in 1861 testimony, we must understand how the tax system put in place by Peel and Gladstone in 1852–53 changed in intervening years (up to 1861). Customs duties were reduced dramatically—from covering over 1,000 items to only 44. The burden of excise taxes on the poor was likewise in flux and was falling (but still relatively high) after the Peel-Gladstone reforms.[16]

Levi (1860, 30–31) estimated the tax burden on the poor for 1858 after reforms had begun to reduce the principal indirect taxes—customs and excises. Levi used estimates of the population of 1 million in the upper

15. Baxter's income divisions, corresponding to figure 2 above, were Upper and Middle Classes: Class I (1) £5,000 and upward; Class I (2), £1,000 to £5,000; Class II, £300 to £1,000; Class III (1), £100 to £300; Class III (2), under £100; Manual Labour Class: Class IV (higher skilled labor and manufactures), £50 to £73; Class V (lower skilled labour and manufactures), £35 to £52; Class VI (agriculture and unskilled labor) £10 10*s*. to £36 (1868, 64).

16. Duties on glass were repealed in 1845, on bricks in 1850, and on paper, soap, and auctions in 1853 by Peel's reforms (see Peto 1863, 83, for statistics on excise duties and receipts in 1862). In addition to reform of excise taxes, new policies simplified assessed taxes on sumptuary goods such as servants, horses, and dogs. A house tax based on rental payments was, moreover, substituted for the window tax in 1857 (Peto 1863, 113–14).

classes, 9 million in the middle class and 18 million in the working-class (along with 1 million poor, old, infirm, and otherwise unable to pay taxes). On the basis of *total* taxes, Levi showed that the poor bore the largest percentage burden of *total* tax payments: 14 percent versus 11.5 percent of income for the middle class and 12 percent of income for the upper classes. The burden was due almost exclusively to particular customs and excise duties, especially on commodities that analysts thought not good for the lower classes (malt, spirits, and tobacco), but also (in 1858) on tea and sugar.[17] In addition, there is evidence of a rise in the total "take" of the income tax by one-third between 1855 and 1865, from an increase in the value of real property (land, houses, railways, mines, and so on) and from other sources.

In the face of such developments, Mill continued to advocate a total exemption of £100 (with lower rates between £100 and £150) for all, an exemption of one-third on earned incomes, special provisions for transitory and precarious incomes, and property taxed at the full rate in his 1861 testimony.[18] This advocacy was in sharp contrast to observers of the day who thought that "wages" and the working classes generally should also become the object of income taxation, not on the basis of the protection of property but as compensation for the protection of personal rights and privileges accorded British citizens.[19] But Mill, even in the face of a declining burden of indirect taxes on the poor and working

17. Levi comments, with obvious Victorian elitism, on the poor's total tax burden of £20,300,000 in 1858: "Do such taxes press on their first necessaries of life? Far from it. The 21*s.* per head, which are estimated to be paid in taxes by the working classes are derived as follows: tea, 2*s.* 8*d.*; sugar, 2*s.* 8*d.*; malt and spirits, 8*s.* 6*d.*; tobacco, 2*s.* 10*d.*; other taxes, 4*s.* 4*d.* Of the total 21*s.* per head, 11*s.* 4*d.* are thus derived from their drinking habits and their tobacco, articles from which they can well abstain, and which are of little or no use, either bodily or intellectually, and 9*s.* 8*d.* from provisions and other necessaries. This is really the amount of taxes paid at present by the temperate and frugal portion of the working classes of the United Kingdom, and we doubt if they are as lightly taxed in any other country" (1860, 34–35). Levi was also the author of the chief study of working-class wages and earnings in the 1860s (1867).

18. Hollander (1985, 861–63) notes the uncertainty and vagueness with which Mill addressed the exact value of the proposed exemptions. By 1868, for example, Mill still believed the poor to be the victims of indirect taxation relative to the rich and advocated that incomes between £50 and "£150 or £200" should be exempt from income taxation.

19. Levi, for example, thought that the upper and middle classes were in a sense "overtaxed" and that the poor and working classes should be taxed more: "The working classes are exempt from a great part of the public burdens, and they have certainly no reason to complain of the amount of taxes now imposed on them. On the contrary, whilst they share to the full in the protection afforded by the State, and in the privileges of British nationality, they contribute considerably less to the Exchequer than what political justice would dictate" (1860, 163).

classes, defended the £100 income deduction which exempted 95 or greater percent of the British population from income taxes. From a holistic viewpoint (the manner in which Mill himself viewed the tax system; [1852] 1968–69, 315), the exemption shifted the burden to the wealthy, and increasingly to people with massive hereditary (landed) fortunes.[20]

4. Inheritance Taxes, Bentham, and Intertemporal Ex Ante Equality

The suggestion that Mill's progressive inheritance tax proposal was designed as a focal point of an income redistribution program has been met by a number of criticisms. The most frequent criticism is that the actual revenues from such taxes were "insignificant" at the time. While literally correct, we believe that the observation, with regard to Mill's insistence on intertemporal ex ante equality, misses the point. Mill's underlying reasoning and the subsequent course of "death duties" are interesting in this regard.

Mill's Benthamite Roots on the Inheritance Tax

Mill's views on the progressive inheritance tax and, in large measure, taxation in general are clear extensions of those propounded by Jeremy Bentham in *Escheat vice Taxation* (1795).[21] Bentham completely dismissed arguments defending absolute rights to property based on "natural law" and other arguments.[22] Rather, he based his argument on the

20. Less has been made of Mill's defense of income exemptions as based on Benthamite principles. Bentham had argued that all should have minimum exemption of income from tax for "necessaries" (see Levi 1860, 152).

21. The essay (1795; written several years prior to 1795) was titled *Supply without Burden; Escheat vice Taxation: being a Proposal for Saving in Taxes by an Extension of the Law of Escheat: including Strictures on the Taxes on Collateral Succession comprized in the Budget of 7th Dec. 1795.*

22. Bentham reveals his utter contempt for those who rely on an invoked "natural law" to support one or another view of inheritance. He says, "Quere, who is this same Queen, '*Nature*,' who makes such stuff under the name of laws? Quere, in what year of her own, or any body else's reign, did she make it, and in what shop is a copy of it to be bought, that it may be burnt by the hands of the common hangman. . . . It being supposed, in point of *fact*, that the children have or have not a right, of the sort in question, given them by the *law*, the only rational question remaining is, whether, in point of *utility*, such a right *ought* to be given them or not? To talk of a *Law of Nature*, giving them, or not giving them a *natural right*, is so much sheer nonsense, answering neither the one question nor the other" (1795, 93–94).

"utility" of the individuals receiving inheritance and on the incentives or disincentives involved. Bentham's fundamental argument was that

> Whatever power an individual is, according to the received notions of *propriety*, understood to possess in this behalf, with respect to the disposal of his fortune in the way of *bequest*—in other words, whatever degree of power he may exercise, without being thought to have dealt *hardly* by those on whom what he disposes of would otherwise have devolved—that same degree of power the law may, for the benefit of the public, exercise once for all, without being conceived to have dealt *hardly* by any body, without being conceived to have *hurt* any body, and, consequently, without scruple: and even though the money so raised would *not* otherwise have been to be raised in the way of taxes. (1795, 12–13)

Bentham wanted to strengthen the law of escheat—the law dealing with the disposition of intestate property to the state—and to limit the power of bequest. The law of intestate succession was to be eliminated except between close relatives with only half of the (then) current amount going to uncles and aunts, grandparents and nephews and nieces. For those who died intestate, the state imposed a 100 percent tax on all inheritance. Bentham, unlike Mill, did not want to limit inheritance in direct lines, noting the possible disincentives of such limits on legators concerning "the inducements to accumulate, and lay up property, instead of spending it" (1795, 17). Death, in other words, meant that property rights are subject to limitations.[23] Bentham defended the (virtually) painless inheritance tax on collaterals (who had no cause to expect inheritance and whose utility was not appreciably diminished by not receiving one) as lightening the burden of taxes on the poor and working classes of society (1795, 14). In other words, Bentham's arguments hinged on the utilitarian and incentive effects of various possible tax structures.

Mill adopted Bentham's sequence of inheritance-cum-utility-maximization theory as his own. His reasoning, as he acknowledges ([1848]

23. A similar argument was advanced in another connection—the rights to one's burial plot—in an essay by Bentham's last secretary, Edwin Chadwick (1843). Chadwick, the utilitarian practitioner, appended a brief exposition of the English law with respect to perpetuities in public burial grounds (1843, 269–71). Rights, in a ruling judicial interpretation, consisted in a balancing between those of the dead and those of the living, and there were clear intertemporal aspects to the problem as in the case of intertemporal limits on property rights.

1965, 223–24), exactly parallels Bentham's. In utility terms, collaterals do not suffer and nonrelatives suffer little, if any at all, from severe limits or prohibitions on inheritance (compare Bentham 1795, 14–16, 24–25, with Mill [1848] 1965, 223–26).

But Mill went even further than Bentham in wanting to abolish collateral inheritance altogether with strict and progressive limits on direct heirs. His exact statements on these issues, admirably summarized by Hollander (1985, 876–79), include a defense of limitations on bequests, that is, limitations on private property. While suppressions of an unlimited right to bequest may have a marginal negative impact on accumulation during an individual's lifetime, such limits were more than acceptable in order to prevent the squandering of great fortunes by heirs who put no personal exertion into earning or developing them.[24] The same went for intertemporal bequests with long chains of provisions far into the future. As Mill puts it, "property is only a means to an end, not itself the end. Like all other proprietary rights, and even in a greater degree than most, the power of bequest may be so exercised as to conflict with the permanent interests of the human race" ([1848] 1965, 226). Those in direct line such as children and parents were to be well protected in Mill's scheme so that they would not become a burden on society. But strict limits to inheritance for direct descendants were to be observed, not on grounds of diminishing marginal utility but on Benthamite grounds of "utility" maximization and on negative incentive effects to legatees ([1852] 1968–69, 309).[25]

Strict rules regarding inheritance limitations (along with population control) were the essential cornerstone in Mill's plan to redistribute and diffuse wealth and to provide for ex ante equality in British society. It is correct that the rates of legacy and succession duties remained low

24. Intervivos gifts were, of course, encouraged and permitted as was the setting up of endowments, but even with the latter, Mill wanted limits that would not create land concentration or "illegal" activities ([1869] 1967, 616).

25. Some of Mill's statements give the impression that he was (at least partially) using a Mengerian marginal utility argument regarding the expenditures of those possessed of great fortune. Ostensibly, he argued for progressive excise taxes on goods of "higher qualities" and (possibly) for progressive inheritance taxes on the same grounds—that is, on grounds of diminishing marginal utility. However, we share the same reluctance as Hollander (1985, 880–81) to ascribe such an argument to Mill. A Benthamite conception applying the utility concept to society, limitations on property rights after death, and incentive effects on individuals are at least sufficient bases for Mill's advocacy of direct taxation on inheritance. Mill's "moral perspective," as Hollander notes (1985, 880), is sufficient to explain his view on indirect (excise) taxes. Mill was not, in other words, a neoclassical in this respect.

throughout the nineteenth century, with the Stamp Act of 1815 supplying the basic rates until the Finance Act amendments of 1910.[26] These "stamp duties," which included a (regressive) probate tax on all inheritances and a legacy (and succession) duty depending on relationship to the legator, failed to get at real estate. Gladstone tried to levy new death duties on freehold and hereditary landed properties in 1853, but statistically the results were minimal (Peto 1863, 118–20). Assessment problems and evasion were unquestionably the reasons for the failure of reforms.

Large increases and massive levies of death duties as a *percentage* of property passed on to heirs did not occur until the twentieth century. However, the "take" of the death duties did rise during Mill's lifetime and afterward, to an extent as the population rose, but also due to increased coverage, more accurate reporting, and a continued emphasis on direct versus indirect taxation. Death duty receipts (probate and legacy) grew from about £2 million in 1851 to £3.4 million in 1859 (Peto 1863, 135–36). Dramatic increases in the gross capital value of properties subject to estate duties took their amount to more than £31.7 million in 1918 (Soward and Willan 1919, 338–39, 343, tables 10, 14). Death duties as a percentage of total government revenue also rose over the last half of the nineteenth century, indicating that the kind of redistribution Mill envisioned was actually under way, at least until the massive growth of the state in England at the turn of the century.

5. Conclusion: Equity and Capitalism in Mill's Economic and Social Thought

Incentives, utilitarian principles, and the diffusion of property rights are the keys to understanding Mill on the statics and dynamics of "equity and justice" and on specific economic policies to achieve these goals. Statically, he wanted to preserve incentives for investment and economic progress in British society. Dynamically, he wanted a diffusion of property rights and opportunities for income mobility. Mill's focus in tax policy was on reducing and ultimately eliminating the institutions of

26. Rates (until the 1910 amendments) were with some variations the following: husband or wife (0%); lineal ancestors or issue (1%); brothers or sisters or their descendants (3%); brothers or sisters of the father or mother or their descendants (5%); brothers or sisters of a grandfather or grandmother or their descendants (6%); other collaterals or strangers (10%). In 1910 rates rose, with a charge (1%) added to husband and wife (Soward and Willan 1919, 323–24).

hereditary-aristocratic bases of wealth and the replacement of these with mobile and fluid capitalism. He was attacking a system in which wealth was not the primary result of individual initiative, talent, or prudence. All this fits with what Hollander calls "the reform programme," including views on education, the possibilities of individual initiative, and welfare policies.

None of these ideas is particularly new or startling. We do not believe, however, that previous observers have emphasized the nature of Mill's thought in the context of the received economy and institutions of Mill's time. Mill advocated classical reforms (including population control) but within an evolutionary restructuring of property rights and wealth distribution that would destroy feudal privileges.

Juxtaposition of income distributions between 1801 and 1867 in England, the tax structure, and the concentration of land ownership in England with Mill's views leaves small doubt as to the source of his concerns. In static terms, the income tax exemption (whether £100 or £150) showed a clear concern for the working classes. The highly regressive indirect taxes (for both necessities and "luxuries") on the poor justified the exemption even after the customs and excise tax reforms of the 1850s. But a point that has been overlooked is that the exemption meant that more than 95 to 97 percent of the population (depending on the estimates used) of the United Kingdom was exempt from direct taxes! In spite of positions to the contrary held by tax experts of the day (Leone Levi, for example), Mill pursued and advocated the exemption.

Of equal interest is Mill's desire to remedy a feudal income and wealth distribution in England through intertemporal policies—particularly those dealing with land and nonearned income—to be addressed with high and progressive inheritance taxes. The concentration of landed property and, especially, the partibility of property made necessary by taxes on inherited property, was attacked (however stealthily) in Mill's proposals.[27] Mill recognized that a radical change in income distribution and sub-

27. Consider Mill's opinion on Disraeli's attack on succession taxes because they led to diffusion of ownership (partibility). In a letter to Sir William Molesworth, a philosophical radical, on 15 May 1853, Mill argued that the real question was "whether to save the owner of a landed estate from the necessity of selling part of it . . . he ought to be exempted from paying his fair share of the taxes. This is so impudent a pretension that it hardly admits of any more complete exposure than is made by the simplest statement. The reason would seem just as well for dispensing them from paying any taxes whatever, or from paying their debts, for they may be unable to do either of these without selling their land. If the inheritors of land wish to keep it entire let them save the tax out of their income" (Mill [1849–73] 1972, 14:105).

sequent social and economic mobility would take time. He believed inheritance taxes to be the essential mechanism of an evolutionary change toward an efficiently functioning capitalism. Consider Mill's comments on this critical matter only two years before his death:

> I have very radical notions as to what is the fair mode of sharing any burthen among the whole community. I would throw a very large proportion of it upon property—not all property, not property which has been earned by the industry of its present possessors, but property which has been inherited, & forms the patrimony of an idle class. But I see no justice in making those who happen to have inherited land bear more of the burthen than those who happen to have inherited money. I would lay a heavy graduated succession duty on all inheritances exceeding that moderate amount, which is sufficient to aid but not to supersede personal exertion. (Mill to John Stapleton, 25 October 1871, [1849–73] 1972, 14:1847)

To argue, as some have (Kurer 1991), that inheritance taxes were "insignificant" at the time is to misunderstand totally Mill's redistributive theory and his "reform program." The same criticism may be applied to the charge that he wanted to keep tax rates low enough to prevent avoidance.[28] Mill defended low but progressive rates until the end of his life, as in his essay on "Property and Taxation" ([1873] 1967, 702). But at low and constant levels of government an even mildly progressive inheritance tax could, after a number of generations, overtake all other taxes in quantitative importance. While *non-progressive* "death duties" composed only about 5 percent of the total budget of the United Kingdom up to the year of Mill's death (1873), they grew to about 8.5 percent in 1882, increasing throughout the rest of the century (Soward and Willan 1919, 339).[29] Mill was interested in intertemporal redistributions of wealth and income that would be supportive of a diffusion of property rights and enhanced ex ante equality and opportunity on the part of poor and working class (indeed, all) members of society. These redistributions would flow from hereditary fortunes in concentrated ownership to ever-changing lower classes in society.

28. Mill, of course, could not have envisioned the growth of the role of the state in England at the turn of the century, and later, in the post-1930s United States.

29. According to Soward and Willan, total death duty receipts grew by 1918 to an order of ten times their amount in 1859 (from about £3 million to £31.5 million) in the United Kingdom (1919, 338–39, table 10), a far greater growth rate than England's total budget experienced.

The broad question that Mill addressed is of course an empirical one: Did capitalism create greater or lesser inequality in nineteenth- and early-twentieth-century England? The results are not yet conclusive, but well-executed recent research suggests that the beginning of a trend toward lesser inequality began about fifty years prior to World War I (Lindert and Williamson 1983; Williamson 1985). This would date the beginning of the process at about the time that some of the Peel-Gladstone reforms—many of them urged by Mill—were taking hold in England.[30] Mill, while certainly no empiricist, was acutely aware of what could be accomplished by alterations of the tax structure: diffusion of property and mobility based on skill and inventiveness in the individual. The tax system was to be used to support the decentralization and security of property rights in British society as a conduit for growth. Classical principles (utilitarian rather than marginal utility based) were more than mantras to Mill.[31] In order to promote actual reform in society, they had to be adjusted to existing economic and social institutions. At this critical task, Mill had no peer.

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30. Mill's perspicacity extended to a very complete understanding of "crowding out" of private saving and investment by government borrowing to finance wars, as noted by Williamson. In this connection, Williamson calls Mill "just a theorist, offering brilliant speculation. He did not offer evidence" (Williamson 1985, 168–69). We would of course agree that he did not offer direct evidence, but that view is perhaps excessively stingy. His empirical awareness of the British tax system and its many nuances and complications cannot be brushed aside so easily with a close reading of his testimony before Parliament.

31. The results of the redistribution in the twentieth century are, of course, problematic. In addition to the studies cited in the text, one study (Siegfried and Roberts 1991) appears to indicate that two hundred of the greatest fortunes in Great Britain in 1988 originated, overwhelmingly, in what they call "competitive" industries. Further, it is useful to remember that Mill envisioned minimal government as a precept of laissez-faire. His views on taxation should be logically adjusted to this "idealized" situation.

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