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## NOTES

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### *Excise Anatomized: the Political Economy of Walpole's 1733 Tax Scheme*<sup>1</sup>

William J. Hausman - John L. Neufeld  
University of North Carolina - Greensboro

In a recent issue of this journal<sup>2</sup> Peter Mathias and Patrick O'Brien argued that the British government in the eighteenth century relied predominantly and increasingly on consumption rather than income and wealth taxation to finance public expenditures. They concluded: "Thus the main economic impact of taxation in Britain fell upon consumption and demand, rather than upon savings and investment, supplemented by the economic effects upon the industries subject to excises at the point of production".<sup>3</sup> Donald McCloskey complained that Mathias and O'Brien had confused legal incidence with economic incidence and that their conclusion should be taken "with several grains of (heavily taxed) salt".<sup>4</sup> Mathias and O'Brien subsequently assured McCloskey that they had not forgotten the principles of economics and reiterated: "Broadly we believe that indirect taxes shifted forward to consumers and that direct taxes were 'paid' by those upon whom they were levied".<sup>5</sup> The debate is interesting,

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<sup>1</sup> The first part of the title to this paper was taken from an anonymous pamphlet, *Excise Anatomized*, first published in 1659 and reissued in 1733.

<sup>2</sup> PETER MATHIAS and PATRICK O'BRIEN, "Taxation in Britain and France, 1715-1810. A Comparison of the Social and Economic Incidence of Taxes Collected for the Central Governments," *Journal of European Economic History* 5 (Winter 1976), 601-90.

<sup>3</sup> *Ibid.*, 616.

<sup>4</sup> DONALD N. McCLOSKEY, "A Mismeasurement of the Incidence of Taxation in Britain and France, 1715-1810," *Journal of European Economic History* 7 (Spring 1978), 209-10.

<sup>5</sup> PETER MATHIAS and PATRICK O'BRIEN, "The Incidence of Taxes and the Burden of Proof," *Journal of European Economic History* 7 (Spring 1978), 211-13.

but hardly original. A similar and equally sophisticated exchange concerning the same issues had occurred during the early eighteenth century. The earlier debate was initiated by a tax reform proposal with political and economic implications.

In the spring of 1733 Robert Walpole introduced in Parliament a bill that would have abolished the 6 1/3d. per pound customs duty on tobacco and laid in its place a 4d. per pound excise tax on that commodity. Although such a reduction in rate might have been expected to please English merchants, a proposed change in the nature of collection of the duty created such an outcry that Walpole was eventually forced to withdraw his bill, and one historian has suggested that "the dropping of the scheme marked the beginning of the end of Walpole's career".<sup>6</sup>

The controversy is particularly notable for the vigorous newspaper and pamphlet war that it touched off. Opposition papers, such as the *Craftsman* and *Fog's Weekly Journal* derided and chastised the Administration for attacking the very liberties of the English people. Administration papers, such as the *Daily Courant*, the *London Evening Post*, and the *London Journal* counterattacked by accusing the opposition of gross exaggeration and disloyalty to the Crown. The mostly anonymous pamphlet war was at least as vicious. The opposition accused Walpole of being a power-monger: "It is mere Wantonness and Insolence of Power, which prompt you to sport in this Manner, with the Fortunes and Liberties of your Fellow Subjects".<sup>7</sup> The pro-Administration pamphleteers referred to those in the opposition as publishing "Volumes of Trash",<sup>8</sup> inciting the "Scum and Dregs of the People"<sup>9</sup> to riot, and accused them of "pursuing both the Scheme and its Author, with Scurrilities and Defamation; with all the Outrage and Injustice that a resentful implacable Man is Capable of".<sup>10</sup> The event also agitated the London populace, where the particulars of the scheme were "the theme of Coffee-Houses, Taverns, and Gin-shops, the Discourse of Artificers, the Cry of the Streets, the Entertainment of Lacquies, the Prate of Wenches, and the Bugbear of Children".<sup>11</sup>

The discussion of the tax scheme illustrates the very real tensions that existed

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<sup>6</sup> N. A. BRISCO, *The Economic Policy of Robert Walpole* (unpublished Ph. D. dissertation, Columbia University, 1907), 213.

<sup>7</sup> [WILLIAM PULTENEY], *The Budget Opened* (London, 1733), 23. See also *A Review of the Excise-Scheme* (London, 1733), 19, and *The Vintner and Tobacconist's Advocate* (London, 1733).

<sup>8</sup> *The Reply of a Member of Parliament to the Mayor of his Corporation* (London, 1733).

<sup>9</sup> *An Examination of the Late Conduct of the Ministry, with Respect to the Duties on Tobacco and Wine* (London, 1733).

<sup>10</sup> *Seasonal Reflections Occasioned by the Bills Expected in Parliament Relating to the Duties on Wines and Tobacco* (London, 1733), 8.

<sup>11</sup> *A Letter from a Member of Parliament for a Borough in the West, ... Concerning the Excise-Bill* (London, 1733), 10.

between those elements in British society that favored indirect versus direct taxation and which are somewhat obscured in the tables presented by Mathias and O'Brien. In addition, historians have tended to disregard or misinterpret the sometimes violent reaction to Walpole's proposal. There has been nearly unanimous opinion among historians as to which side was in the right. William Kennedy stated, "In the Excise scheme [Walpole] proposed a sensible administrative reform which was merely distorted, to a great extent by political partisanship".<sup>12</sup> One of the most vehement statements was made by J. M. Robertson: "No sounder scheme was ever framed than his Excise Bill of 1733... He was beaten by the stupidity of the nation, stirred... by all that was corrupt and criminal in English trade... inflamed... by the claptrap of his political opponents..."<sup>13</sup> Even Adam Smith sided with Walpole: "Faction, combined with the interest of smuggling merchants, raised so violent, though so unjust, a clamour against the bill, that the minister thought proper to drop it".<sup>14</sup> The wisdom of the scheme has been rarely doubted, and the major difference of opinion seems to center on whether or not the opposition was genuinely motivated. As J. H. Plumb noted, "Too many historians have dismissed the popular rage which Walpole's scheme produced as hysteria conjured up by wanton political opportunists".<sup>15</sup> In fact, the antagonists in the debate often used economic arguments to defend their positions. Although the arguments were quite naturally biased and self-serving, they provide a rare insight into the way in which such concepts as tax incidence and demand elasticity were used almost a half-century before Adam Smith's *Wealth of Nations*.

The issue itself appears deceptively simple. On 14 March 1733, Walpole presented his proposal before the Commons. He carefully developed the argument that no new taxes were being laid and that merely a more efficient method

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<sup>12</sup> WILLIAM KENNEDY, *English Taxation 1640-1799* (London, 1913), 99. See also RAYMOND TURNER, "The Excise Scheme of 1733," *English Historical Review* XLII (1927), 34; ALFRED J. HENDERSON, *London and the National Government 1721-1742* (Durham, North Carolina, 1945), 138; LORD HERVEY, *Memoirs of the Court of George II* (London, 1848), 159; J. H. CLAPHAM, *A Concise Economic History of Britain* (Cambridge, 1963), 291; and STEPHEN DOWELL, *A History of Taxation and Taxes in England*, Vol. II (London, 1888), 101.

<sup>13</sup> J. M. ROBERTSON, *Bolingbroke and Walpole* (London, 1919), 142-44.

<sup>14</sup> ADAM SMITH, *Wealth of Nations* (New York, 1937), 837.

<sup>15</sup> J. H. PLUMB, *Sir Robert Walpole*, Vol. II (London, 1960), 239. In a recent reassessment focusing on the political aspects of the controversy, Paul Langford argued that for the most part the opposition was expressing legitimate political and economic interests: "But when all is said and done there can be little question that the campaign against the excise which developed in the early part of 1733 was a bonafide expression of the general attitude both in the city and most provincial towns." *The Excise Crisis* (Oxford, 1975), 61. W. A. SPECK, *Stability and Strife: England, 1714-1760* (Cambridge, Massachusetts, 1977), relied heavily on Langford's account.

of collection was being proposed. As Walpole saw the matter, "The contest, in the present instance, is between the unfair trader, on one side; the fair trader, planter, and the public, on the other".<sup>16</sup> Tobacco was chosen initially because of the vast frauds associated with it. In addition Walpole argued that,

If there is one subject of taxation more obvious than another, more immediately within the direct aim of fiscal imposition than another, it is such an article of luxury as depends for its use on custom or caprice, and is by no means essential to the support of real comfort of human life.<sup>17</sup>

Yet he almost immediately added, "... so great is the predilection for it, in its various forms, that from the palace to the hovel there is no exemption from the duty".<sup>18</sup> Walpole apparently regarded tobacco as a universally consumed luxury.

Noting that the current customs duty produced a gross revenue of £ 750,000 and a net revenue of only £ 160,000, Walpole enumerated some of the major frauds in the trade, including the most prevalent one: false returns upon re-exportation. In addition to the reduced rate, administrative changes were proposed. Upon importation tobacco was to be placed in government-licensed warehouses in return for a small storage charge. No duty was to be paid until the tobacco was removed from the warehouse for home consumption, and tobacco re-exported was to have the storage charge refunded, making it duty free. The idea was to lessen the amount of money or credit transferred during import and export transactions. Over one hundred new excise-officers (not including warehousemen) were to be hired to enforce the law. Walpole summed up his proposal by saying, "I am certain it will be of great benefit to the revenue, and will tend to make London a free port, and by consequence the market of the world".<sup>19</sup>

Walpole's supporters, including the modern ones, have tended to view the proposal in the narrow context which Walpole presented it. In this view, the shift from a customs to an excise duty is an administrative detail designed merely to improve the efficiency of the tax collection process by making tax evasion more difficult. There seems little doubt that the excise tax would have been more difficult to evade than the customs tax. Walpole presented ample evidence that the customs tax was frequently, even usually, evaded. The administrative advantages of the excise tax were clear, and within this context, Walpole's supporters were correct in their contention.

Walpole's opponents, however, viewed the controversy in a much different

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<sup>16</sup> WILLIAM COBBETT, *The Parliamentary History of England*, Vol. 9 (London, 1811), 1269.

<sup>17</sup> *Ibid.*, 1270.

<sup>18</sup> *Ibid.*, 1271.

<sup>19</sup> *Ibid.*, 1281.

light. The larger context entailed the question of what would become the predominant base of British taxation, land or consumption. This is immediately apparent from the statement of Sir William Wyndham that the proposal was "an endeavor to set the landed interest in a manner at war with the trading interest of the nation".<sup>20</sup> At least one of Walpole's supporters, Sir Philip Yorke, appeared to accept the larger context when he stated that "one of the chief things intended by this scheme is the relief of the landed interest".<sup>21</sup> Those who made these statements had to be concerned about the incidence of these taxes.

In order to best understand the tax incidence issues surrounding the excise crisis it is helpful briefly to review the history of taxation in England during the late seventeenth and early eighteenth centuries. During that period a debate developed between the use of taxes on land and the use of taxes on consumption goods; the Excise Crisis was a focal point of that debate.<sup>22</sup>

Most new taxes were initiated in times of war but tended to remain beyond the termination of war. Rates, especially customs duties and excises, were generally stable, while the land tax rate was more flexible. There was, however, a gradual abandonment of one type of tax throughout the period leading up to the controversy; namely, customs duties on exports. In this alleviation, Walpole played a substantial role.

The first English excise tax was that of 1643. Following the Dutch example, "Pym brought it in to pay for the civil war, and it remained an essential part of the English fiscal system".<sup>23</sup> It was a tax upon home products: ale, beer, cider, and salt. Over the years the list of taxed articles was gradually expanded. "Taxation had therefore increasingly fallen on objects of popular consumption—soaps, candles, spirits, calicoes, drugs, tea, coffee, pepper, tobacco, etc. But above all, on malt and beer, the national drink".<sup>24</sup> In 1709 pepper and in 1724 coffee, tea, and chocolate were switched from customs to excise, precedents which were to play a role in the 1733 controversy.

The land tax rate varied between 2s. and 4s. in the pound, depending upon the state of affairs. Two important features of the land tax were that, first, it was originally intended to be a tax on real property (used as a measure of income), but because of problems in its collection, it became a tax on land;<sup>25</sup>

<sup>20</sup> *Ibid.*, 1303.

<sup>21</sup> *Ibid.*, 1288.

<sup>22</sup> William Kennedy argued that the debate concerning the reimposition of the excise tax on salt in 1732 was more important in terms of the fundamental issues of distributive justice than was the 1733 excise tax debate. *English Taxation*, 99-100. It is clear, however, that the salt tax debate did not generate as much public interest as did the excise tax debate the following year.

<sup>23</sup> CHRISTOPHER HILL, *Reformation to Industrial Revolution* (Baltimore, 1967), 180.

<sup>24</sup> CHARLES WILSON, *England's Apprenticeship, 1603-1763* (New York, 1965), 319.

<sup>25</sup> KENNEDY, *English Taxation*, 43-46.

second, it was based on a 1692 assessment and hence was unequally distributed and tended to favor the more recently prosperous parts of the country.<sup>26</sup> The majority of landholders ironically were placed in the rather awkward position of arguing for a reduction of the tax to as low a rate as possible, while living in fear that the tax would be abolished. They were concerned about the high probability that if the tax were subsequently reestablished, there would be a new and more realistic assessment of land values. By 1715 excises comprised 42% of total revenues, customs duties 31%, and land taxes 27%.<sup>27</sup>

The country was at peace in 1730 and the land tax had been reduced to 2s. The public finances were in such good condition that Walpole proposed the removal of some tax upon consumption. He personally favored removal of the excise on candles, but other interests prevailed, and the excise on salt was rescinded. This undoubtedly benefited the poor, since salt made up a relatively larger part of their budget than it did for the wealthier classes.

In the following year (1731), endeavoring "to attach the landed gentry to the House of Hanover by alleviation of this cause of constant complaints",<sup>28</sup> Walpole further reduced the land tax to 1s. in the pound, the lowest it had been in twenty years. The only problem was that the Treasury ended the year about £ 500,000 short. Not wanting to lose the goodwill built up from the reduction of the land tax, Walpole proposed on 9 February 1732, a revival of the salt duty at its previous rate. He made the following statement concerning his intentions,

His majesty... desires that they would choose those ways and means for raising the annual supplies, which are least burthensome to the people, and which makes the load fall equally upon the subjects in general... I have, Sir, with the deepest concern observed, how heavy and how unequal a burthen has been long borne by the landed gentlemen of this kingdom...<sup>29</sup>

And speaking specifically of the salt duty he stated, "Nor is this tax unequal, ... the tax is not paid by the maker, or by the seller, but by the consumer".<sup>30</sup> His motive is clear, as is his perception of the incidence of this particular tax. There was vehement opposition in Parliament to the bill and the revival of the tax was argued predominantly on grounds of equity; that is, that it would hurt the poor in general. In addition, the opposition "said in effect that Walpole's proposal was the substitution for an unjust tax on land of a ruinous tax on trade".<sup>31</sup> The arguments were of no avail, and the bill easily passed the House of Commons.

<sup>26</sup> BRISCO, *Economic Policy*, 86.

<sup>27</sup> See CLAPHAM, *Concise History*, 289.

<sup>28</sup> DOWELL, *History of Taxation*, Vol. II, 96.

<sup>29</sup> COBBETT, *Parliamentary History*, Vol. 8, 943-44.

<sup>30</sup> *Ibid.*, 963.

<sup>31</sup> KENNEDY, *English Taxation*, 108.

During the debate on the salt tax, Walpole gave one indication that further measures concerning the tax system were being considered. In retrospect it is almost as if he were teasing Parliament with a proposal, when he stated,

There are at present no thoughts of converting any duty into an excise; but if all or most part of our customs were converted into excise, I am persuaded it would be beneficial to our commerce in general.<sup>32</sup>

Taking no cognizance of his disclaimer that no scheme was in the making, the popular press began discussing the issue of the excise tax—specifically the notion of a “general excise”, and by October of 1732, the battle had begun.

By offering the excise tax as a substitute for customs duties, Walpole probably was attempting to avoid controversy by presenting his proposal as one involving only taxes on consumption. As was noted earlier, his opponents clearly viewed the issue as one involving land taxes as well. There were at least two reasons for their concern. First, many feared that increasing the use of excise taxes would lead to their extension to commodities not previously taxed. Second, there is good reason to believe that evasion of the customs duty was so widespread that the goods concerned could be regarded as largely untaxed. Certainly Walpole's supporters appeared to accept this assertion and used it to defend their position. Walpole's opponents may have accepted it as well. They did not try to rebut the excise by maintaining that smuggling did not occur. If smuggling were widespread, there can be little doubt that the nation's commercial interests were aware of it and largely profited from it through lower prices of the affected commodities. Similarly “the mob” doubtlessly benefited from the smuggling through lower prices for consumption goods. It would have been difficult for Walpole's opponents to have openly defended customs duties on these grounds, since to have done so would have required a defense of smuggling. With little exception, Walpole's opponents probably believed that revenues under the excise would have been greater than they had been under the customs duty. Considering their recent experiences with tax changes, it was reasonable for Walpole's opponents to have suspected that the increased revenue was to be used to hold down taxes on land or, perhaps, to reduce them even further.<sup>33</sup>

Before discussing the specific arguments used by Walpole's contemporaries, it is helpful briefly to look at these taxes as a modern economist might. Modern tax analysis would compare alternatives under four criteria:

- 1) costs and ease of administration and compliance,
- 2) macro-economic stabilization effects,

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<sup>32</sup> COBBETT, *Parliamentary History*, Vol. 8, 963.

<sup>33</sup> In fact, shortly after the demise of the scheme, Parliament was forced to raise the land tax to 2s. in the pound.

- 3) micro-economic efficiency and excess burden, and
- 4) equity of the final tax incidence.

The first criterion was, of course, the one which Walpole originally used to justify the use of an excise tax rather than a customs duty. Although some of Walpole's opponents presented rather weak rebuttals to this claim, it seems that Walpole was on firm ground in this contention. It is difficult to compare the administrative ease of consumption versus land taxes in Walpole's era. Since revaluation was not performed, it is probable that the land tax was relatively easy to administer.<sup>34</sup> Some of Walpole's opponents argued that the excise tax would be costly to administer, "because they can never be so contrived and settled as to answer the End of increasing the Revenue without a very great Number of Officers".<sup>35</sup> The costs of compliance also provoked concern, particularly for the honest trader, who would have to open his shop and books for inspection by excise men. In a spirit common today but rare then, Pulteney asked rhetorically if Walpole would be willing to open up his own finances to inspection.

The second criterion of modern tax analysis had not been developed in Walpole's time. Consequently, it did not figure in contemporary arguments. The third criterion, although unknown to Walpole's contemporaries, would be relevant to a modern observer, since it deals directly with the question of the relative superiority of a form of taxation apart from the equity criterion. In general, a tax has an excess burden when its total cost in terms of foregone utility exceeds the revenue provided for the government. This happens when a tax affects the distribution of resources, through a mechanism other than shifts in relative income, in an economy where market forces would otherwise tend to move resource allocation toward a Pareto-Optimum. For example, an excise tax on tobacco might induce consumers to purchase less tobacco as well as to pay more for the tobacco which is purchased. Although both foregoing the consumption of tobacco and paying a higher price for it reduces a consumer's utility, only the latter provides tax revenue. Consequently, the value of the consumer's loss of utility is greater than the tax revenue generated; the loss of utility from the tobacco not consumed forms the tax's excess burden.

A commodity tax has no excess burden if either the demand for or the supply of the commodity has zero price elasticity. In either case, the quantity of the commodity exchanged in the market must be independent of the market price. It is interesting to note that although they did not employ the excess burden argument, Walpole's opponents came close when they argued that

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<sup>34</sup> W. R. WARD argued that there was a gradual deterioration in the administration of the land tax during the eighteenth century. *The English Land Tax in the Eighteenth Century* (Oxford, 1953), Ch. III, VI-IX. In spite of the administrative problems, the land tax continued to yield a stable £ 500,000 for every shilling assessed.

<sup>35</sup> COBBETT, *Parliamentary History*, Vol. 8, 1168.

revenues would be reduced by the imposition of an excise: "many of our imported Commodities being for Luxury, and therefore the dearer they come, the less will be consumed, and so far as the Consumption is lessened, the Revenues must diminish".<sup>36</sup> The argument goes too far and tries to measure the value of a tax in terms of the revenue it raises rather than the costs it imposes. Still, the writer clearly had at least a rough understanding of elasticity.

Of course, it is not clear precisely what the price elasticities were for various commodities in Walpole's time. One might suspect that the demand for salt was more inelastic than the demand for candles, since salt is a necessity of life. Thus, the excise tax on salt most likely imposed a smaller excess burden than the excise tax on candles. In an agricultural society the supply of land is probably quite price inelastic, since humans have little way of controlling the total amount of land.<sup>37</sup> Consequently, the supply of land most likely depends very little on its price, and therefore a tax on land could be expected to have a very low excess burden. This argument was essentially known to Henry George in 1879 and is still made by several modern economists who argue that the property tax, which taxes buildings and improvements as well as land, should be replaced by a true land tax.<sup>38</sup> The land tax of 1733, being based on old valuation, came close to being essentially a head tax levied at an unequal rate on certain members of society, i.e., the landed gentry.

The proponents of Walpole's proposal occasionally argued that the excise tax would stimulate London's development as a center of international trade, a claim related to micro-economic efficiency. Since both the proposed excise tax and the customs duty it was designed to replace exempted re-exported commodities from the tax, it is hard to see how the administrative change could have had a major impact on international trade in London. The proposed system would have facilitated re-export somewhat, since under the old system merchants had to pay the duty and then receive a rebate. This would sometimes force them (especially the small traders) into debt until the rebate was paid. On the other hand, the possibility of fraud under the old system was sufficiently strong that the government, in effect, may have been subsidizing the re-exportation of those goods. One could hardly imagine a greater impetus to international trade, although in the cumbersome form of illegal smuggling.

Although the principle was unknown to Walpole's opponents, a case can be made that implementation of the excise tax would have permitted Walpole to substitute taxes with relatively large excess burdens (consumption taxes) for those with relatively small excess burdens (land taxes). It thus appears that

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<sup>36</sup> *The Craftsman* (2 December 1732).

<sup>37</sup> It is possible, of course, to make improvements on the land, such as enclosing it or draining it. See WILSON, *England's Apprenticeship*, 30-31.

<sup>38</sup> See, for example, DICK NETZER, *Economics of the Property Tax* (Washington, 1966), 197-220. The version favored by modern public finance economists is typically "site value" taxation.

the anti-Walpole position may have been more consistent with the efficient economic development of Britain than that taken by Walpole's supporters.

The final criterion by which a tax can be judged is that of equity. Although attitudes have changed in the past two hundred years, the subjective criterion of equity presently seems to lead most to favor those taxes which impose their heaviest burden on the wealthiest segment of society. One Walpole supporter seems to come close to this view in the following statement:

All wise Ministers consider chiefly in the Ways and Means for raising Money, that every Tax should be so equally laid that everyone should pay in Proportion to his Fortune and Expence, and that the Imposition be plac'd on such Goods as are for Luxury or Pleasure.<sup>39</sup>

On the other hand, this argument undoubtedly was used more to urge a broadening of the tax base than an increase in the progressivity of tax incidence. Certainly some of Walpole's statements (such as that quoted on page 138) suggest that he regarded a broadening of the base as more important than a progressive incidence. Determining whether one tax is fairer than another requires an ethical judgment. An antecedent to this is the determination of where the burdens of a system of taxation rest. Some of the most interesting contemporary arguments dealt with the final incidence of land taxes versus consumption taxes.

It is necessary first to consider the position of the political economists on this subject, since many of the protagonists in the 1733 debate made arguments based on "authority".<sup>40</sup> William Petty wrote one of the first books devoted entirely to problems of taxation.<sup>41</sup> He felt that in an established country like England, consumers of all commodities ended up paying most taxes. He felt landlords could pass on land taxes through increased rents, and that farmers could pass on increased rents in the form of higher prices for provisions. His conclusion was that a general excise on consumption goods was the best tax.<sup>42</sup> In contrast John Locke felt that all taxes were ultimately taxes on land. The landholder could not pass on his taxes easily, since rents were relatively fixed. But taxes on commodities would raise the price of goods to consumers, and since labor was thought to exist at the subsistence level, wages would rise.

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<sup>39</sup> *The Genuine Thoughts of a Merchant* (London, 1733), 8.

<sup>40</sup> E.R.A. Seligman divided pre-Smithian tax writers into six categories: those who favored a general excise, a single tax on luxuries, a single tax on houses, a general property tax, a single tax on land, or an eclectic system. *The Shifting and Incidence of Taxation* (New York, 1926), 20.

<sup>41</sup> WILLIAM PETTY, *A Treatise of Taxes and Contributions* (London, 1667).

<sup>42</sup> SELIGMAN, *Shifting and Incidence*, 30-31. Petty believed that all men, including the poor, should pay taxes, and although he favored a general excise, he was opposed to particular excises. KENNEDY, *English Taxation*, 66, 72.

The farmer must consequently pay more for labor, and the tax finally rests on the land.<sup>43</sup> The participants in the 1732-33 controversies generally sided with one or the other of these authorities, although some of them did propose a more eclectic system.

In its simplest form the validity of each position must rest ultimately upon supply and demand elasticities. If, in the long run, prices were determined through the interplay of supply and demand, it is very hard to see how Petty could be correct in his assertion that landlords could pass on land taxes through increased rents. An increase in rents would have to follow a relative decrease in supply, a relative increase in demand, or both. Since, as was noted above, land has a near zero supply elasticity, there is no reason to believe that the supply of land would contract in the face of a tax. At the same time, there is no reason why the demand for land should be stimulated by a land tax.

If some mechanism did exist whereby rents could be increased, Petty's argument that farmers would pass along the tax in the form of higher food prices seems partially correct. Since higher rents would increase their costs, farmers might, in the long run, decrease their use of land and thus decrease their output. The reduced supply of food would result in higher prices. It seems unlikely, however, that production would coincidentally drop by the exact amount required to raise prices by the amount of the tax. Most probably, only a portion of the tax could be passed along so, even in this case, the land tax would not be equivalent to a tax on consumption.

Locke's view turns Petty on his head. To Locke it seems impossible to impose a tax burden upon labor since he assumes laborers exist at a subsistence level. If Locke's premise were correct, consumption taxes would force some workers below the subsistence level, a fate which presumably would decrease the supply of labor. Although this reduced supply might, in the long run, increase wages, here again it is unlikely that the wage increase would equal the tax on goods. The situation is complicated by the fact that this mechanism would also reduce the demand for consumption goods.

To a modern economist the question of the incidence of a consumption tax is difficult to answer simply (as exemplified by the Mathias-O'Brien-McCloskey debate) and depends on a number of factors. In general, consumption taxes will result in higher prices and decreased consumption of the good taxed. The decreased consumption will lower the price net of tax which the purchaser pays. Both seller and buyer share in the burden of the excise tax.<sup>44</sup>

In general, then, land taxes will rest ultimately on landowners, while excise

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<sup>43</sup> SELIGMAN, *Shifting and Incidence*, 101-103.

<sup>44</sup> *Ibid.*, 100. For the differences between the incidence of excises on luxuries and necessities in modern developing economies, see SIJBREN CNOSSSEN, *Excise Systems* (Baltimore, 1977), ch. 4.

taxes will be distributed in a complex way among those engaged in trade, including consumers. Thus, one would expect the interests of the landed gentry to be best served by an excise tax and the interests of others, particularly merchants and laborers, to be better served by a tax on land. The actions of participants in the 1733 struggle suggest that the view expressed above was accepted. The opposition to Walpole's scheme centered in urban areas, particularly London, where trade was centered. Much of the written opposition to Walpole appeared in the *Craftsman*, an urban, trade-oriented journal. Its sentiments, at least in this case, lay strongly with the trading interest:

As Commerce is the Thing, which renders every Country rich and consequently powerful, so the Merchant, in this View, may be said to be the most useful Member of the Society, in which he lives.<sup>45</sup>

One of the notable characteristics of the incidence arguments made by both sides of the controversy was that they were so self-serving as to be blatantly inconsistent. One year after reviving the salt duty to make up for revenues lost from the reduction in the land tax, Walpole wrote that the land tax was "a Tax which falls heavily upon them, by heightening the Rents of Land, and consequently of Bread and Drink and other Food: so what the land pays the People too pay".<sup>46</sup> Walpole's desire to lift the burden on the landed gentry apparently resulted in his taking the position that they did not even bear the burden of the land tax. A pro-Walpole pamphleteer simultaneously argued that the landed interest would be favored through excise rather than land taxes and that "A tax upon land, nor more than a Tax upon any Species of portable Commodities, will fall wholly on the Proprietor; For the Landlord in Time will raise his rent in Proportion to the Tax".<sup>47</sup>

In general, Walpole's supporters argued from the tradition of Petty that the incidence of all taxes will eventually fall on the consumers of commodities. Such an argument, if accepted, implies that, on the grounds of incidence, there is no difference between taxes on land and taxes on consumption. Not surprisingly, they were willing to take the inferential leap that this implies that it is somehow more efficient to tax commodities directly.

The opposition was not so uniform in their view of tax incidence. Most, however, seemed to take a position that all taxes ended on land. In a view clearly drawn from Locke, *Fog's Weekly Journal* made the following statement concerning incidence,

Any Tax upon Consumptions must either abate the Consumption or increase the Expenses of the Consumer; if the first, the Intention of the Tax is so far

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<sup>45</sup> *The Craftsman* (21 October 1732).

<sup>46</sup> ROBERT WALPOLE, *Some General Considerations Concerning the Alteration and Improvement of Publick Revenues* (London, 1733), 9.

<sup>47</sup> *Englishman's Eyes Open'd* (London, 1733), 10.

disappointed; if the last, the Expenses of the Labourer, and consequently the Price of Labour must be proportionally increased.<sup>48</sup>

This appears to be a rather astute observation on the nature of price elasticity. One writer made an interesting connection between trade and the value of land, "The Lands of Great Britain are only made valuable by the Number of People employ'd in foreign and domestick Trade".<sup>49</sup> There is a sophisticated element of truth in this argument. If trade and commerce increase national income, it can be expected to increase the demand for all commodities, including land. One could essentially argue in this vein that if excises retarded the British economy, the value of all assets, including land, would decrease. Such an argument would be quite different from one which claimed that commodity taxes were passed to land through increased wages.

It is difficult for a modern writer to state with certainty that Walpole was either right or wrong. There can be little doubt that the proposed excises had some real administrative advantages over the customs duties they were purportedly to replace. The real issue was the extent to which they were designed to replace the tax on land. If it had been Walpole's goal to extend excise taxes, it would have been an astute move to begin by proposing the substitution of an effective excise in place of an ineffective customs duty. In this way, it might have seemed that the opposition would be forced into the untenable position of defending smuggling. Walpole doubtless did not foresee the extent to which the trading community would see their interests at stake and the extent to which they would be able to mobilize public opinion. Although modern historians have tended to view Walpole's opponents unfavorably, it seems clear that they were acting in correctly perceived self-interest. It furthermore seems likely that their action was not necessarily inconsistent with the good of the nation as a whole. Increased reliance on excise taxes might well have shifted funds from the investing merchant class to the more conservative landed gentry.<sup>50</sup> Certainly the Excise crisis gave the commercial interests in Britain the chance to forge and wield a degree of political power which figured more prominently in British history in the following century.

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<sup>48</sup> *Fog's Weekly Journal* (20 January 1733).

<sup>49</sup> *Some Thoughts on the Land Tax* (London, 1733), 12.

<sup>50</sup> PHYLLIS DEANE implied this in *The First Industrial Revolution* (Cambridge, 1965), 50. But see E. L. JONES, ed., *Agriculture and Economic Growth in England 1650-1815* (London, 1967), 35. CHRISTOPHER HILL argued that both taxes may have been beneficial: "The excise and the land tax helped to transfer command over resources from land-owners and the poor to contractors and money-lenders who were likely to use them as capital." *Reformation to Industrial Revolution*, 181.

