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LOCAL TAXATION IN GERMANY.

ONE of the questions addressed by the Royal Commission on Local Taxation to the financial experts consulted related to the possibility of devising methods of raising taxation for local purposes otherwise than by rates on the annual value of real property. The answers involve many questions of extreme difficulty and it was suggested that information should be collected regarding the expedients adopted abroad.¹ The object of this paper is to give some notes on the conditions of local finance prevailing in Germany.

Many changes have taken place since the notes on German local taxation were written which Mr. Goschen incorporated in his celebrated Report, but the experience in Germany has not ceased to be valuable. On the contrary, owing to the fact that more than once in that country the question of local taxation has come up for solution as a whole, discussion and experience have established definite principles to a greater extent than in England, where there has never been a departure from the traditions of the past. Particularly interesting is the great remodelling of local taxation which has just been completed in Prussia. Most of the vexed questions which have been investigated by our Royal Commission had to be dealt with by von Miquel, the Prussian Minister of Finance. The distinction between expenditure, on the one hand, which confers narrowly circumscribed local benefit, and outlay, on the other, of broad national import with the consequent division of local taxation into "onerous" and "non-onerous" rates; Betterment assessments for municipal improvements, municipal trading, taxation of capital value of land, of vacant building spaces, imperial subventions, all required attention and were treated in a manner which is distinctly worth studying. Some of the witnesses before the Royal Commission suggested the direct appli-

¹ Prof. Edgeworth, Evid. Roy. Com. Loc. Tax., *Memoranda*, p. 137.

cation in this country of certain German expedients—the peculiar form of income tax, for instance. Such proposals are, of course, unreasonable. It is not for furnishing executive details that any study of foreign institutions is valuable. Administrative methods are governed by individual peculiarities. Guiding principles alone are worth considering, and I think it will be found that the broad leading ideas do certainly receive illustration from the successes and failures of our neighbours.

The following notes are necessarily brief, and indeed more cannot be hoped from them than that by giving a review of the field as a whole they will indicate where further inquiry promises to be fruitful, or where, from divergence of conditions, analogies are useless. They are thrown together under three heads: (1) A brief general account of the principal German methods of raising local taxes and a criticism from the English point of view; (2) An abstract of the provisions of the new Prussian Reform Act, the “*Kommunalabgabengesetz*”;¹ and (3) A description of the German method of distributing imperial subventions. I have to express my thanks to my old schoolmaster, Hofrat Professor Jacob, for procuring from an official source certain statistics not otherwise obtainable.

I.

The division of the duties of Government between State and local bodies is broadly the same in England and Germany. As with us, also, recent years have seen a rapid increase in the functions imposed on decentralised authorities. A difficulty has likewise been encountered in providing the local authorities with the necessary funds for administering their extended sphere. It is in the method of raising these funds that the two systems diverge.

The peculiarity of the English method of levying local taxation is this, that alone of European nations we have established a scheme of finance by which even the smallest and least educated board of guardians or overseers can make up the basis on which it imposes its taxes.² This, as we know, is made possible by

¹ Common contraction: K.A.G.

² Much stress is usually laid on the Independence which the English method is supposed to secure to local authorities. (Bastable, Farrer.) I confess myself entirely unable to appreciate the weight of this argument. Why should it be more independent to impose 1*d.* per £ on all rentals in the assessment roll, than to lay 1 per cent. on all incomes detailed in the “*Kataster*”? Is a municipal council less independent than a poor-law authority because the latter makes up the roll, while the

defraying all local expenditure out of a single tax of simple nature, a rate on the annual value of real property. In other countries the sweeping simplicity of such a system is considered to be inadequate for the requirements of the case. It is admitted that a large proportion of the expenditure of local authorities confers special benefits on the areas concerned, and in particular on the owners of fixed property in the district. It is agreed that real property forms the most suitable subject for this part of local taxation.¹ On the other hand, it is most emphatically maintained that that other part of local expenditure which is incurred for national objects and benefits no one in particular, should be distributed so as to secure equality of sacrifice. To attain these objects systems of local finance have been built up on the Continent which as regards details offer little guidance to Englishmen, but which in their principles give the practical application of ideas which have been expressed as theories by so many of the witnesses before the Royal Commission.

Even the details, however, have found supporters. For discussion of this matter the broad division into direct taxes and indirect may be adopted.

Indirect local taxes do not appeal to Englishmen, but among the financial experts consulted by the Royal Commission they are boldly advocated as a desirable reform by Sir Robert Giffen,² while Mr. Courtney likewise suggests them, although with considerable reservations.³ The country usually associated with octroi duties is France, but they are also used in Germany, and the experience of that country may prove to be more valuable to us. Considerable difference of opinion prevails in Germany regarding indirect local taxation. Theoretical writers as a rule give it their support,⁴ popular opinion on the whole

borough is furnished with it ready made and may not depart from it? Scotch local bodies are usually supplied with official valuations; are they therefore to be considered less free than their Southern contemporaries? The argument that French and German decentralised governments are kept in leading strings by "centimes additionels" and "Zuschläge," while in England they strike out freely a line of their own, seems to me to be empty rhetoric. The system has grave drawbacks, but they are of a different nature.

¹ *Handbuch der Staatswissenschaften*, ii. vol. 3, § 69.

² Volume *Memoranda*, p. 98.

³ *Ibid.*, p. 90.

⁴ This tendency of theoretical opinion in favour of octrois is a reaction against the principles which led to the abolition of these duties in Belgium in 1860, in Holland in 1865, and which induced Prussia in 1873, to considerably reduce duties on articles of consumption. At that time "payment for service rendered" was laid down as the first canon of local taxation. Now continental writers are going back partially, at least, to the general theory of taxation, which they discarded as a

does not, and there is a steady decline in the yield of this branch of revenue.¹ The Prussian Reform Act, it is true, expressly retains octroi duties, but the reasons advanced in their support by theoretical economists probably received additional persuasive power from the fact that to abolish octrois was to curtail local sources of revenue. In days when local revenues are distinguished by this universal characteristic of being inadequate to cover expenditure without the aid of national subventions, legislatures hesitate to sweep away a tax for which the machinery of collection is already in operation. Duties on articles of consumption therefore continue to exist, but there is a strong popular tendency opposed to them, which deserves to be considered in estimating the value of proposals which are backed by the authority of the eminent economists mentioned.²

One great objection³ is the difficulty of collection⁴ in the "open" towns of modern times. Berlin, until the early sixties, was surrounded by a wall which on the abolition of octroi duties was replaced by the well-known avenue of streets, Königsgratzer Strasse, &c. Leipzig, also, when it collected these duties was cut off from the surrounding country by a palisade, and in

guide for local finance, viz., distribution of taxes according to ability to pay. It is now recognised that a large part of local expenditure is of the same general nature as that of the State, and the return to favour of octrois is part of a movement to secure an equitable distribution of "onerous rates." Least emphatic among the supporters of octrois is the writer in Schonberg's *Handbuch der Polit. Oekonomie* (III. 2, p. 112). More so Schäffle in Frankenstein's *Handbuch der Staatswissenschaften*, and, quite unhesitating, Wagner, who in criticising the English system of local taxation, says (*Finanzwissenschaft*, Vol., III, § 164) "That British local taxation excludes duties on articles of consumption makes it appear not better, but rather still more one-sided. The exclusive use of direct taxes is a defect. As an example for the Continent the English system can in no way be regarded."

¹ Besides the instances to be mentioned in the text, the following statistics illustrate this decline over the country as a whole: In 1869, indirect duties on articles of consumption made up 22 per cent. of total local taxation in urban districts. In 1892, the proportion had fallen to 4.69 per cent. in towns of above 10,000 inhabitants, and 3.73 per cent. in smaller towns. (Official Mem., explaining K.A.G.).

² It is also interesting to note that when the Belgian octrois were abolished (Bastable, iii. chap. 6, § 7), the voting in the Chamber of Deputies showed a majority in favour of the proposal of 99 out of 101 members present. (Reitzenstein in *Schmoller*, Vol. 1887).

³ It is not necessary to recapitulate the general well-known arguments against octrois such as the impediment to traffic, burdening of poorer classes, &c. It may, perhaps, be pointed out that after eliminating "necessaries" from the articles subject to the proposed duty, and also those commodities already taxed by the national government, there would only remain the innumerable, but unproductive subjects, which in pre-reform days swelled the British tariff list, but left the exchequer empty.

Sir R. Giffen refers to the ease of collection (*loc. cit.*). He means the ease to the ultimate payer of an indirect duty, not to the collector.

Dresden, which in Saxony is the only important town using octrois, the difficulty of collection is very great. Modern conditions in themselves have introduced an almost insuperable barrier to this method of local taxation. As long as merchandise was transported by road, it was easy to tax commodities as they entered a locality. With the introduction of railways this is changed. Stations are planted in the centres of towns, and to add to the already existing regulations that of a customs examination would introduce a congestion of traffic which may be tolerated where long habit has accustomed people to such restrictions, but which could never be introduced as an innovation.

Another argument against octroi duties which is more important than physical obstacles to collection was pointed out to me by a German friend. In citing France and Italy as examples of countries where large revenues are raised by this method, it must be remembered that the national character of North and South Europeans is widely different. Frenchmen and Italians have ideas of their own on personal liberty.¹ Germans, on the other hand, object strongly to being bothered by the petty inconveniences and harrowing control connected with octrois. They have been widely abolished in late years, and would have been done away with still further were it not for the growing difficulty of raising adequate local revenues. If the discipline-loving police-ridden Prussian chafes under the octrois, what hope is there of the submission of the Britisher?

Finally, if we accept the position that the peculiarities of the French and Italian national character make Germany a better guide for an English reformer, there is the conclusive answer of unproductiveness. In Prussia and Saxony there are only seven important towns where the yield of duties on articles of consumption is more than trifling. In Bavaria and Alsace-Lorraine it is different, but these countries have been too deeply influenced by French ideals to be cited as precedents for England. (See table I. The figures relate to the year 1897-8.)

And not only are octrois unproductive in general in Germany, they have another feature which for English purposes renders them inefficient. The great object of the reformer, so far as new revenues are concerned, ought to be to devise a method by which small authorities can raise independent taxes. The difficulties will certainly be less in populous places. From particulars given by Prof. Neumann² German experience seems to prove

¹ As regards France, see Mr. Bodley's chapter on "Liberty."

² F. J. Neumann, *Zur Gemeindesteuerreform in Deutschland*, 1895.

that the smaller the local body, the more insignificant is the proportion of its revenue which is raised by octrois. In places of above 40,000 inhabitants taxes on articles of consumption make up a proportion of total local taxation equal to 14·58 per cent.

In places between 40,000 and 10,000 inhabitants, 9·59 per cent.

In places below 2,000 inhabitants, 7·51 per cent.

Direct local taxes after the continental model have not been

TABLE I.

Town	Population.	Percentage of total local taxation made up by duties on articles of consumption.	Town.	Population.	Percentage of total local taxation made up by duties on articles of consumption.
Preussen—			Preussen (<i>cont.</i>)—		
Aachen	129,000	25·00	Magdeburg.....	218,000	4·27
Altona	151,120	—	Münster.....	59,570	4·73
Barmen	130,430	3·08	Posen	74,160	22·64
Berlin	1,726,565	1·52	Potsdam.....	59,730	28·08
Bochum	56,880	3·59	Spandau.....	57,950	5·60
Breslau	391,000	22·06	Stettin	128,290	2·81
Cassel	85,250	23·96	Wiesbaden.....	76,960	22·80
Charlottenburg...	152,460	—			
Danzig	127,530	—	Sachsen—		
Dortmund	123,250	—	Chemnitz	167,660	3·05
Düsseldorf.....	186,530	3·51	Dresden	356,800	19·56
Duisburg	73,070	3·59	Leipzig	409,830	—
Elberfeld	143,370	3·16	Plauen	56,920	4·08
Erfurt.....	79,570	5·65	Zwickau.....	51,410	—
Essen	104,540	3·52			
Frankfurt a. M...	239,170	·85	Bayern—		
Frankfurt a. O...	62,010	3·63	Augsburg	83,140	34·06
M. Gladbach.....	54,840	3·53	München	421,800	25·59
Görlitz	120,210	4·77	Nürnberg	172,550	28·98
Halle	220,500	4·79	Würzburg	70,720	44·14
Hannover	89,400	—			
Kiel.....	73,870	3·49	Elsass-Lothrin-		
Köln.....	333,660	4·36	gen—		
Königsburg	173,430	4·31	Metz	59,990	89·92
Krefeld	108,090	3·49	Mühlhausen	85,120	75·39
Liegnitz.....	53,010	4·49	Strassburg.....	139,700	85·27

advocated by financial experts, but they have attracted popular attention, and are certainly interesting. All the important duties of this kind are identical with the direct taxes levied by the State. The local authorities are furnished with the national “cadastre,” and impose an addition (in Germany “Zuschlag,” in France “centimes additionels”) in their district according to their needs. In the kingdom of Prussia matters have been so far simplified that with the exception of the income tax the

leading direct taxes placed at the disposal of local authorities have now been abandoned by the State itself, so that the "Kataster," as Germans call it, is used by the local authorities alone. But this does not alter the nature of the levy. The national basis of the taxes, and the old fixed national rates of impost, are the foundation followed. The practice, of course, presumes a basis of assessment by which one locality can be separated from another. The national taxes subject to "Zuschläge" and the amounts of these local additions expressed in percentages of the corresponding national tax are given for 10 towns in table II. The figures relate to the year 1899-1900.

TABLE II.

	Tax on capital value of land.	Tax on capital value of buildings.	Tax on trades. (Gewerbe.)	Tax on industrial pursuits. (Betrieb.)	Income tax.
Berlin	150	150	150	100	100
Breslau	136	136	136	100	119
Danzig	182	182	140	150	188
Essen	200	200	200	200	200
Kiel ..	150	230	150	150	180
Köln	115	115	180	135	100
Krefeld	140	140	162	162	152
Potsdam	150	150	100	100	100
Rixdorf	206	106	180	100	133 $\frac{1}{3}$
Wiesbaden	112 $\frac{1}{2}$	112 $\frac{1}{2}$	112 $\frac{1}{2}$	112 $\frac{1}{2}$	90

Thus, to take the income tax, if the national rate were a shilling, the local rate would be in Berlin one shilling also, in Essen two shillings, in Rixdorf one shilling and four pence, all to be added to the national shilling.¹

As we already have local taxes on land and buildings in England, it is the income tax which certain reformers would like to see made accessible to local authorities after the continental model, and this direct local tax is, therefore, the only one I shall consider. To adopt a system of "Zuschläge" would involve a complete reconstruction of our income tax, and the question therefore practically resolves itself into a discussion of the peculiar merits of the English form of this tax as compared with the German. The advantage which is held out as an inducement to adopt a local income tax, is the possibility of assessing a part of local rates according to equality of sacrifice—as far as an income tax will do this. Against this not very valuable acquisition we

¹ The Prussian income tax is graduated, so that strictly speaking it is misleading to illustrate the matter by the English rate.

should have to set the loss of the well-known conveniences of our method of assessment.

It must not be forgotten that “Zuschläge” would considerably raise the rate of the income tax (*conf.* table II), and if such large sums were to be raised it would become necessary to assess with very much greater minuteness, to take many more particulars of the taxpayers’ position into consideration, if gross injustice were to be avoided. When to these complications are added the arrangements for preventing the “double taxation” of persons earning their incomes in various parts of the country, one realises the practical difficulties connected with a proposal which is *prima facie* very attractive. In discussing the financial aspects of taxation, the political side of the question must not be left out of sight. Our simple, rough English methods raise the money somehow and with little inconvenience. The complicated German system straining after scientific adjustment has grave disadvantages of its own. Referring to the Saxon income tax, which is supposed to be a very good one of its kind, an official of wide experience writes in a memorandum on the subject:¹ “It is no exaggeration to assert that if the financial condition of a taxpayer is in any way complicated, the preparation of his declaration of income in a manner which will satisfy the authorities, becomes an exercise which severely tests the knowledge of an expert. It is not surprising that the public have come to look upon the whole income tax as an occult science of the revenue officials, to which they are abandoned without hope, and in regard to which honesty is not the best policy.” This discontent is increased by the very low limit of exemption allowed.² When a tax becomes such an important component, especially of local revenues, it is naturally impossible to relieve whole classes of the population. The result is great difficulty in collection. In Chemnitz, a manufacturing town in Saxony of about 168,000 inhabitants, the number of legal summonses which had to be employed in levying local taxes was as follows:

1881.....	12,900
1887.....	31,800
1893.....	52,200

and the ineffectual legal proceedings were in number: ³

¹ Quoted by Prof. Neumann, *Op. cit.*, p. 251.

The Prussian limit of exemption for the national tax is £45, but for local purposes there is authority to go lower (K.A.G., § 38).

³ Neumann, *Op. cit.* Prof. Neumann informed me that local rates are sometimes collected by instalments (half-yearly, quarterly, even monthly), so that the

1881.....	2,030
1887.....	5,520
1893.....	14,020

This brief examination of the leading methods of local taxation in Germany as exemplified by octroi duties and local income tax, shows how little assistance is to be gained from a study of foreign administrative details. French internal custom duties applied to Prussia find no receptive soil; transplanted to England they would probably be even less successful. "Centimes additionnels" and "Zuschläge" may do well on the Continent, but only on account of peculiarities of historical development and utter divergence from our fiscal ideals. Our reforms, whatever they may be, ought to be essentially English.

On the other hand, the Principles of local taxation receive illustration in continental systems, especially in the reformed arrangements of the kingdom of Prussia. I hope that a detailed treatment of this matter will be a serviceable contribution to the question of our own reforms. The new Prussian measures are very imperfectly understood. Professor Seligman's appreciative account is most imperfect, and in part directly misleading,¹ while Professor Bastable's reference to the subject is simply opposed to facts.²

II.

The recent reform of local taxation in Prussia is an interesting study to all students, because the Minister under whose guidance the measures were framed had the boldness to undertake such a thorough reconstruction, that he restarted with practically a clean slate. The system of local finance which has been

same people may appear as defaulters more than once in these figures. Also that it frequently occurs that the legal summons is sufficient to secure payment without the threatened proceeding actually taking place. In any case, however, the figures quoted are astounding and to find how far they were representative, I took at random three towns and examined their reports. In Leipzig (409,000 inhabitants) there were 74,263 cases of compulsory collection of taxes during the year 1898, and in Breslau (391,000 inhabitants), 111,006 cases in the same year. In Breslau the details given show that the average amount of the claims was slightly under 8s. each, and that 7,456 were collected by seizure of movables, 7,789 by attachment of wages. In Dresden (357,000 inhabitants) the statistics are not grouped in the same way, but there were 62,324 cases in which the authority of the court was given to enforce payment of taxes by seizure of property, while out of this number, payment was only secured in 38,268 cases, either by sale of the property or otherwise.

¹ Public finance, book III., chap. vi. § 7.

² *Essays in Taxation*, p. 339.

created exhibits, therefore, an application of modern theories which is not to be found elsewhere. Further, to Englishmen the Prussian legislation is doubly valuable as an example because our local institutions,—as far as they do not relate to finance—have exercised great influence on Prussian development.¹ The duties handed over to decentralised authorities are almost the same in both countries, so that the expenditure to be provided for by local taxation is of a similar nature.

The grievance which in Prussia gave the necessary impetus for wide reforms was the manner in which the system of “Zuschläge” had degenerated into selecting the national income tax alone as the basis for contribution. In towns of above 10,000 inhabitants 76 per cent. of the tax revenue was raised in this way. In small towns and country districts the percentage was 93 per cent.² This heavy taxation of general income for such outlay as increases the rental of real property caused the gravest popular discontent. Administrators, also, were compelled to take action owing to the technical drawbacks of such extreme local taxation of income.³ Three government bills dealing with the subject were introduced in succession,⁴ but they were considered to be partial, tinkering proposals and were thrown out. The credit of having solved the question in an adequate manner belongs to von Miquel. To illustrate the painstaking care which Prussians thought worth while to devote to the reform of their local taxation it should be noted that between the first bill referred to, and the coming into operation of the Act of reform, there is an interval of seventeen and a half years. In 1885 a temporary measure of relief was passed,⁵ and a subvention granted, which is noteworthy as the only exchequer contribution in aid of *general* local taxation which Prussian financiers ever permitted.⁶

The general lines on which reforms should proceed had been discussed in academic treatises and by more popular methods, and there was a general consensus of opinion that land, buildings, and industry (Gewerbe) should bear a share of local taxa-

¹ Schönberg, *Handbuch der Pol. Oekon.* “Das Kommunale Finanzwesen,” Einleitung.

² *Ibid.*, p. 87.

³ In 1883-4, there were 233 cases in which the “Zuschläge” to the income tax exceeded three times the national rate; thirteen cases in which they exceeded five times the national rate; a few cases in which they even amounted to six times the national rate. Schwarz “Kommunalabgabengesetz,” page 5.

⁴ Bills of 14th Nov., 1877, 2nd Dec., 1878, 3rd Nov., 1879.

⁵ Kommunalsteuer Notgesetz.

⁶ The so-called *lex Huene*. Repealed, 1893.

tion. The application of this idea was complicated by the fact that real property already contributed heavily to national taxation.¹ The Prussian Minister of Finance determined to deal with the subject in a bold and thorough manner in accord with the importance of the question. He reorganised the national taxes so as to be able to dispense with imposts on land, buildings, and "Gewerbe," and, without going into minute calculations of hereditary burden, abolished these taxes for national purposes at a stroke.² The sources of revenue thus set free were handed over to the decentralised authorities and local finances were remodelled from their foundation.

Considerable discussion centred round the question of the proper proportion of local expenditure to defray out of taxes on realty. The English system was naturally referred to,³ but our method of defraying all expenditure by rates on real property was not approved of. Miquel summed up the conclusions he himself had arrived at in an interesting speech⁴: "Without doubt local authorities have duties of a national character. The expenditure on education and police must at least be considered as such. For this reason it would be unjust to accept the proposal which has been made to place all local taxation on real property. No, there are a number of duties which make it in no way permissible to burden realty alone. There are, on the other hand, a great number of local services which arise out of the co-operative character of local bodies, which result in improvements to land and buildings, which confer benefit on the section of the community owning property, or carrying on trade (Gewerbe), which are in fact made necessary by these people."

The apportionment of expenditure over taxes on real property and taxes on general wealth was not, however, adopted as the fundamental principle of the reform. Benefit is conferred by local expenditure not only on property, but on persons irrespective of their property. The Prussian reformers, therefore, try to "reach" benefit *wherever it arises*. In local finance they depart from the usual principles of taxation, and, in every case

¹ *Conf.* Mr. Goschen's Report on Local Taxation, 1870.

² Gesetz wegen Aufhebung direkter Staatsteuern (14th July, 1893). "Direct" is used in the restricted technical sense in vogue on the Continent, *i.e.*, according to a "cadastre." See Plehn, *Introd. Pub. Fin.*, page 88.

³ Advocated chiefly by Gneist. For consideration of subject see "*Drucksachen des Abgeordneten Hauses*," 1892-3, No. 8, page 18.

⁴ Prussian House of Deputies, 29th April, 1893. Quoted in Frankenstein's "*Handbuch der Staatswissenschaften*." Die Steuern,

where it is possible to do so, make payment for services rendered the basis on which local levies should be distributed. Only when the benefit conferred becomes immeasurable, or when the classes benefited are too poor to pay, may expenditure be defrayed from the wealth of the community at large.

Two classes of benefit conferred by public expenditure are thus recognised: special local benefit, and general national benefit. Correspondingly local revenues are divided into two categories. Firstly, special payments for services rendered, briefly, "dues," secondly, general "taxes." The possibilities of defraying special local benefits by dues are, however, limited. "Taxation," the second source of local revenue, is therefore, itself subdivided into two categories. Firstly, "taxes" on *particular forms* of wealth for covering that part of special local benefit not recouped by dues, secondly, "taxes" on *general* wealth for covering expenditure of national concern which cannot be said to benefit one person more than another. To recapitulate: there are (1) payments for services rendered, (2) taxes (a) imposed according to benefit, (b) imposed generally.

As no sharp line can be drawn between expenditure which confers special local benefit and expenditure which does not, the act embodying the reforms lays down the general rule that in all cases an attempt shall be made to cover expenses by contributions from those interested. It is only for the deficit which may arise that "taxation" in any form is permissible. Much is left to the discretion of local authorities. Instead of laying down hard and fast rules, it was considered desirable to encourage local bodies to adapt their system of finance to the particular requirements of each locality, on the ground that the central government could not provide for special cases as well as the local authorities on the spot could do for themselves. To secure adherence to certain general lines supervising authorities are established, in the same way as in England we have Local Government Board Auditors.

I proceed to deal briefly with the Act of Reform itself.¹ To understand its provisions it must be remembered that the work of local government in a given area is not in Germany split up among various independent bodies. Thus in the instance of a town, the "Parish Council" and "School Board" are merely Committees of the "Town Council." The work and the taxes are amalgamated. The leading provision, as has already been

¹ *Kommunalabgabengesetz*, 14th July, 1893. I have used the annotated edition by O. and W. Schwarz.

pointed out, is that "taxation" shall not be resorted to until all other methods of defraying expenditure have been exhausted.¹ The first case of special payments taken up is the price to be charged for the products of Municipal trading. These enterprises must on no account be worked at a loss.² The supervising authority has power to insist on this point. Local authorities are on the contrary encouraged to earn a surplus in relief of taxation,³ but on this point the supervising authority has no right to interfere. Any profit shall be applied in relief of general taxation, not to particular purposes.⁴ An interesting discussion took place in the House of Deputies regarding the necessity of limiting the powers of profit earning. It was decided not to do so, except in the case of slaughter-houses,⁵ on the ground that local authorities should be given as much freedom as possible, and that public opinion could be trusted to prevent such methods of taxation being carried to excess.

Special payments, or dues, in the ordinary sense, *may* be levied in respect of all institutions kept up by local authorities in the public interest.⁶ The powers given are exceedingly wide and

¹ For further reference, translations of the leading sections of the Act will be given in the footnotes. § 2. The local authorities shall make use of the permission to levy taxes only in as far as receipts from other sources are insufficient to cover their expenditure, in particular receipts from Common Property, Dues and Fees, Betterment Rates and Contributions from the State, or from local authorities of higher order.

² § 3. Enterprises of a commercial character, conducted by a local authority shall be managed on the principle that the receipts at least cover all expenses which may accrue to the local authority through such undertakings, including all charges for interest and repayment of loans. An exception may be made if the undertaking serves a public purpose, which would otherwise not be provided for.

³ Official Commentary on Act (II. B. 4, p. 50), Heymann, Berlin, 1893.

⁴ In England no such provision is made, and although most local authorities apply their profits to the relief of general rates, there are cases in which the money is devoted to purposes which can hardly be considered proper subjects to subsidise out of profits earned at the expense of the general community. Thus, Birmingham has during the last 6 years paid £200,000 in relief of Improvement Rates out of the profits of its gas-works.

⁵ Excessive profits on slaughter-houses would affect the price of meat. The profit is restricted to 8 per cent., or, if any duty is levied on meat, to 5 per cent. § 11.

⁶ § 4. The local authorities may levy dues for the use of public institutions or arrangements kept up in the general interest. Dues must be levied if the institutions benefit particularly individual members or classes of the community, unless an adjustment is made by Betterment Rates (§ 9), or Classified Taxation (§ 20). The dues should, as a rule, be arranged to cover expenses of maintenance and management, and charges for interest and repayment of debt. If there is any public duty to use said institutions, or if the public is dependent on them, the dues may be reduced in amount, keeping in consideration the public interest and the special benefits conferred on particular persons. Dues may even be remitted altogether in such cases. This section does not apply to educational institutions, hospitals,

cover even tolls on bridges, &c.¹ Dues *must* be levied if the arrangements confer special benefits on individual members or classes of the community, and the supervising authority has power to insist on this point, without, however, having a right to prescribe which of the various methods authorised shall be employed. This provision is interesting in connection with the English practice of allowing local authorities to carry on undertakings under the name of municipal trading, which are systematically managed at a loss. Beside profit-yielding ventures, like gas-works, there are a number of departments, like baths, &c., which during five years in *municipal boroughs* alone, made an average net loss of over £140,000 per annum. (*Parl. Paper*, Session 1899, No. 88.) To call these undertakings trading enterprises is ridiculous. But even regarded as departments of ordinary municipal activity, it seems hardly justifiable that they should burden general taxes with their heavy deficiencies. The German system of dues, high enough to cover expenses, seems far more equitable. The only exceptions allowed are cases in which the persons affected are too poor to pay, or the general public interest is promoted by the institutions in question. In these cases the payments may be reduced, or dispensed with altogether. For improvement schemes "betterment rates" may be imposed on the persons benefited by the expenditure.² Pay-

asylums, homes, or establishments, which are principally used by the poorer classes. For the use of higher schools and technical colleges which are maintained by the local authorities, appropriate fees shall be charged. This section shall not be construed as making it compulsory to levy tolls on roads, bridges, or canals.

§ 5. The right to levy tolls on roads, bridges, or canals, &c., is not affected by this Act. (There is a large body of law dealing with this subject. Briefly, there is a right to levy tolls subject to certain restrictions.)

§ 9. Local authorities may for the purpose of covering the cost of carrying out and maintaining undertakings, which are called for in the public interest, levy contributions from owners of heritable property, or persons engaged in trade who derive special benefits through such undertakings. The contributions shall be measured by the advantages conferred. Contributions, must as a rule, be levied if the expenses of the undertaking, including charges for interest and repayment of debt, would have to be provided out of taxes. The plan of the undertaking and a detailed estimate of its cost shall be open to inspection. The resolution of the local authority to levy contributions shall be published according to local usage, and the notice shall state where and at what hours the plan and detailed estimate of cost lie open to inspection, and shall further state that objections to the resolution of the local authority must be lodged within a time, which shall be specified and which shall not be less than four weeks. . . . The resolution of the local authority requires the sanction of the superior authority. . . . The deliverance of the superior authority shall be made known to those concerned in the same manner as the proposal itself. Those concerned may lodge objections against the resolution of the superior authority.

§ 10. The provisions of the law concerning the making and altering of streets and open places, in towns and rural districts, of 2nd July, 1875, are hereby retained

ments for services rendered must be arranged so that their yield does not exceed the expenses of the relative branch of local work.¹

The "taxes" authorised for local purposes are as follows:

(1). Indirect taxes; (2) direct taxes—(a) on land and buildings, (b) on trade,² (c) on income.

(1). The powers of the various German Federal States to authorise indirect local duties on articles of consumption are limited by the Constitution of the Empire, and in addition to these restrictions, Prussian legislation forbids duties on "necessaries" except where they already exist,³ but within these limits the new Act is favourable to indirect local taxation.⁴ Among indirect taxes there are also classed, according to continental custom, taxes which in England are levied by licences. Local authorities are thus authorised to tax dogs⁵ and amusements.⁶ The yield of all indirect taxes must be exhausted before direct taxes may be resorted to.⁷

(2). Direct taxes. These may be levied on the basis of the assessments provided for national purposes, as is universal in Germany, but by the K. A. G. local authorities in the kingdom of Prussia are encouraged to develop systems of their own. (a) Land and buildings. The taxation of real property which was abolished for national purposes, in order to hand this source of revenue over to local authorities, had been imposed according to a "cadastre." For various reasons this arrangement had to be with the further provision that the contributions referred to in § 15 of the Act, may be calculated according to other standards than those laid down in that section. It shall be lawful to calculate contributions according to area of building space.

¹ § 6. Sub. sec. 3.

² Gewerbe-Steuer and Betrieb-Steuer. The distinction between these two taxes is complicated and not worth referring to.

³ § 14. Duties on the consumption of meat, grain, flour, bread, potatoes, and heating materials of every description, may not be introduced anew, nor may the rate of duty be raised where such taxes already exist.

⁴ It has already been remarked that general popular opinion does not seem to favour octroi-duties. The K.A.G., therefore, makes the adoption of this form of taxation optional. In cases, however, where local authorities believe that they can use octrois to advantage, German expert opinion is unhesitatingly in favour of allowing them to do so. The hope is expressed that within the limits permitted, this form of taxation will be developed. Both Houses of the Prussian Parliament, for instance, adopted the following resolution: "That the Royal Government (Prussia) be requested to take without delay the necessary steps to secure the permission of the Imperial Government (Germany) to give local authorities more extended powers of imposing indirect duties on the consumption of beverages, and to remove the inequalities in the restrictions at present imposed on local authorities in this matter." (Quoted, Schwarz, "K. A. G.," page 123).

⁵ § 16.

⁶ § 15. Local authorities are permitted to tax amusements, including concerts and dramatic recitals, and the performances of itinerant players.

⁷ § 2. Sub. sec. 2.

continued. Principally because it would have inevitably caused confusion if local authorities had been required all at once to develop independent taxes. Local authorities therefore still levy taxes by "Zuschläge," but the State has withdrawn its part of the impost and only furnishes the "cadastre."¹ The independent local taxes on land and buildings, if they are adopted, will develop into a kind of rating on annual value,² and great hopes are expressed that this basis of assessment will in time become sufficiently prevalent to enable the State to abolish the cadastre of capital value. The process is enormously expensive, and has the consequent drawback that, owing to the cost, the cadastre is not kept up to date.

(b) Taxes on trade (Gewerbe) are also at present administered by the State as far as the basis of assessment is concerned, but here, also, it is hoped that special local duties will be introduced. Every facility is given for this purpose.³ It is considered that no cut and dried system laid down by a central government can meet the requirements of the infinite diversity of local conditions. Not only are there the differences of town and country and the modifications necessary in districts with certain prevailing types of industry, but also the degree of intelligence possessed by the local authority, or the tenacity with which they hold fast to traditional methods require to be given consideration. This reliance on the discretion of local authorities is interesting on account of the proposals which have been made to hand our licences over to local bodies and give them a certain measure of freedom in regulating this subject. (See Roy. Com. on Loc. Tax. Vol. *Memoranda*. Answers to Q. 14.)

(c) Income tax. This tax must always be levied on the basis of the national tax.⁴ Independent local income taxes are

¹ § 26. If independent taxes on real property are not introduced, the taxation shall proceed according to percentages of the assessment of land and buildings established by the State.

² § 25. The local authorities are authorised to introduce independent taxes on real property. The assessment may be made according to the net yield, or annual value of one or more years, according to letting value, or selling value, or according to a combination of these methods.

³ § 29. The local authorities are authorised to introduce independent taxes on trade (Gewerbe). Taxes on trade may for instance be assessed according to the profit of a year, or of a number of years, according to capital invested, or turn-over, or according to other indications of the extent of the business, or according to a combination of these methods. (Other sections, which it is not necessary to quote, show that the utmost freedom will be allowed.)

⁴ § 36. Local taxes on income may only be levied on the basis of the assessment provided for the State income tax, except in cases where the provisions of § 23, sub. sec. 2, are made use of. (See below.)

prohibited.¹ The framers of the Bill intended to give local authorities power to raise taxes on income by means of duties on sumptuary expenditure,² so that also for this branch of direct taxation the assessments would have been made independent of the State. But this provision did not pass, and taxes on sumptuary expenditure may only be used for providing part of the tax revenue which it is intended to raise from "income."³ To what extent this substitution may take place is not stated in the Act. House rent may not be used as the basis of taxation according to expenditure, except in cases where such taxation already exists.⁴

The portion of the Act which we now have to deal with relates to the degrees in which these various direct⁵ taxes shall be made use of. Before examining the provisions which regulate the distribution of "general taxation," it is however convenient to dispose first of an alternative method for defraying the cost of improvements. If it should prove impossible to recover such outlay by means of "betterment rates" on owners of property, or persons carrying on trades (*Gewerbe*), then a special scale of the general taxes may be imposed so as to throw a heavier burden on the persons it is desired to reach, or on the district which has been specially benefited by the expenditure.⁶ These

¹ § 37. Variations of the rate of tax imposed by the State (the Prussian income tax is graduated) are only permitted for special reasons, and require to be sanctioned. (That is to say, the scheme of graduation must not be altered. Hitherto local authorities had sometimes arranged the income tax to favour certain classes of the population.)

² "Sumptuary" expenditure (*Anfand*) does not mean expenditure on luxuries (Horses, Carriages, Men-servants, &c.), but any expenditure by means of which a probable indication of income is afforded: in short, any standard by which income can be "guessed" without making an actual numerical calculation. Most people will think the Prussian legislature very optimistic in attempting to make such a provision, but it is highly instructive to note that they have boldly faced the problem indicated by these two facts: (1) That independent local income taxes of the ordinary kind are impossible; (2) That the system of "*Zuschläge*" to the national income tax has grave disadvantages.

³ § 23, sub. sec. 2. The income tax may be supplanted in part (in the original Bill: in part, or in whole), by "*Anfand*" taxes. These taxes shall not burden lower incomes to a higher degree than larger incomes.

⁴ § 23, sub. secs. 3 and 4. No new taxes on rent, or on inhabited houses may be imposed. Existing taxes on rent, or on inhabited houses must be reconsidered in the light of the provisions for other taxes laid down in this Act. The arrangements require to be submitted to the Minister for Finance and Interior Affairs, and shall be regarded as repealed unless they have been ratified before 1st April, 1898.

⁵ There are no provisions made regulating the manner of applying "indirect" taxes. See § 17.

⁶ § 20. Direct local taxes shall be imposed on all persons liable thereto at equal rates. If, however, expenditure is in question which benefits in a higher degree, or in a lower degree any portion of the area of the local authority, or any class of the

special burdens are imposed irrespective of the regulations for distributing taxes, which will be treated immediately. After these three methods for securing payment for services rendered (dues, betterment rates, and special scales of general taxes) have been exhausted, the local authority may proceed to consider the subject of direct taxes in general.

We must imagine the case of a local budget with all its estimates of expenditure. In comparatively few cases will it be possible to defray the expense of a whole branch of work by payments for service rendered. In America, for instance, only a small part of the expense of municipal improvements is recovered by special assessments.¹ There will be entire departments—as poor relief—which cannot be covered in this way at all, and other cases in which the public interest may demand that a portion of the cost should be thrown on public taxes.² The deficiency which will always arise even after deducting any revenue derived from common property, government subventions, and the yield of indirect taxes, must be distributed over taxes (1) on real property, (2) on trade, (3) on income. For

inhabitants, and if contributions are not levied in accordance with the provisions contained in sections 9 and 10, then the local authority may resolve on a corresponding higher, or corresponding lower taxation of such portion of the area of the local authority, or of such class of the population. This resolution requires the sanction of the superior authority.

¹ Rosewater, "*Special Assessments*."

² It will be remembered that dues *must* be charged if institutions kept up by the local authority confer special benefit on individual members, or classes of the community (§ 4). Higher schools and technical colleges are especially referred to. Appropriate (Angemessen) fees are to be charged. In this connection it may be interesting to note the extent to which educational institutions are subsidised in Germany. The following table is taken from the Report of the Municipality of Breslau. "Higher" schools, means schools taking boys up to the age of about 20, and includes purely classical, as well as modern schools. The figures represent the percentage which subsidies bore to total expenditure.

	1895-6.	1896-7.	1897-8.
Contributions by local authorities for higher and secondary schools	% 52·7	% 53·2	% 53·5
Contributions by local authorities for elementary schools	88·5	88·7	91·1
Contributions by the State for elementary schools	10·1	10·0	7·7

It must be noted of course that all public schools in Germany are day schools. Breslau is the only Prussian town whose reports I have had before me, but other German towns show the same result. Even purely classical schools teaching Greek (and Hebrew for intending divinity students) are subsidised to the extent of 50 per cent. An expensive school education is not to be obtained in Germany. Technical schools are subsidised to the extent of about 30 per cent. of their expenditure.

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making the apportionment the Act lays down a general scaffolding of maximum and minimum charges, the instructions being supplemented by a Memorandum from which the following is quoted ("Grundzüge" III. B. page 73).

"(a) Such expenditure as by its nature accrues to the advantage of all members of the community, or is caused by all members equally should be defrayed principally by the income tax. To this category there belong in particular the outlays connected with the national duties laid upon the local authorities by the State, as poor-relief, education, public safety, public health, &c., and the general expenses of management of the local authority.

"(b) Such expenditure as by its nature confers benefit exclusively or in a preponderating degree on real property or on trade (*Gewerbe*)—as the cost of drainage, or irrigation works, of making and maintaining roads serving only agricultural or industrial purposes, &c.—must be raised by taxes on real property and trade.

"(c) Such outlay as is incurred in the general interest but which at the same time confers special advantages on owners of real property, or on traders (*Gewerbetreibende*) should be equitably distributed over taxes on income and on real property and trade. To this category there belong in particular the outlay connected with public roads, waterworks, lighting of streets, fire-brigades, &c.

"(d). . . (e) In cases where no sure arithmetical expression can be found for measuring advantages and for distributing burdens arrangements must be made in as equitable a measure as possible. Efforts should be made to avoid any creation of conflicting vested interests."

In order to place limits to the disputes which may be expected to arise regarding the particular tax which ought to be charged with various kinds of expenditure, the general instructions on the subject are supplemented by fixing the following maxima and minima for each tax.

If the requirements of the community are such that the necessary levies can be secured without burdening the taxes on land, buildings and trades more than 100 per cent,¹ then the tax on income may be used at a lower rate, or left out altogether. If the taxes on land, buildings and trade exceed 100 per cent. then

¹ This regulation presumes that the national assessment, or cadastre is used, and the fixed standard rate of the former national tax used as a measure of the local impost. In cases where local authorities introduce independent assessments, equitable calculations are to be made regarding relative proportions. (§ 57.)

the income tax must be burdened to the extent of not less than two-thirds of the full rate. If all taxes require to be burdened to the extent of 150 per cent. of the full rate, then for every additional 1 per cent. imposed on land, buildings and trade, 2 per cent. may be added to the income tax. If the taxes on land buildings and trade exceed 200 per cent. of the full rate, the whole of the remaining levies must be thrown on the income tax.¹

Within these limits the local authorities may do as they like. If they have not made up their minds within the first three months of the financial year, the supervising authority may issue compulsory regulations.² In order to give local boards plenty of time for making the arrangements for the first year, the Act did not come into force for about two years after it passed, and local authorities were further requested to submit suggested schemes to the supervising authority by April 1, 1894.

In regard to a number of minor points which were brought up before the Royal Commission on Local Taxation, it may be interesting to note the Prussian practice. Hospitals and other charitable institutions are exempt from local taxation (§ 24). As the tax on land is imposed according to capital, not annual value, vacant building spaces are subject to taxation (§ 24). Further, "vacant building spaces which have risen in value owing to the determination of new lines of streets may be taxed at a higher rate than other vacant spaces, the rate to be proportioned to the rise in value" (§ 27). Taxes may be levied on persons coming into a district after the commencement of the financial year, provided their stay is longer than three months (§ 33). Another interesting section relating to the equalisation of rates is translated in the footnotes.³

III.

The question of direct financial grants in relief of local taxation has received great attention in Germany. Freiherr von

¹ §§ 54, 55, and 56. Further subdivision may be made between the taxes on real property and the tax on trade; and again between the tax on land and the tax on buildings.

² § 59. . . . Any regulations made shall remain in force until the local authority supersede them by other regulations, which also must be completed before expiry of the first three months of the financial year.

³ § 53. If any local authority, owing to the establishment of any industry outside its borders, is compelled to incur abnormal expenditure on account of poor relief, or elementary education, to an extent which will throw an excessive burden on the taxpayers within its borders, then such local authority is entitled to demand a proportionate contribution in relief of its taxes from the local authority within whose borders such industries are established. (Then follow regulations regarding settlement of claims, &c.)

Reitzenstein, known generally as one of the chief contributors to Schönberg's *Handbuch*, considers in one of his writings¹ the circumstances which have brought these grants into existence. The great expansion of local government has, in his opinion, made national contributions inevitable. To decrease the size of local budgets by removing certain duties to the sphere of the central government would be opposed to the decentralising spirit of the times.² To meet growing local expenditure by providing new sources of revenue is in most cases impossible owing to the smallness of the areas of local government and the different degrees of wealth prevailing. There remains, therefore, no alternative but for the central government to reconcile the discrepancy between expenditure and income by contributions out of general taxation. Subventions in aid of local finance have been developed into a permanent institution in every European country.³ The *crux* of the matter is what purposes to subsidise, and how to distribute the money.

These questions are answered by examining the circumstances. As grants are made necessary by the poverty of local authorities, by their inability to raise very large sums of money, the aid of the national government ought to be given according to necessity for relief. The measure of distribution should be financial weakness. Further, the conditions which call subventions into existence point out not only the manner in which relief ought to be given, but also the purposes for which alone it is admissible. Local expenditure beyond the financial capacity of the area concerned is largely caused by the direct action of the State. When a local body is entrusted with the administration of a national duty, as distinct from the execution of work of purely local interest, the State steps in, and not only makes the performance

¹ In Schmoller's *Jahrbuch für Gesetzgebung, Verwaltung, &c.*, 1887. "Ueber finanzielle Konkurrenz von Gemeinden, Kommunalverbänden und Staat."

² Even more cogent reasons than the observance of "tendencies" may exist. *Conf.* proposals examined by Royal Commission on Local Taxation to transfer management of Lunatic Asylums to central government. See especially memorandum by Scotch Board of Lunacy (*Evidence*, Vol. IV., page 188).

³ I do not think that it is necessary to examine the contention of the more ardent advocates of "doles" in England, that these contributions from general taxation are called for in justice, because we impose our local taxation on real property alone. Local rates are not imposed on real property, but on persons *in proportion to their occupancy* of real property, and rates do not find their ultimate incidence on land alone, because that ultimate incidence is not entirely on the owner. As Mr. Goschen says, "Every penny that comes out of the pocket of the occupier falls, not on realty, but on the general wealth of the community." To advocate grants as corrections of one-sided incidence is a most misleading doctrine. They rest on an utterly different foundation.

compulsory—education, as contrasted with street pavement—but also sets up a uniform standard of excellence which takes no account of the poverty or wealth of the district. A town may regulate its expenditure on purely local affairs as it likes, may be lavish or economical, but when it comes to deal with poor-relief, education, police, and other matters regulated by national policy it has to satisfy government inspectors who make no inquiries as to whether it may be rich or poor. The State therefore places itself under an obligation to assist if the local authority cannot itself find the money, but its obligation must be regarded as restricted to those objects which cannot be economised in at the discretion of the subordinate body.

In distributing national relief two principles are followed in German practice, according to whether the above leading ideas can be applied or not. The grant may be given without taking into account the poverty or wealth of the locality which receives the subsidy, in which case the aid is called “dotation.” Secondly, the apportionment may be made on the basis of the relative needs of the various districts and here the name “subvention” is applied.

“Dotations” are grants given to local authorities in general, without an inquiry into individual necessity. The common principle of division in Germany is to distribute the money one half according to population one-half according to area. The “dotations” under the notorious *lex Huene* were given one-third according to population, two-thirds according to the yield of certain taxes. But such standards are necessarily arbitrary and fanciful, and where dotations occur no argument is brought forward in their support except extreme temporary necessity. Such necessity exists in England to-day, on account of the chaos brought on by long delayed reforms, and in Prussia it existed in 1885.¹ When new expenditure is called for from local authorities and the State is either unwilling to assign corresponding new revenues or unable to go into details so minutely as is necessary for distributing according to the principle of “subvention,” then a “dotation” is the only way out of the difficulty. There is a further defect inherent in all general approximations as a basis for distributing relief. Even where circumstances are gone into more carefully than is the case if such standards as population, rateable value, &c., are taken, it must necessarily follow that in the course of years there is an alteration in relative positions which undermines the justice of

¹ See *ante*, page 363.

the general standard. This has frequently happened in the history of local government. In England, the grants out of the Probate Duty and Estate Duty, to take an instance, are distributed according to the shares previously given out of the "discontinued grants." An interesting table was handed in as evidence before the Royal Commission showing the sums received in 1888 and the alterations which would be now necessary if the standard of distribution were brought up to date. In some cases an adjustment of from 55 to 45 per cent. would be called for, in other more stationary localities the change would only involve an alteration equal to '3, '7, or '8 per cent.¹ In Belgium, also, a similar idea was adopted when *octrois* were abolished in 1860. The State handed over the proceeds of certain taxes to the local authorities in accordance with a standard considered equitable at the time. Twenty years later the result was utter confusion.² In France the same state of affairs is said to exist.³

Grants in relief of local taxation in the shape of "dotations" according to fixed standards must be regarded as entirely unsatisfactory. Relief will, in some cases, come to local authorities who urgently require it, and may therefore be properly used and cause no extravagance. But in other cases it will come as a kind of *pourboire* to a local board in easy circumstances and will naturally be squandered. This fact probably explains the very remarkable divergence of opinion on this subject among the witnesses before the Royal Commission. Some witnesses declared most emphatically that in their experience "doles" were no inducement to extravagant expenditure; others protested with equal assurance that in the cases they knew of the receipt of relief was unquestionably conducive to waste. This is completely borne out by German experience. In moving the repeal of the *lex Huene*, after it had been given a trial for seven years, von Miquel said: "It has been discovered that in some districts the result (of the grants) has without doubt been beneficial. In other cases, however, there has not been the same necessity for mitigating the burden of taxation, and this money, flowing in without effort, or sacrifice has been used for schemes for which there was, to say the least, no clamant necessity."

"Subventions," that is to say, grants distributed according to individual necessity, are the only form of imperial relief countenanced by German statesmen as a permanent part of the financial system. Contributions of this kind are regarded as the inevit-

¹ *Evidence*. App. to Vol. I (Part II), page 115.

² Von Reitzenstein, *loc. cit.*

³ Schönberg, *Handbuch*.

able consequence of entrusting local bodies with the performance of national duties. The large expenditure which each extension of the sphere of local duties makes necessary must outrun the capacity of the smaller areas. "Subventions" have the further function of equalising onerous rates from district to district.

A good example of the principle of subvention is found in the provisions for granting relief in aid of expenditure on elementary education in Prussia. The State is there under a general obligation to make good the deficiency which arises if a local authority is too poor to fulfil its duties in this respect.¹ The official instructions lay down no fixed rule for the administration of this relief, but rather explain the grounds to be brought forward by the local authority in applying for aid. In the case of rural authorities the annual value of real property in the district, and the extent to which it is burdened with mortgages and taxation are the leading particulars demanded. Otherwise the superior authority deals with each case on its own merits. This general obligation to grant relief was amplified by the legislation of 1885 and 1889 by which the State bears a proportion of teachers' salaries and pensions, but this relief is given in all cases, and as von Rietzenstein points out, is more like a "dotation" than a "subvention."

Such a method of granting relief presumes detailed inquiry into local circumstances, and this only becomes possible in Germany owing to the wide administrative powers given to "counties"—to use the designation of the widest areas of local government known in England.² In Germany the members of the local authorities "of higher order," as they are called, are to a large extent elected by the lower local bodies out of their own circle and in distributing imperial grants they act as the agents of the exchequer. Being divested of the functions which can be performed by parishes, unions, or towns, the wider areas become more like administrative provinces and form a link between the central government and the subordinate bodies. In fact, they are usually modern creations called forth to control the extensive development of local government.

Both Wagner and Reitzenstein agree that the principal

¹ Schönberg, *Handbuch*. "Kommunales Finanzwesen," § 104.

² For using the word county in this sense, I cite the precedent established by Prof. Bastable (*Pub. Fin.*, Book I, Ch. vii., § 5), but I cannot see any justification for classing the present English counties as "intermediate" local bodies in the French, or German sense, as Prof. Bastable does. Neither the duties nor the administration of a county-council has the remotest similarity with the affairs of a "Department" or a "Kreis."

circumstance which in England prevents the success of imperial subventions is the absence of intermediate bodies between State and local authority in the narrow sense. In Germany, it must be remembered, grants, that is to say "subventions," are by no means regarded as inventions of the devil, as with us. But contributions in aid of local taxation have in England to be given by rote and without any of the graduation of relief according to need which becomes possible with a more carefully regulated scheme of decentralisation. In fact we give our "doles" somewhat after the principle of Mr. Charles Booth's scheme of Old Age Pensions, by which every one was to receive a grant, from Baron Rothschild downwards. Mr. Booth's plan, by its simplicity, would have surmounted many difficulties, yet it never received serious consideration. In a like manner "dotations" by rote are very easily administered, but it is probably worth considering whether the price paid for simplicity is not too high.

The important function of "higher" local authorities in administering imperial subventions adds interest to a passage in the Memorandum submitted by Professor Marshall to the Commission. Professor Marshall is discussing a different point, and is drawing his suggestion from America and Switzerland, but the conclusion is the same: "Possibly we should look for a remedy . . . to the development of three orders of local government—Imperial, Provincial, and Local in the narrower sense; each provincial government having large responsibilities and powers over a . . . wide area."

J. ROW-FOGO.

* * This article was written in December last, before the Report of the Royal Commission on Local Taxation had been published.